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Determinants of Foreign Direct Investment by Chinese Enterprises in the European Union

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Economic Analysis in Support of Bilateral and Multilateral Trade Negotiations

DETERMINANTS OF FOREIGN DIRECT INVESTMENT BY CHINESE ENTERPRISES IN THE EUROPEAN UNION

CEPII-CIREM

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Executive summary

This research report presents the results of the 2010 survey of Chinese companies' Outward Foreign Direct Investment, conducted by the China Council for the Promotion of International Trade (CCPIT) in close co-operation with CEPII and the European Commission. The survey is aimed at getting a better understanding of the motivations and determinants of actual and potential Chinese international investments, and especially by Chinese companies in the EU. The initial survey sample coverage was 3,000 companies and achieved a response rate of 45.9%. The analysis presented here includes 1,377 companies.

In terms of the characteristics of responding firms, there are huge size variations; average annual gross revenue ranges from 3 million to 3,770 million yuan; and number of employees varies between less than 100 to over 5,000. The majority of firms are private, and active in the manufacturing sector. While most Chinese companies receive revenue from overseas business activities, only 23% declared having foreign affiliate sales.

Investment abroad by Chinese companies is a recent phenomenon. They are active mainly in developed economies, especially in the US, Japan and the EU 27 countries. Chinese companies are also present in neighbouring countries such as Vietnam, India and Russia. Investments take the form mainly of greenfield investments and joint ventures with majority Chinese ownership.

Overseas investments are influenced by several factors. The main *push factors* leading to expansion abroad are China's "go global" and policy related incentives, stagnation of the domestic market, and the possibility to save on transport costs. *Pull factors* which are important determinants of investment in the EU 27 and in other developed countries include market potential, access to skilled labour and technological resources, acquisition of international management practices and acquisition of established brands. Market potential, and especially access to natural resources and to low cost labour, are decisive for investment in developing economies. Finally, institutional factors seem important for investments in all regions.

The main barriers to international investment by Chinese companies include lack of international and management experience, difficulty in raising sufficient capital and lack of adapted products and processes. The reasons why Chinese firms do not invest in the EU in particular include lack of understanding of the legal and market risks, difficulties in finding business partners in the EU, unfamiliarity of EU customers with Chinese brands, and concerns among EU customers (and institutions) about the quality of Chinese products.

Investment ambitions are fairly contained, with only 5% of companies planning substantial investment in the short term. Chinese companies generally plan to invest in regions where they are already active,

especially North America and the US, followed by Asia and the EU 27 countries. The influences and determinants of future investments are similar to those relating to existing location decisions.

In terms of investment the EU 27, many Chinese companies have overseas operations in the EU, with Germany, France, Italy and the UK being the privileged locations. Chinese investors tend to perceive the EU as an attractive destination region because it is an integrated market with a single currency and a good regulatory environment.

The recent financial crisis is affecting the overseas investments of Chinese companies. While it has had some positive effects in weakening the power of rivals and creating opportunities to purchase foreign assets, its impact has been negative overall. Nearly half of the respondent companies indicated that the financial crisis has reduced demand from overseas markets and a high proportion of companies consider that the crisis has reactivated trade protection in many countries, and led to more supervision and control of foreign investment.

The final section analyses the characteristics, location and motivations of Chinese investors abroad. Firms engaged in multinational activity are large in terms of both turnover and employment compared to domestic and exporting companies. Chinese investors invest mainly in large and neighbouring economies (US, Japan, Asia and Europe). The econometric analysis confirms the decisive role of market potential in driving location decisions. A presence in the largest world markets is the main driver of the current internationalization strategies of Chinese companies.

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Introduction

While FDI stocks and flows are heavily concentrated in the industrialised economies, the importance of emerging countries is increasing. Emerging economies, especially in Asia, are becoming more active both as recipients of FDI and as investors, although from a relatively low base. In 2008, the south and east of Asia registered strong growth in FDI inflows (17%) and outflows (7%), mainly due to outward investment by China[1]. The increasing role of emerging economies is also reflected in recent high-profile acquisitions by Chinese, Indian and Brazilian multinational firms.

This is making it important to understand the determinants of emerging economies' inward investment - what drives their location decisions and the barriers they face - in order to capture the benefits of inbound investments to the EU. China is a major player in the emerging economies and in 2009 became the world's largest exporter. China is also the EU's largest emerging market trading partner. China's growing importance in the world economy is the motivation for the present report on investments by Chinese enterprises in the EU.

The objective is to identify the main factors affecting FDI by Chinese enterprises, the characteristics of the companies investing abroad, the obstacles faced by investors and the motivations for foreign investment. The report is aimed at providing a better understanding of the internationalisation strategies of Chinese companies in relation to the EU economy.

The research for this report was conducted in co-operation with the China Council for the Promotion of International Trade (CCPIT). CCPIT conducted a survey of 3,000 of its member companies that are active exporters. The results of this survey form the basis for the analyses performed here. This research report presents detailed descriptive statistics and economic analyses of the characteristics, motivations and determinants of FDI by Chinese enterprises, and especially in the EU.

The report is organised as follows. The first two sections present the sample and the main characteristics of the companies surveyed. The third section 3 presents some stylized facts relating to past and present overseas investments, and the factors affecting their location. The fourth section highlights the obstacles faced by Chinese investors interested in investing abroad and especially in the EU. The next sections discuss the attractiveness of EU countries to Chinese investors, present the overseas investment intentions of Chinese companies and provide an overview of the impact that the recent financial crisis has had on the Chinese firms in our analysis. The final section in the report analyses the characteristics, location and motivations of Chinese investors abroad.

[1] UNCTAD 2009, "*World Investment Report*".

Sampling

This research report presents the results of the 2010 survey of Chinese companies outward FDI to achieve a better understanding of current overseas business activity and the investment intentions of Chinese companies especially towards the EU.

The survey was conducted by the CCPIT based on a questionnaire prepared with the collaboration of CEPII (the French Centre d'Etudes Prospectives et d'Informations Internationales), and the European Commission (EC).

The survey companies were selected according to the following criteria:

i) membership in the CCPIT;

ii) active exporters and importers

iii) annual revenue exceeding 1 million Rmb.

The questionnaire was administered by email and many of the firms were also visited by CCPIT representatives.

The initial sample coverage was 3,000 firms and produced a response rate of 45.9%, producing 1,377 valid responses. The survey was conducted in January-March, 2010. On average, companies responded to all the questions; however, the low response rates to some questions were because either the firm had not invested in the EU and (or) did not intend to do so.

Characteristics of the companies

This section provides an overview of the characteristics of Chinese respondent companies regarding size, employment, ownership, sector of activity and internationalisation.

The Chinese firms surveyed are relatively large in terms of *annual gross revenue*, which is 996 million yuan on average. However, there are important variations in size. While the average revenue of the 25% smallest firms is around 4 million yuan, the annual average revenue of the 25% largest firms is 3,760 million yuan.

Table 1 - Distribution of firm size in the sample: turnover

Q1 : Annual gross revenue of Chinese Companies (in Rmb)[2]			
	Average revenue	Sample	%
First quartile	3,978,271	268	19.46
Second quartile	21,700,000	277	20.12
Third quartile	85,000,000	258	18.74
Fourth quartile	3,760,000,000	267	19.39
Missing	-	307	22.29
Total	966,000,000	1,377	100

Employment follows a similar pattern: the firms surveyed employ 1,320 workers on average. However nearly 70% of companies have less than 500 employees, 20% employ between 500 and 5,000, and 4% of companies have more than 5,000 employees.

Table 2 - Distribution of firm size in the sample: employment

Q1.2 : Employment within Chinese Companies		
Number of Employees	Sample	%
Less than 100	502	36.46
101 to 500	457	33.19
501 to 1,000	145	10.53
1,001 to 5,000	143	10.38
More than 5,000	57	4.14
Missing	73	5.30
Total	1,377	100.00

[2] Note that the minimum annual gross revenue was 100 for some companies, which suggests that some companies might have been referring to other units than a yuan.

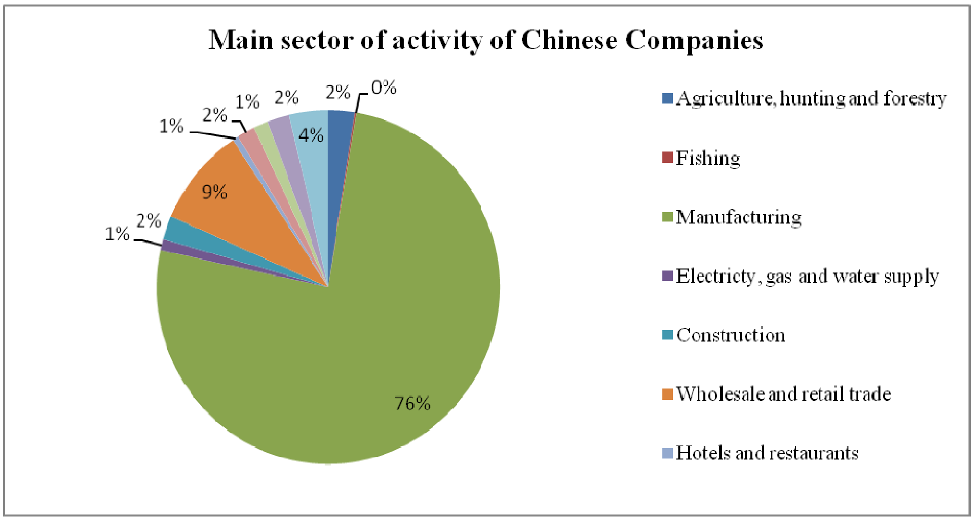
In terms of *ownership*, 68% of Chinese companies are private, 12% are state owned enterprises, 9% are foreign invested joint ventures, and the small remainder includes publicly listed companies and wholly owned foreign enterprises.

Table 3 - Ownership of firms in the sample

Q1.3 : Nature of Chinese Companies		
Nature	Sample	%
State owned enterprise	168	12.20
Publicly listed	67	4.87
Private	930	67.54
Foreign Invested Joint Venture	126	9.15
Wholly owned foreign enterprise	71	5.16
Missing	15	1.09
Total	1377	100

In terms of *industry distribution*, 76% of Chinese companies are active in the manufacturing sector, 9% in wholesale trade, with others sectors represented only marginally.

Figure 1 - Main broad sector of activity of Chinese companies



Among companies active in the manufacturing sector, nearly 83% gave fairly precise details about their activities. The largest sub-sectors of activity, among Chinese manufacturing firms, accounting respectively for 15.7% and 15.4% of firms engaged in manufacturing, are: i) manufacture of machinery and equipment; and ii) manufacture of textiles and textile products.

Table 4 - Main manufacturing sub-sector of activity of Chinese companies

Main sub-sector of activity of Manufacturing firms			
	Sector of activity	Sample	%
Manufacturing (general information)		181	17.35
Manufacturing (detailed information)		862	82.65
from which:	Manufacture of foods products, beverages and tobacco	62	5.94
	Manufacture of textiles and textile products	161	15.44
	Manufacture of leather and leather products	27	2.59
	Manufacture of wood and wood products	15	1.44
	Manufacture of pulp, paper and paper products; publishing and printing	18	1.73
	Manufacture of coke, refined petroleum products and nuclear fuel	1	0.10
	Manufacture of chemicals, chemical products and man-made fibres	85	8.15
	Manufacture of rubber and plastic products	47	4.51
	Manufacture of other non-metallic mineral products	38	3.64
	Manufacture of basic metals and fabricated metal products	76	7.29
	Manufacture of machinery and equipment n.e.c.	164	15.72
	Manufacture of electrical and optical equipment	69	6.62
	Manufacture of transport equipment	30	2.88
	Manufacture n.e.c.	69	6.62
Total		1,043	100.00

For degree of internationalisation, measured by the *revenue coming from overseas activities*, 5% of Chinese firms declared having no overseas activities, 71% received revenue from overseas activities, 24% did not answer. In terms of the importance of the revenue from foreign activities, 23% of the firms declared that more than 80% of their annual gross revenue came from overseas business activity.

Table 5 - Degree of internationalisation

Q1.5 : Revenue coming from overseas activity (such as exports, offshore manufacturing and sales)			
Revenue		Sample	%
No revenue coming from overseas activities		71	5.16
Revenue coming from overseas activities		979	71.10
% of gross revenue:	under or equal to 20%	214	15.54
	more than 20% and under or equal to 40%	163	11.84
	more than 40% and under or equal to 60%	156	11.33
	more than 60% and under or equal to 80%	124	9.01
	more than 80%	322	23.38
Missing		327	23.75
Total		1,377	100

When we examine the *distribution of overseas business activities between exports and foreign sales*, we observe that 63% of surveyed firms are exporters, 20% have foreign affiliate sales, and 18% are involved in both export and foreign sales.

Table 6 - Internationalisation mode: FDI or export

Q1.6 What percentage of these overseas business activities comes from exports, foreign sales?

	Exports		Foreign sales		Both exports and foreign sales (1)	
	Sample	%	Sample	%	Sample	%
Companies declaring having overseas activities	872	63.33	278	20.19	251	18.23
Companies declaring having no overseas activities	63	4.58	249	18.08	684	49.67
Missing	442	32.10	850	61.73	442	32.10
Total	1377	100	1377	100	1377	100

1. For involvement in both exports and foreign sales, among the 684 companies declaring having no overseas activities, 8 declared no involvement in either, and 676 reported involvement in only one of these activities.

Past and present overseas investments

- Characteristics

This section presents the main stylized facts relating to past and present overseas investments by Chinese companies.

In terms of *destination region*, 49% of companies have overseas operations in developing countries, 41% are established in the EU and 48% are active in other developed countries. In interpreting these figures, it should be borne in mind that many companies have overseas operations in more than one country.

Table 7 - Geographical orientation of FDI stock

Q2.0 Did your company have overseas operation in the following regions?							
Destination of investment	Yes	%	No	%	Missing	%	Total
EU 27 countries	570	41.39	610	44.3	197	14.31%	1,377
Other Developed Countries	661	48	541	39.3	175	12.71%	1,377
In Developing Countries	679	49.31	529	38.4	169	12.27%	1,377

Regarding the *year of first investment abroad*, most Chinese firms have invested abroad only recently. Nearly 18% of companies have been active abroad since 2000, 5% since 1995, only 2% of companies had overseas operations dating back to the period 1985-1995.

Table 8 - Experience abroad

Q2.1 When did your company first invest overseas?		
Year of first overseas investment	Sample	%
~1985	8	0.58
1986~1990	10	0.73
1991~1995	11	0.80
1996~2000	64	4.64
2001~2005	121	8.79
2006~	106	7.70
No Investment	934	67.83
Missing	123	8.93
Total	1,377	100

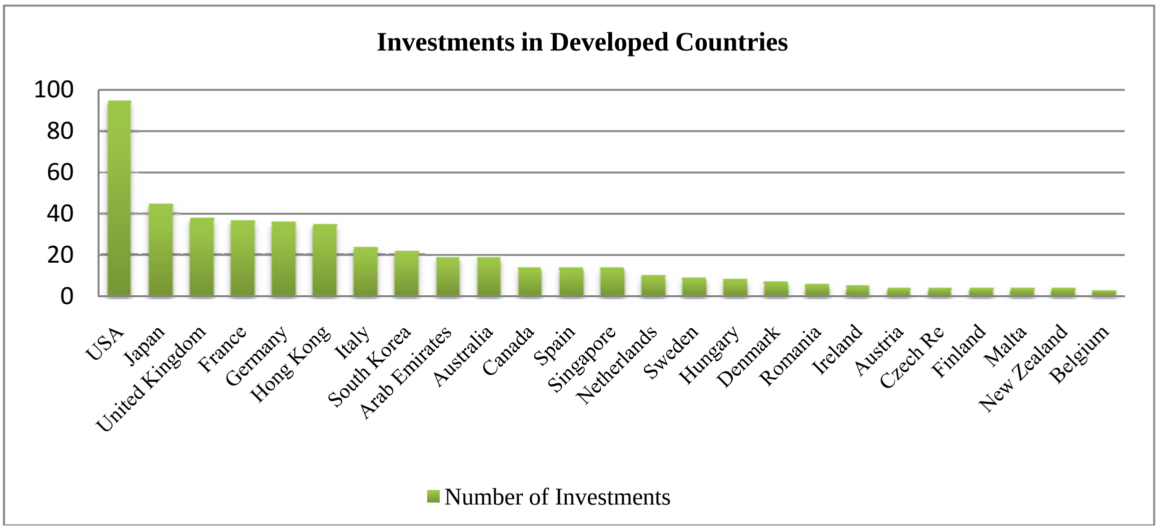
In terms of *destination countries*, the ten most attractive locations for Chinese overseas operations are, in decreasing order of importance, the US, Japan, the UK, France, Germany, Hong Kong, Italy, Vietnam, South Korea and the United Arab Emirates (UAE).

Table 9 - Geographical distribution of FDI

Q2.2 : In which countries do you have an overseas operation?					
Country of interest		Sample	Country of interest		Sample
US	USA	95	CZ	Czech Republic	4
JP	Japan	45	FI	Finland	4
GB	UK	38	KP	North Korea	4
FR	France	37	MT	Malta	4
DE	Germany	36	MX	Mexico	4
HK	Hong Kong	35	NZ	New Zealand	4
IT	Italy	24	PK	Pakistan	4
VN	Vietnam	23	BE	Belgium	3
KR	South Korea	22	GH	Ghana	3
UAE	United Arab Emirates	19	UZ	Uzbekistan	3
AU	Australia	19	ZM	Zambia	3
IN	India	19	AR	Argentina	2
RU	Russia	18	BD	Bangladesh	2
CA	Canada	14	ET	Ethiopia	2
ES	Spain	14	GN	Guinea	2
SG	Singapore	14	KH	Cambodia	2
NL	Netherlands	10	MZ	Mozambique	2
ZA	South Africa	10	NA	Namibia	2
SE	Sweden	9	AM	Armenia	1
HU	Hungary	8	BG	Bulgaria	1
NG	Nigeria	8	BJ	Benin	1
DK	Denmark	7	BS	Bahamas	1
ID	Indonesia	7	BZ	Belize	1
DZ	Algeria	6	CD	Congo	1
IR	Iran	6	CO	Colombia	1
LA	Laos	6	CU	Cuba	1
MY	Malaysia	6	JO	Jordan	1
RO	Romania	6	LK	Sri Lanka	1
BR	Brazil	5	MN	Mongolia	1
EG	Egypt	5	NE	Niger	1
IE	Ireland	5	TZ	Tanzania	1
SA	Saudi Arabia	5	UG	Uganda	1
SD	Sudan	5	ZW	Zimbabwe	1
TH	Thailand	5			
AT	Austria	4			
Total			664		

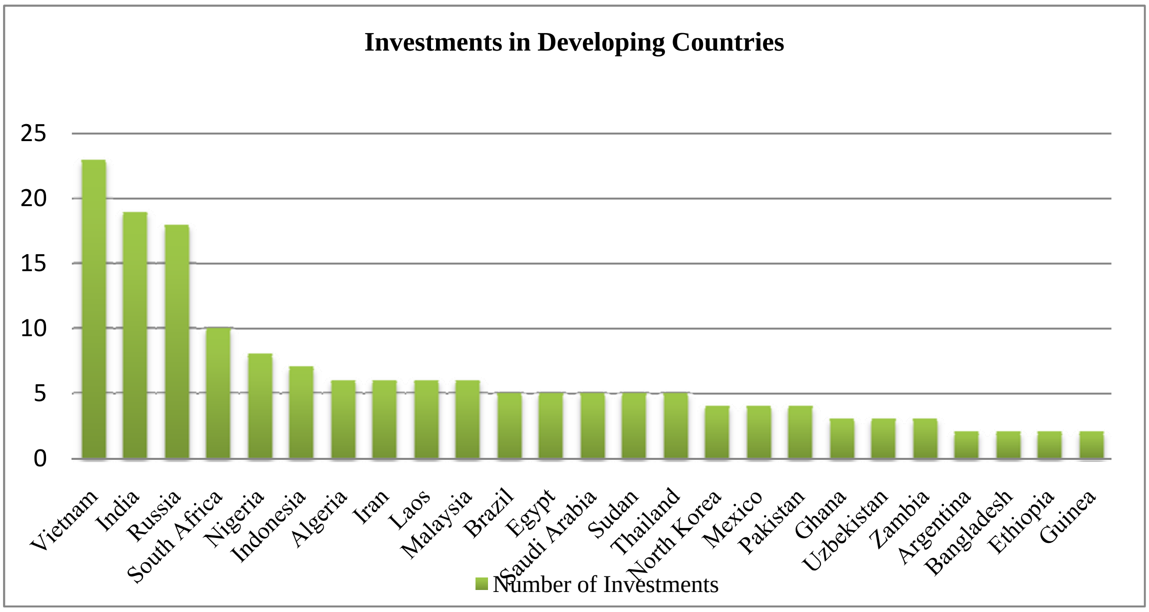
In other words (see Figure 2), Chinese companies' investment abroad is mainly in developed countries. They privilege the Triad - the US, Japan, and big European economies (UK, France, Germany) - and some high performing Asian economies (Hong Kong, South Korea, Singapore).

Figure 2 - Number of investments by destination country in developed economies



Chinese companies invest also in many developing economies, although in lower proportions. The tendency is to locate these investments in proximate countries e.g. Vietnam, India and Russia.

Figure 3 - Number of Investments by destination country in Developing Economies[3]



[3] Only the first 25 destination countries in terms of number of investments are included in this figure. In fact, Chinese companies have overseas operations in 51 developing countries, but many of these involve only one firm.

For the *category of current overseas business*, Chinese firms gave details about type of activity for 249 affiliates in developed countries and 187 affiliates in developing countries. In general, companies with several overseas operations declared up to three different categories of business. The main categories of overseas activity in developed countries are sales offices and representative offices, which account respectively for 30% and 22% of affiliates. The picture is relatively similar for developing countries, except that manufacturing facilities account for 12% of the affiliates in developing countries against only 4% in developed countries.

Table 10 - Activity of foreign affiliate

Q2.4 Categories of Current business overseas

Overseas business category	Developed					Developing countries				
	First activity	Second activity	Third activity	Total	Total in %	First activity	Second activity	Third activity	Total	Total in %
Representative office	88	1	1	90	22.06	46	2	1	49	17.31
Agent	30	28	0	58	14.22	26	5	0	31	10.95
Sales Office	78	21	25	124	30.39	55	9	5	69	24.38
Manufacturing facility	10	3	4	17	4.17	27	5	4	36	12.72
Sourcing centre	11	9	3	23	5.64	6	13	2	21	7.42
Distribution centre	16	8	16	40	9.80	5	4	4	13	4.59
Don't know	16	20	20	56	13.73	22	21	21	64	22.61
Total	249	90	69	408	100	187	59	37	283	100

Regarding the *industry representation of Chinese companies in developed countries*, the manufacturing sector is dominant. Around 14% of companies declared being active abroad in manufacturing. Note that the response rate is particularly low for this question, due to the fact that many companies do not have any overseas operations.

Table 11 - Main overseas business in developed countries (broad categories)

Q2.5.1 To which of the following sectors (truncated NACE rev1.1) pertains your *main* current overseas business?

Sector	Sample	%
Agriculture, hunting and forestry	6	0.44
Fishing	1	0.07
Manufacturing	193	14.02
Electricity, gas and water supply	3	0.22
Construction	10	0.73
Wholesale and retail trade	15	1.09
Hotels and restaurants	4	0.29
Transport, storage and communication	5	0.36
Financial intermediation	6	0.44
Real estate, renting and business activities	8	0.58
Missing	1126	81.77
Total	1377	100.00

Among firms active in manufacturing in developed countries, 70% gave details about their subsectors of activity. The two most important subsectors of activity in Chinese firms' overseas operations are manufacture of textiles and textile products, and the manufacture of machinery and equipment. Note that Chinese firms invest abroad in the industry in which they are active in the domestic economy (see Table 4).

Table 12 - Main overseas business in developed countries (detailed classification)

Manufacturing Sub-sector		Sample	%
Manufacturing (general information)		57	29.53
Manufacturing (detailed information)		136	70.47
from which:	Manufacture of foods products, beverages and tobacco	16	8.29
	Manufacture of textiles and textile products	27	13.99
	Manufacture of leather and leather products	2	1.04
	Manufacture of wood and wood products	5	2.59
	Manufacture of pulp, paper and paper products; publishing and printing	1	0.52
	Manufacture of coke, refined petroleum products and nuclear fuel	0	0.00
	Manufacture of chemicals, chemical products and man-made fibres	12	6.22
	Manufacture of rubber and plastic products	1	0.52
	Manufacture of other non-metallic mineral products	8	4.15
	Manufacture of basic metals and fabricated metal products	15	7.77
	Manufacture of machinery and equipment n.e.c.	32	16.58
	Manufacture of electrical and optical equipment	8	4.15
	Manufacture of transport equipment	5	2.59
	Manufacture n.e.c.	4	2.07
Total		193	100

Regarding the *industry representation of Chinese companies in developing countries*, the picture is similar, with most investments being in manufacturing and in the sub-sectors of textiles and textile products and machinery and equipment (see Tables 13 and 14).

Table 13 - Main overseas business in developing countries (broad categories)

Q2.5.2 To which of the following sectors (truncated NACE rev1.1) pertains your *main* current overseas business?

Sector	Sample	%
Agriculture, hunting and forestry	8	0.58
Fishing	1	0.07
Manufacturing	122	8.86
Electricity, gas and water supply	3	0.22
Construction	14	1.02
Wholesale and retail trade	11	0.80
Hotels and restaurants	2	0.15
Transport, storage and communication	4	0.29
Financial intermediation	2	0.15
Real estate, renting and business activities	3	0.22
Missing	1,207	87.65

Table 14 - Main overseas business in developing countries (detailed classification)

	Manufacturing Sub-sector	Sample	%
Manufacturing (general information)		22	18.03
Manufacturing (detailed information)		100	81.97
from which:	Manufacture of foods products, beverages and tobacco	5	4.10
	Manufacture of textiles and textile products	17	13.93
	Manufacture of leather and leather products	2	1.64
	Manufacture of wood and wood products	2	1.64
	Manufacture of pulp, paper and paper products; publishing and printing	1	0.82
	Manufacture of coke, refined petroleum products and nuclear fuel	1	0.82
	Manufacture of chemicals, chemical products and man-made fibres	9	7.38
	Manufacture of rubber and plastic products	3	2.46
	Manufacture of other non-metallic mineral products	7	5.74
	Manufacture of basic metals and fabricated metal products	11	9.02
	Manufacture of machinery and equipment n.e.c.	26	21.31
	Manufacture of electrical and optical equipment	7	5.74
	Manufacture of transport equipment	6	4.92
	Manufacture n.e.c.	3	2.46
Total		122	

Turning to the typology of foreign affiliate's abroad, Chinese investments mainly take the *form* of greenfield investments or joint ventures. The pattern is similar for overseas operations in both developed and developing countries.

Table 15 - Typology of foreign affiliates

Q 2.6 How was the investment in your establishment(s) most often accomplished?

Form of Investment	Developed Countries		Developing Countries	
	Sample	%	Sample	%
Greenfield Investment (newly built)	70	5.08	63	4.58
Brownfield Investment	11	0.80	11	0.80
M&A	30	2.18	20	1.45
Joint Venture	64	4.65	55	3.99
Missing	1,202	87.29	1,228	89.18
Total	1,377	100.00	1,377	100.00

Regarding *ownership* of Chinese overseas operation, foreign affiliates are mostly fully Chinese owned and are predominantly Chinese owned in developed and developing countries, with only a small percentage partially Chinese owned.

Table 16 - Ownership of foreign affiliates

Q2.7 Which of the following statements describes best the ownership of your establishment?				
Ownership	Developed Countries		Developing Countries	
	Sample	%	Sample	%
Wholly Chinese owned (=100%)	142	10.31	100	7.26
Predominantly Chinese owned (> 50% & <100%)	71	5.16	51	3.70
Partially Chinese owned (<50%)	26	1.89	31	2.25
Missing	1,138	82.64	1,195	86.78
Total	1,377	100	1,377	100

- Determinants of location choices

This subsection is aimed at a better understanding of the motivations and determinants of past and present overseas investments by Chinese companies. We conducted separate analyses for investments in EU member state countries, developed countries and developing countries.

There are some concerns over use of a questionnaire methodology to identify the number of firms with overseas operations. Depending on the questions, responses regarding numbers of companies with foreign operations appear to differ. This is likely to be due to the variation in response rates among questions. As the purpose of this analysis is to study the determinants of Chinese firms' location abroad, only companies that provided information on the location of their foreign investment at country level are analysed. This left a sample of 307 Chinese firms engaged in multinational activity.

Regarding *the push factors in China leading to overseas investment in the EU*, several factors seem to be relevant. The Chinese Government's "Go Global" policy and related incentives appear to be decisive for most surveyed companies. The stagnancy of the domestic market, the availability of investment capital and savings on transport costs are also very important or important push factors according to the surveyed companies, while rising domestic labour costs do not seem to have an influence on overseas investments.

In terms of *push factors in China for investing in other developed countries*, they are similar to the factors influencing investment in the EU27 countries. Chinese companies' overseas investments are mainly influenced by government incentives, availability of investment capital, and stagnation in domestic demand, with savings on transports costs and rising labour costs being of secondary importance.

Table 17 - Push factors (EU 27)

Q2.8 How would you rate the following *push factors* in China that have influenced your past overseas investment?

Push factor	in EU27	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Govt. "go global" policy & related incentives	Sample	42	29	26	7	46	157	307
	%	13.7	9.4	8.5	2.3	15.0	51.1	100
Stagnant domestic market	Sample	9	32	28	24	57	157	307
	%	2.9	10.4	9.1	7.8	18.6	51.1	100
Availability of investment capital	Sample	23	35	28	11	53	157	307
	%	7.5	11.4	9.1	3.6	17.3	51.1	100
Rising domestic labour cost	Sample	20	24	25	17	64	157	307
	%	6.5	7.8	8.1	5.5	20.8	51.1	100
Saving transport costs	Sample	14	31	29	13	63	157	307
	%	4.6	10.1	9.4	4.2	20.5	51.1	100

Table 18 - Push factors (Other Developed countries)

Push factor	In Other Developed Countries	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Govt. "go global" policy & related incentives	Sample	40	77	40	12	52	86	307
	%	13.0	25.1	13.0	3.9	16.9	28.0	100
Stagnant domestic market	Sample	17	37	66	28	73	86	307
	%	5.5	12.1	21.5	9.1	23.8	28.0	100
Availability of investment capital	Sample	36	60	50	12	63	86	307
	%	11.7	19.5	16.3	3.9	20.5	28.0	100
Rising domestic labour cost	Sample	9	41	54	32	85	86	307
	%	2.9	13.4	17.6	10.4	27.7	28.0	100
Saving transport costs	Sample	13	45	50	26	87	86	307
	%	4.2	14.7	16.3	8.5	28.3	28.0	100

However, the *push factors in China which influence investments in developing countries* are quite different. While government incentives are still decisive, Chinese companies choose to invest in developing countries also due to increased labour costs in the domestic economy.

Table 19 - Push factors (developing countries)

Push factor	In Developing Countries	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Govt. “go global” policy & related incentives	Sample	32	58	47	15	65	90	307
	%	10.4	18.9	15.3	4.9	21.2	29.3	100
Stagnant domestic market	Sample	15	40	48	31	83	90	307
	%	4.9	13.0	15.6	10.1	27.0	29.3	100
Availability of investment capital	Sample	31	41	49	16	80	90	307
	%	10.1	13.4	16.0	5.2	26.1	29.3	100
Rising domestic labour cost	Sample	14	31	46	33	93	90	307
	%	4.6	10.1	15.0	10.7	30.3	29.3	100
Saving transport costs	Sample	15	41	47	26	88	90	307
	%	4.9	13.4	15.3	8.5	28.7	29.3	100

While it is important to understand the push factors for Chinese overseas investment, it is also important to analyse the pull factors in destination countries, which may have different influences depending on the different destination regions.

Regarding *pull factors that have influenced overseas investment in the EU27*, several appear to be decisive or very important, namely market potential, better access to natural resources, skilled labour, advanced technology and R&D, international management practices, established brands, and the presence of other Chinese companies. Access to low cost labour, better public procurement market, preferential investment policies in host countries and savings on transport costs also appear to be important though less decisive. On the other hand, factors such as avoiding risk capital premium and considerations related to political influence and state to state relations do not seem to be investment pull factors for investment in the EU.

Pull factors influencing investments in other developed countries are similar to those related to the decision to locate in the EU: market potential, access to natural resources, access to skilled labour resources and to advanced technology & R&D, acquisition of established brands and access to international management practice appear to be decisive or very important determinants. However in this case, other factors, such as the presence of Chinese firms, avoiding transports costs, benefiting from host preferential investment policies and considerations about political influence and state-to-state relations seem also to be quite important. Finally, access to low cost labour, avoiding a risk capital premium and facilitating the entry of foreign products appear of low importance or not relevant.

Table 20 - Pull factors (EU 27)

Q2.9 How would you rate the following _pull factors from the destination country_ that have influenced your past overseas investment?

Push factor	in EU27	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Market Potential	Sample	51	40	16	0	40	160	307
	%	16.6	13.0	5.2	0.0	13.0	52.1	100
Access to natural resources	Sample	12	36	24	17	58	160	307
	%	3.9	11.7	7.8	5.5	18.9	52.1	100
Access to skilled labour	Sample	21	28	14	13	61	160	307
	%	6.8	9.1	4.6	4.2	19.9	52.1	100
Access to low cost labour	Sample	14	15	20	29	69	160	307
	%	4.6	4.9	6.5	9.4	22.5	52.1	100
Access to advanced technology and R&D	Sample	18	41	22	7	59	160	307
	%	5.9	13.4	7.2	2.3	19.2	52.1	100
Access to international management practice	Sample	14	32	35	4	62	160	307
	%	4.6	10.4	11.4	1.3	20.2	52.1	100
Acquisition of established brands	Sample	16	29	23	17	62	160	307
	%	5.2	9.4	7.5	5.5	20.2	52.1	100
Better access to public procurement markets	Sample	18	25	29	12	63	160	307
	%	5.9	8.1	9.4	3.9	20.5	52.1	100
To benefit from host preferential investment policies	Sample	14	24	38	8	63	160	307
	%	4.6	7.8	12.4	2.6	20.5	52.1	100
To avoid trade barriers	Sample	18	28	24	10	67	160	307
	%	5.9	9.1	7.8	3.3	21.8	52.1	100
Presence of Chinese firms on destination markets	Sample	18	40	23	7	59	160	307
	%	5.9	13.0	7.5	2.3	19.2	52.1	100
Easier for foreign products to enter the foreign market	Sample	11	24	33	14	65	160	307
	%	3.6	7.8	10.7	4.6	21.2	52.1	100
Consideration of political influence and state-to-state relation	Sample	13	16	37	13	68	160	307
	%	4.2	5.2	12.1	4.2	22.1	52.1	100
To avoid risk capital premium	Sample	10	22	20	17	78	160	307
	%	3.3	7.2	6.5	5.5	25.4	52.1	100

Table 21 - Pull factors (Other Developed countries)

Pull factor	in Other Developed Countries	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Market Potential	Sample	78	57	27	0	55	90	307
	%	25.4	18.6	8.8	0.0	17.9	29.3	100
Access to natural resources	Sample	23	44	45	18	87	90	307
	%	7.5	14.3	14.7	5.9	28.3	29.3	100
Access to skilled labour	Sample	21	39	46	18	93	90	307
	%	6.8	12.7	15.0	5.9	30.3	29.3	100
Access to low cost labour	Sample	8	24	49	43	93	90	307
	%	2.6	7.8	16.0	14.0	30.3	29.3	100
Access to advanced technology and R&D	Sample	20	59	44	16	78	90	307
	%	6.5	19.2	14.3	5.2	25.4	29.3	100
Access to international management practice	Sample	23	63	43	9	70	90	307
	%	7.5	20.5	14.0	2.9	22.8	29.3	100
Acquisition of established brands	Sample	19	45	44	20	89	90	307
	%	6.2	14.7	14.3	6.5	29.0	29.3	100
Better access to public procurement markets	Sample	15	42	56	13	91	90	307
	%	4.9	13.7	18.2	4.2	29.6	29.3	100
To benefit from host preferential investment policies	Sample	21	45	49	13	89	90	307
	%	6.8	14.7	16.0	4.2	29.0	29.3	100
To avoid trade barriers	Sample	19	45	44	11	98	90	307
	%	6.2	14.7	14.3	3.6	31.9	29.3	100
Presence of Chinese firms on destination markets	Sample	17	51	49	12	88	90	307
	%	5.5	16.6	16.0	3.9	28.7	29.3	100
Easier for foreign products to enter the foreign market	Sample	16	27	51	22	101	90	307
	%	5.2	8.8	16.6	7.2	32.9	29.3	100
Consideration of political influence and state-to-state relation	Sample	9	27	51	30	100	90	307
	%	2.9	8.8	16.6	9.8	32.6	29.3	100
To avoid risk capital premium	Sample	16	31	44	24	102	90	307
	%	5.2	10.1	14.3	7.8	33.2	29.3	100

If we consider the *pull factors that affect investments in developing countries*, the picture changes. In this case, access to natural resources and access to low cost labour appear to be decisive or very important. In contrast, factors such as access to skilled labour resources, access to advanced technology and R&D and acquisition of established brands appear of less importance for investment in developing countries. Note that market potential is still a very important pull factor, suggesting that Chinese firms face high demand in developing countries.

Table 22 - Pull factors (other developing countries)

Pull factor	in Developing Countries	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Market Potential	Sample	81	39	31	6	55	95	307
	%	26.4	12.7	10.1	2.0	17.9	30.9	100
Access to natural resources	Sample	29	41	44	17	81	95	307
	%	9.4	13.4	14.3	5.5	26.4	30.9	100
Access to skilled labour	Sample	17	26	54	31	84	95	307
	%	5.5	8.5	17.6	10.1	27.4	30.9	100
Access to low cost labour	Sample	18	46	52	14	82	95	307
	%	5.9	15.0	16.9	4.6	26.7	30.9	100
Access to advanced technology and R&D	Sample	8	24	36	45	99	95	307
	%	2.6	7.8	11.7	14.7	32.2	30.9	100
Access to international management practice	Sample	7	20	46	44	95	95	307
	%	2.3	6.5	15.0	14.3	30.9	30.9	100
Acquisition of established brands	Sample	6	24	39	44	99	95	307
	%	2.0	7.8	12.7	14.3	32.2	30.9	100
Better access to public procurement markets	Sample	11	44	43	25	89	95	307
	%	3.6	14.3	14.0	8.1	29.0	30.9	100
To benefit from host preferential investment policies	Sample	12	57	37	21	85	95	307
	%	3.9	18.6	12.1	6.8	27.7	30.9	100
To avoid trade barriers	Sample	15	36	51	19	91	95	307
	%	4.9	11.7	16.6	6.2	29.6	30.9	100
Presence of Chinese firms on destination markets	Sample	20	42	49	12	89	95	307
	%	6.5	13.7	16.0	3.9	29.0	30.9	100
Easier for foreign products to enter the foreign market	Sample	9	35	44	31	93	95	307
	%	2.9	11.4	14.3	10.1	30.3	30.9	100
Consideration of political influence and state-to-state relation	Sample	13	27	42	28	102	95	307
	%	4.2	8.8	13.7	9.1	33.2	30.9	100
To avoid risk capital premium	Sample	6	22	46	31	107	95	307
	%	1.4	7.2	15.0	10.1	34.9	30.9	100

For *other factors that have influenced past location choices*, they are quite similar for investment in EU 27 and other developed countries and in developing countries, as shown in Tables 23-25. Institutional factors, such as a transparent and fair regulatory environment and regulated tax system, seem to be decisive and very important. It seems that Chinese investors are attracted particularly to countries that are members of a free trade agreement either as destination markets or as bases to export to other countries. Public subsidies, government assistance and existence of local labour unions appear to be only marginally important in the location decisions of Chinese companies.

Table 23 - Other determinants of past locations (EU 27)

Q2.10 How would you rate the following *other factors* in China that have influenced your past overseas investment?

Other factors	in EU27	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Transparent and fair regulatory environment	Sample	34	33	33	1	23	183	307
	%	11.1	10.7	10.7	0.3	7.5	59.6	100
Tax system	Sample	12	45	30	4	33	183	307
	%	3.9	14.7	9.8	1.3	10.7	59.6	100
Public subsidies or government assistance in destination countries	Sample	18	26	41	7	32	183	307
	%	5.9	8.5	13.4	2.3	10.4	59.6	100
Local labour union	Sample	7	22	39	14	43	183	307
	%	2.3	7.2	12.7	4.6	14.0	59.6	100
Overall importance of target country as a market	Sample	31	32	35	1	25	183	307
	%	10.1	10.4	11.4	0.3	8.1	59.6	100
Membership in a regional free trade arrangement	Sample	18	36	23	7	40	183	307
	%	5.9	11.7	7.5	2.3	13.0	59.6	100
Use of target country as base for exports to third country	Sample	13	34	34	6	37	183	307
	%	4.2	11.1	11.1	2.0	12.1	59.6	100

Table 24 - Other determinants of past locations (Other Developed Countries)

Other factors	in Other Developed Countries	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Transparent and fair regulatory environment	Sample	27	80	44	6	40	110	307
	%	8.8	26.1	14.3	2.0	13.0	35.8	100
Tax system	Sample	21	69	45	8	54	110	307
	%	6.8	22.5	14.7	2.6	17.6	35.8	100
Public subsidies or government assistance in destination countries	Sample	21	63	43	9	61	110	307
	%	6.8	20.5	14.0	2.9	19.9	35.8	100
Local labour union	Sample	9	44	56	14	74	110	307
	%	2.9	14.3	18.2	4.6	24.1	35.8	100
Overall importance of target country as a market	Sample	39	65	48	4	41	110	307
	%	12.7	21.2	15.6	1.3	13.4	35.8	100
Membership in a regional free trade arrangement	Sample	12	55	52	14	64	110	307
	%	3.9	17.9	16.9	4.6	20.8	35.8	100
Use of target country as base for exports to third country	Sample	15	46	55	22	59	110	307
	%	4.9	15.0	17.9	7.2	19.2	35.8	100

Table 25 - Other determinants of past locations (Developing Countries)

Other factors	in Developing Countries	Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Transparent and fair regulatory environment	Sample	27	45	57	7	59	112	307
	%	8.8	14.7	18.6	2.3	19.2	36.5	100
Tax system	Sample	10	71	52	6	56	112	307
	%	3.3	23.1	16.9	2.0	18.2	36.5	100
Public subsidies or government assistance in destination countries	Sample	21	57	43	14	60	112	307
	%	6.8	18.6	14.0	4.6	19.5	36.5	100
Local labour union	Sample	12	31	59	18	75	112	307
	%	3.9	10.1	19.2	5.9	24.4	36.5	100
Overall importance of target country as a market	Sample	33	56	45	9	52	112	307
	%	10.7	18.2	14.7	2.9	16.9	36.5	100
Membership in a regional free trade arrangement	Sample	8	38	55	14	80	112	307
	%	2.6	12.4	17.9	4.6	26.1	36.5	100
Use of target country as base for exports to third country	Sample	10	40	51	25	69	112	307
	%	3.3	13.0	16.6	8.1	22.5	36.5	100

- Achievement

The survey enquired about *the satisfaction of Chinese firms as regard the success of their current overseas investment* in different destination regions.

2.11 Overall, how do you describe the success of your company's current overseas investment?

Success of Investment		very satisfied	somewhat satisfied	somewhat dissatisfied	very dissatisfied	too early to determine	Missing	Total
In the EU	Sample	25	67	6	2	14	193	307
	%	8.1	21.8	2.0	0.7	4.6	62.9	100
In Other Developed Countries	Sample	20	100	8	5	17	157	307
	%	6.5	32.6	2.6	1.6	5.5	51.1	100
In Developing Countries	Sample	12	90	21	7	21	156	307
	%	3.9	29.3	6.8	2.3	6.8	50.8	100

Globally, Chinese companies seem to be satisfied with the results of their current overseas investments in the EU and other developed countries and in developing countries.

The reasons for non-involvement in FDI

- General

In this section, we look at the barriers to Chinese companies' investment abroad. This first subsection focuses on companies that have never invested abroad, and declared having no overseas operations, in any destination regions, in response to question 2.0 (cf Table 7). Excluding missing values, this gives a sample of 770 companies active only in the domestic market.

The main *reasons why Chinese firms did not invest abroad* include lack of international expansion and management practices, difficulties to raise sufficient capital and lack of adapted products and process. Other factors include the cultural and ~~of~~ logistical barriers that make business abroad difficult to manage, although government (domestic or foreign) does not seem to have a negative effect on the expansion overseas of Chinese companies.

Table 26 - Determinants of not investing

Q3.1 Why did not you invest abroad at all?

Reason for not investing		Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Your company lacks international expansion and management practice	Sample	62	143	123	38	45	359	770
	%	8.1	18.6	16.0	4.9	5.8	46.6	100
Cultural barriers make the business difficult to manage	Sample	18	68	119	107	99	359	770
	%	2.3	8.8	15.5	13.9	12.9	46.6	100
Your company lacks adapted products/processes	Sample	49	123	122	67	50	359	770
	%	6.4	16.0	15.8	8.7	6.5	46.6	100
Your company has difficulty in raising sufficient capital	Sample	86	123	73	61	68	359	770
	%	11.2	16.0	9.5	7.9	8.8	46.6	100
Logistical barriers make the business difficult to manage	Sample	30	73	106	125	77	359	770
	%	3.9	9.5	13.8	16.2	10.0	46.6	100
There are negative reactions from host governments or publics on the proposed investment	Sample	12	17	106	162	114	359	770
	%	3.2	4.6	28.6	43.8	30.8	97.0	100
There are negative reactions from Chinese government on the proposed investment	Sample	5	22	86	171	127	359	770
	%	0.6	2.9	11.2	22.2	16.5	46.6	100

• Determinants of non-investment in the EU

Here, we focus on the barriers to Chinese investment in the EU 27. We include only those companies that declared having no overseas operation in the EU 27 (cf question 2.0 and Table 7), which excluding missing values, gives a sample of 570 companies.

The main *reasons why Chinese firms did not invest in the EU* are lack of understanding of the legal and market risks in the EU, difficulties involved in finding business partners in the EU, unfamiliarity of EU customers with Chinese brands, and concerns of EU customers (or institutions) over the quality of Chinese products. More generally, many companies are not interested in investing in the EU because they already access the market via exports. Other factors, such as the unfamiliarity of EU customers with Chinese companies, were seen as important or slightly important. Finally, administrative issues, such as obtaining visas, are not a reason for Chinese companies' non-investment in the EU market.

Table 27 - Determinants of not investing in the EU27

Q3.1 Why did not you invest in the EU27?									
Reason for not investing		Decisive	Very Important	Important	Weakly Important	Not ticked	Missing	Total
Your company lacks understanding of legal and market risk in the EU	Sample	61	156	176	49	71	57	570
	%	10.7	27.4	30.9	8.6	12.5	10.0	100
Difficulties of finding business partners in EU	Sample	66	171	109	79	88	57	570
	%	11.6	30.0	19.1	13.9	15.4	10.0	100
EU customers are unfamiliar with Chinese brands	Sample	40	96	167	76	134	57	570
	%	7.0	16.8	29.3	13.3	23.5	10.0	100
Potential EU customers (or institutions) have concerns about the quality or safety of Chinese products)	Sample	39	166	174	43	91	57	570
	%	6.8	29.1	30.5	7.5	16.0	10.0	100
EU customers are unfamiliar with your company	Sample	37	79	142	102	153	57	570
	%	6.5	13.9	24.9	17.9	26.8	10.0	100
EU market can be accessed more easily via exports, making FDI unnecessary	Sample	61	149	113	75	133	57	570
	%	10.7	26.1	19.8	13.2	23.3	10.0	100
Difficulty of getting a visa for EU	Sample	18	74	141	115	175	57	570
	%	3.2	13.0	24.7	20.2	30.7	10.0	100.0

Overseas investment intentions

In this subsection, we pay special attention to the intentions of Chinese firms in terms of level, modes, geographical breakdown and industry distribution of future investments.

- Limited future FDI

Overall, *the prospects for investing abroad* are quite moderate. Only 5% of companies plan substantial investment, and less than a third is planning at least moderate investment within a year. About half of the responding firms have no intention to invest abroad in the short run. The percentages of companies intending to invest substantially or moderately, within two to five years, are slightly higher, but the highest percentage is companies that are unsure about their investment intentions.

Table 28 - Prospects for investing abroad

4.1 During the next 12 months, does your company expect overseas investment to:
4.2 During the next 2-5 years, does your company expect overseas investment to:

Overseas Investment Intention	Within one year		Within 2-5 years	
	Sample	%	Sample	%
Increase substantially	67	4.9	91	6.6
Increase moderately	307	22.3	361	26.2
Stay about the same	126	9.2	68	4.9
Decrease	20	1.5	18	1.3
No investment	602	43.7	206	15.0
Don't know	161	11.7	523	38.0
No answer	94	6.8	110	8.0
Total	1,377	100	1,377	100

For expected *method of FDI in the future,* 18% of companies plan to expand internationally through joint ventures and 12% intend to expand or upgrade existing company owned-facilities. Only 9% of companies intend to expand by means of greenfield investment. However, 45% of firms were not able to give any answer about their future overseas investment intentions.

Table 29 - Expected method of FDI in the future

Q4.3 Which of the following methods does your company intend to use in its future overseas investment?

Method	Sample	%
New direct investment/greenfield investment	123	8.9
Expansion or upgrading of existing company-owned facilities	165	12.0
Merger or acquisition of existing companies or assets	104	7.6
Joint venture	251	18.2
Don't know	579	42.0
Missing	155	11.3
Total	1,377	100

- FDI intentions mainly in North America, in Asia and in the EU

Chinese companies *intend to invest in the future* in regions where they are already active. North America is the favourite, with 32% of companies intending to invest in this region in the next 12 months. Asian countries are also privileged destinations for future investment, with 21% of companies planning to invest in the region. Africa is just behind the EU as a choice of destination for Chinese FDI. Note that these percentages are not related to the number (or value) of investments in these destinations. Companies were asked to breakdown these percentages to indicate investments across regions; however, the quality of responses[4] was poor and we do not report this information here.

Table 30 - Future destinations of Chinese FDI next year

Q4.4 Please provide an approximate geographical breakdown of any investments that your company is likely to make in any of the following regions in the next 12 months?

Geographical breakdown of investment intention within one year	Number of Companies	Percentage of total companies
Africa	197	14.3
Asia	302	21.9
EU	231	16.8
Rest of Europe	145	10.5
Latin America	137	9.9
North America	440	32.0
US	193	14.0
Canada	139	10.1
Mexico	108	7.8
Oceania	104	7.6

The picture is relatively similar *regarding investment intentions in the next two-five years.* More than one-third of Chinese companies intend to invest in North America (and especially the US) in the mid-

[4] The geographical breakdown of future investment across destination regions did not total 100%, except in a very few cases.

term, and 23% intend to invest in Asia. Again, the EU countries and Africa are also popular destinations for investment, with respectively 18% and 16% of companies intending to invest in these regions. However, as noted above, it should be remembered when interpreting the results that these figures do not indicate potential variation in investment intensity among regions.

Table 31 - Future destination of Chinese FDI in the next 2-5 years

Q4.5 Please give an estimated percentage of investment that your company is most likely to make in any of the following regions/countries in the next 2-5 years.

Geographical breakdown of investment intention within 2-5 years		Number of Companies	Percentage of total companies
Africa		225	16.3
Asia		318	23.1
EU		251	18.2
Rest of Europe		148	10.7
Latin America		132	9.6
North America		483	35.1
	US	236	17.1
	Canada	145	10.5
	Mexico	102	7.4
Oceania		107	7.8

For *type of future Chinese FDI*, the picture for developed and developing countries is similar. The main category of overseas business is sales offices followed by representative and agent offices.

Table 32 - Type of future Chinese FDI by region

Q4.6Which of the following categories best describe your future overseas business in each of the following regions?

Future Business	Developed Countries		Developing Countries	
	Sample	%	Sample	%
Representative office	216	15.7	142	10.3
Agent	174	12.6	138	10.0
Sales Office	334	24.3	199	14.5
Manufacturing facility	34	2.5	137	9.9
Sourcing centre	25	1.8	42	3.1
Distribution centre	101	7.3	64	4.6
No answer	493	35.8	655	47.6
Total	1,377	100	1,377	100

In terms of the industry distribution of future FDI, Chinese companies intend to continue investing mainly in manufacturing, in developed and developing countries. Other sectors for future FDI include wholesale and retail trade. Agriculture, forestry, fishing, construction and financial intermediation do not seem to be seen as having potential for future FDI.

Table 33 - Detailed sector breakdown of expected FDI

Q4.7 Main sectors for future Investment				
	Developed Countries		Developing Countries	
Sector	Sample	%	Sample	%
Agriculture, hunting and forestry	33	2.4	41	3.0
Fishing	3	0.2	6	0.4
Manufacturing	487	35.4	423	30.7
Electricity, gas and water supply	18	1.3	9	0.7
Construction	37	2.7	44	3.2
Wholesale and retail trade	136	9.9	73	5.3
Hotels and restaurants	18	1.3	9	0.7
Transport, storage and communication	19	1.4	17	1.2
Financial intermediation	9	0.7	8	0.6
Real estate, renting and business activities	19	1.4	11	0.8
Unidentified	598	43.4	736	53.4
Total	1,377	100	1,377	100

- ## Determinants of future Chinese FDI

We want to achieve a better understanding of the factors that might influence future overseas investment by Chinese companies. We conducted separate analyses for investment in developed and developing countries.

Regarding *the push factors in China that may influence overseas investment decisions in the developing countries*, several are relevant. "Go Global" policy and the availability of investment capital seem to be decisive for most of the surveyed companies. Stagnation in the domestic market, rising domestic labour costs and savings on transport costs are secondary push factors.

Table 34 - Expected push factors in Developed countries

Q4.8 How would you rate the following _push factors in China that may influence your future_ overseas investment decisions?

Expected Push Factors	In Developed Countries	Decisive	Very important	Important	Weakly important	Not ticked	Missing	Total
Govt. "go global" policy & related incentives	Sample	224	430	215	36	120	353	1,377
	%	16.3	31.2	15.6	2.6	8.7	25.6	100
Stagnating domestic market	Sample	65	300	310	133	216	353	1,377

	%	4.7	21.8	22.5	9.7	15.7	25.6	100
Availability of investment capital	Sample	230	313	260	49	172	353	1,377
	%	16.7	22.7	18.9	3.6	12.5	25.6	100.0
Rising domestic labour cost	Sample	53	227	332	125	287	353	1,377
	%	3.8	16.5	24.1	9.1	20.8	25.6	100
Saving on transport costs	Sample	51	243	345	111	274	353	1,377
	%	3.7	17.6	25.1	8.1	19.9	25.6	100

The *push factors in China that may influence investments in developing countries* are very similar, with a strong role for "go global" policy and availability of capital investment.

Table 35 - Expected push factors for FDI in Developing countries

Expected Push factors	In Developing Countries	Decisive	Very important	Important	Weakly important	Not ticked	Missing	Total
Govt. "go global" policy & related incentives	Sample	187	341	206	42	114	487	1,377
	%	13.6	24.8	15.0	3.1	8.3	35.4	100
Stagnating domestic market	Sample	79	250	267	93	201	487	1,377
	%	5.7	18.2	19.4	6.8	14.6	35.4	100
Availability of investment capital	Sample	159	246	244	57	184	487	1,377
	%	11.5	17.9	17.7	4.1	13.4	35.4	100
Rising domestic labour cost	Sample	67	231	276	86	230	487	1,377
	%	4.9	16.8	20.0	6.2	16.7	35.4	100
Saving on transport costs	Sample	58	208	282	89	253	487	1,377
	%	4.2	15.1	20.5	6.5	18.4	35.4	100

The *pull factors that may influence future investments in developed cou*ntries are similar to those that influenced the location of past and present investments: market potential, access to skilled labour resources and advanced technology and R&D, access to international management practice and savings on transport costs are decisive or very important for many companies. Access to natural resources and acquiring established brands are quite important pull factors. However, preferential investment conditions in the host country, political influence and state-to-state relations and avoiding risk capital premiums are less important.

Table 36 - Expected pull factors for FDI in Developed countries

Q4.9 How would you rate the following *pull factors from the destination country that may influence your future* overseas investment decisions?

Expected pull factors	In developed countries	Decisive	Very important	Important	Weakly important	Not ticked	Missing	Total
Market potential	Sample	418	345	142	11	86	375	1,377
	%	30.4	25.1	10.3	0.8	6.2	27.2	100
Access to natural resources	Sample	91	259	227	106	319	375	1,377
	%	6.6	18.8	16.5	7.7	23.2	27.2	100
Access to skilled labour	Sample	82	320	242	83	275	375	1,377
	%	6.0	23.2	17.6	6.0	20.0	27.2	100
Access to low cost labour	Sample	76	158	246	173	349	375	1,377
	%	5.5	11.5	17.9	12.6	25.3	27.2	100
Access to advanced technology and R&D	Sample	116	324	274	73	215	375	1,377
	%	8.4	23.5	19.9	5.3	15.6	27.2	100
Access to international standard management practices	Sample	78	334	281	72	237	375	1,377
	%	5.7	24.3	20.4	5.2	17.2	27.2	100
Acquisition of established brands	Sample	105	278	247	107	265	375	1,377
	%	7.6	20.2	17.9	7.8	19.2	27.2	100
Better access to public procurement markets	Sample	84	281	244	87	306	375	1,377
	%	6.1	20.4	17.7	6.3	22.2	27.2	100
Benefiting from host preferential investment policies	Sample	76	287	273	63	303	375	1,377
	%	5.5	20.8	19.8	4.6	22.0	27.2	100
Avoiding trade barriers	Sample	94	322	293	62	231	375	1,377
	%	6.8	23.4	21.3	4.5	16.8	27.2	100
Presence of Chinese firms in destination markets	Sample	140	332	244	56	230	375	1,377
	%	10.2	24.1	17.7	4.1	16.7	27.2	100
Easier for foreign products to enter the foreign market	Sample	69	237	238	107	351	375	1,377
	%	5.0	17.2	17.3	7.8	25.5	27.2	100
Consideration of political influence and state-to-state relation	Sample	87	145	236	163	371	375	1,377
	%	6.3	10.5	17.1	11.8	26.9	27.2	100
Avoiding risk capital premium	Sample	48	207	246	130	371	375	1,377
	%	3.5	15.0	17.9	9.4	26.9	27.2	100

In terms of the *pull factors that might affect investments in developing countries*, access to natural resources and low cost labour are decisive or very important. Other factors, such as access to skilled labour, advanced technology and R&D and acquisition of established brands, are less important for investment in developing countries. However, as in the case of past and present investments, market potential is an important pull factor, suggesting that Chinese firms will continue to target developing countries.

Table 37 - Expected pull factors for FDI in Developing countries

Expected pull factors	In developing countries	Decisive	Very important	Important	Weakly important	Not ticked	No answer	Total
Market potential	Sample	295	309	149	20	117	487	1,377
	%	21.4	22.4	10.8	1.5	8.5	35.4	100
Access to natural resources	Sample	131	318	190	44	207	487	1,377
	%	9.5	23.1	13.8	3.2	15.0	35.4	100
Access to skilled labour	Sample	72	212	303	64	239	487	1,377
	%	5.2	15.4	22.0	4.6	17.4	35.4	100
Access to low cost labour	Sample	88	281	269	54	198	487	1,377
	%	6.4	20.4	19.5	3.9	14.4	35.4	100
Access to advanced technology and R&D	Sample	61	132	232	140	325	487	1,377
	%	4.4	9.6	16.8	10.2	23.6	35.4	100
Access to international standard management practices	Sample	40	145	218	146	341	487	1,377
	%	2.9	10.5	15.8	10.6	24.8	35.4	100
Acquisition of established brands	Sample	61	163	214	139	313	487	1,377
	%	4.4	11.8	15.5	10.1	22.7	35.4	100
Better access to public procurement markets	Sample	71	227	200	92	300	487	1,377
	%	5.2	16.5	14.5	6.7	21.8	35.4	100
Host country preferential investment policies	Sample	81	265	246	59	239	487	1,377
	%	5.9	19.2	17.9	4.3	17.4	35.4	100
Avoiding trade barriers	Sample	65	217	223	84	301	487	1,377
	%	4.7	15.8	16.2	6.1	21.9	35.4	100
Presence of Chinese firms in destination markets	Sample	99	255	224	57	255	487	1,377
	%	7.2	18.5	16.3	4.1	18.5	35.4	100
Ease of access for foreign products to the destination market	Sample	60	180	231	89	330	487	1,377
	%	4.4	13.1	16.8	6.5	24.0	35.4	100
Consideration of political influence and state-to-state relations	Sample	56	149	206	139	340	487	1,377
	%	4.1	10.8	15.0	10.1	24.7	35.4	100
Avoiding risk capital premium	Sample	34	160	225	126	345	487	1,377
	%	2.5	11.6	16.3	9.2	25.1	35.4	100

Other factors that may influence future location decisions are quite similar for investments in developed and developing countries (see Tables 38 and 39). Institutional factors, such as transparent and fair regulatory environment and tax systems, are decisive and very important respectively. Chinese investors are also attracted by the overall importance of the target country as a market. However, public subsidies, government assistance and presence of local labour unions have little effect on future investment intentions.

Table 38 - Expected other factors for FDI in developed countries

Q4.10 How would you rate the following *other factors that may influence your future* investment location choice?

Expected Other factors	In Developed Countries	Decisive	Very important	Important	Weakly important	Not ticked	Missing	Total
Transparent and fair regulatory environment	Sample	247	396	207	16	128	383	1,377
	%	17.9	28.8	15.0	1.2	9.3	27.8	100
Tax system	Sample	123	450	207	22	192	383	1,377
	%	8.9	32.7	15.0	1.6	13.9	27.8	100
Public subsidies or government assistance in destination country	Sample	107	335	240	42	270	383	1,377
	%	7.8	24.3	17.4	3.1	19.6	27.8	100
Local labour union	Sample	73	270	278	53	318	385	1,377
	%	5.3	19.6	20.2	3.8	23.1	28.0	100
Overall importance of target country as a market	Sample	270	368	218	12	126	383	1,377
	%	19.6	26.7	15.8	0.9	9.2	27.8	100
Membership in a regional free trade arrangement	Sample	86	257	282	53	316	383	1,377
	%	6.2	18.7	20.5	3.8	22.9	27.8	100
Use of target country as base for exports to third country	Sample	88	268	239	79	320	383	1,377
	%	6.4	19.5	17.4	5.7	23.2	27.8	100

Table 39 - Expected other factors for FDI in developing countries

Expected other factors	In Developing Countries	Decisive	Very important	Important	Weakly important	Not ticked	No answer	Total
Transparent and fair regulatory environment	Sample	181	320	178	30	159	509	1,377
	%	13.1	23.2	12.9	2.2	11.5	37.0	100
Tax system	Sample	120	388	181	30	150	508	1,377
	%	8.7	28.2	13.1	2.2	10.9	36.9	100
Public subsidies or government assistance in destination country	Sample	124	294	233	30	187	509	1,377
	%	9.0	21.4	16.9	2.2	13.6	37.0	100
Local labour union	Sample	58	236	244	59	271	509	1,377
	%	4.2	17.1	17.7	4.3	19.7	37.0	100
Overall importance of target country as a market	Sample	178	331	194	33	132	509	1,377
	%	12.9	24.0	14.1	2.4	9.6	37.0	100
Membership in a regional free trade arrangement	Sample	75	204	233	59	297	509	1,377
	%	5.4	14.8	16.9	4.3	21.6	37.0	100
Use of target country as base for exports to third country	Sample	58	261	225	77	258	509	1,377
	%	4.2	19.0	16.3	5.6	18.7	37.0	100

Attractiveness of EU countries

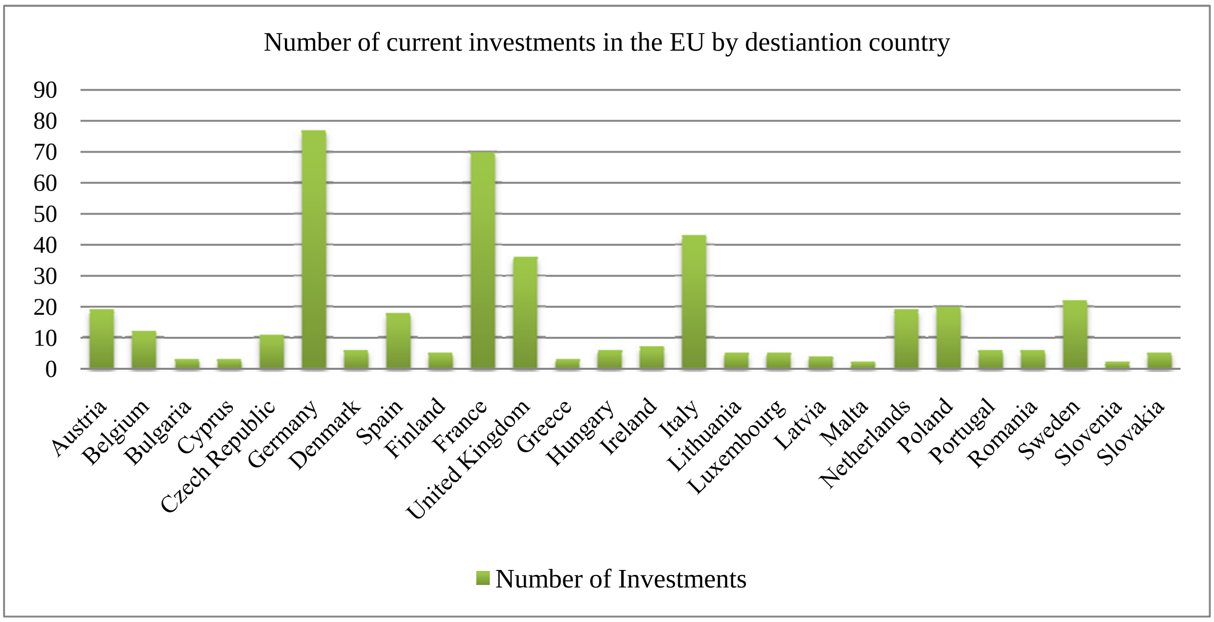
Only 11% of Chinese firms declared having current overseas operations in the EU, which is 149 companies in absolute terms. It should be noted that this figure is lower than indicated by responses to question 2.0, which raises concerns about the quality of the data.

Table 40 - Chinese presence in the EU

Q 5.1 Does your company currently have investments in the EU		
	Sample	%
Yes	149	10.82
No	1,222	88.74
Unidentified	6	0.44
Total	1,377	100

Chinese companies could have several overseas operations, in different countries. Companies were asked to quote up to five *locations of their actual operation in the EU* at country level[5]. The main destinations of Chinese investments in the EU are Germany, France, Italy and the UK.

Figure 4 - Location of investments for Chinese companies with overseas operations in the EU



While only 11% of Chinese companies have overseas operations in the EU, nearly 15% declared their intention to invest in the EU27. Figure 5 shows that this planned investment is mainly in Germany,

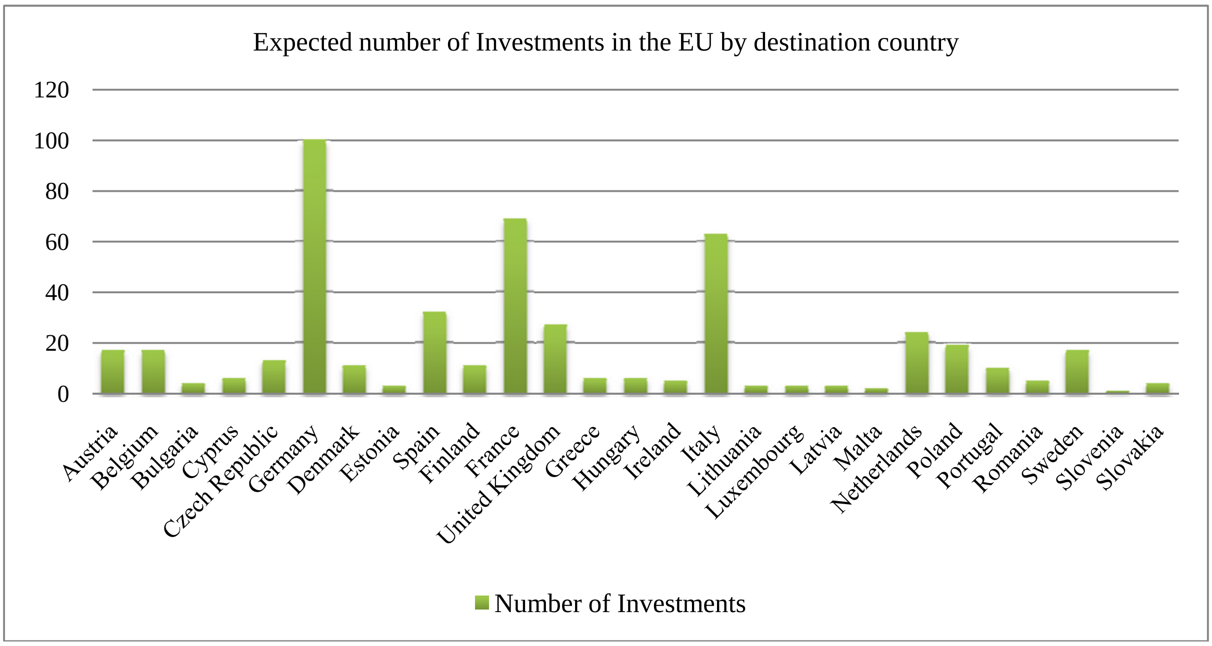
[5] Several companies have several overseas investments, which is why the total number of investment is 415 but only 149 companies declared having overseas operations in the EU.

France, Italy, Spain and the UK, a pattern that is similar to the geographic breakdown of current Chinese investments in EU member countries.

Table 41 – Future investment in the EU

Q 5.2 Is your company considering an investment in the EU27?		
	Sample	%
Yes	199	14.45
No	1,170	84.97
Unidentified	8	0.58
Total	1,377	100

Figure 5 – Future investment in EU



While the figures for planned investment in the EU are encouraging, 18% of Chinese companies declared previous intention to invest in the EU 27 but final decision not to proceed.

Table 42 – Actual FDI projects implemented

Q5.3 Has your company previously considered investing in EU27, but decided not to go ahead?							
Yes		No		Missing		Total	
sample	%	sample	%	sample	%	sample	%
248	18	680	49	449	33	1,377	100

According to Chinese investors, the EU region has several advantages as a destination for investment: an integrated market, a single currency, and a good regulatory environment. Chinese companies seem to consider that the EU has good infrastructure, high quality R&D environment, and offers attrative investment incentives for potential investments. However, the perceptions of Chinese firms regarding business costs and EU tax systems is more mixed, and compare less favourable with other developed regions.

Table 43 - Locational advantages of the EU27

Q5.4 Please rate the following statements when your company is considering investment in EU27?

	Decisive		Very Important		Important		Weakly Important		Don't know		Not relevant		Unidentified		total	
	Sample	%	Sample	%	sample	%	sample	%	sample	%	sample	%	sample	%	sample	%
Compared to other industrial countries, EU is an integrated market	76	6	174	13	113	8	16	1	44	3	2	0	952	69	1,377	100
There is a single currency for most of member states	32	2	120	9	137	10	43	3	89	6	4	0	952	69	1,377	100
EU has an excellent R&D environment	62	5	128	9	118	9	27	2	87	6	3	0	952	69	1,377	100
Business costs in EU are lower than other developed regions	20	1	88	6	133	10	54	4	123	9	7	1	952	69	1,377	100
EU has a business environment with more regulatory overheads than in other developed regions	36	3	137	10	129	9	26	2	96	7	1	0	952	69	1,377	100
EU has lower taxes than other developed regions	34	2	105	8	112	8	38	3	129	9	7	1	952	69	1,377	100
EU has high quality and well developed infrastructures	36	3	104	8	156	11	24	2	99	7	6	0	952	69	1,377	100
EU has favourable competition policies	31	2	106	8	124	9	40	3	117	8	7	1	952	69	1,377	100
EU has attractive public incentives for foreign investment	23	2	108	8	119	9	34	2	130	9	11	1	952	69	1,377	100

In terms of sectors, Chinese firms intend to concentrate their investments in the EU mainly in manufacturing, which is in line with the current industry representation of Chinese operations overseas as well as in the wholesale and retail trade sector.

Table 44 - Sectors of future Chinese FDI in the EU27

Q5.5 The most promising sectors for investing in EU are:		
Sector	Sample	%
Agriculture, hunting and forestry	36	2.61
Fishing	5	0.36
Manufacturing	300	21.79
Electricity, gas and water supply	22	1.60
Construction	27	1.96
Wholesale and retail trade	109	7.92
Hotels and restaurants	33	2.40
Transport, storage and communication	37	2.69
Financial intermediation	23	1.67
Real estate, renting and business activities	29	2.11
Unidentified	756	54.90
Total	1,377	100

Impact of the crisis on Chinese FDI

The survey of Chinese companies asked about the effects of the financial crisis on their business activity. This section discusses the effects of the crisis on current and potential investments.

The financial crisis has affected most Chinese companies: 28% of the surveyed firms consider that the financial crisis has had a strong impact on current overseas investments, and 32% indicate a minor impact. Only 7% of firms consider that the financial crisis has had no effect on their overseas investments.

Table 45 - Impact of the crisis on Chinese companies

Q6.1 Has the financial crisis had any impact on your company overseas investment?

	Sample	%
Yes, strong impact	381	27.67
Yes, minor impact	447	32.46
No impact	102	7.41
Don't know	275	19.97
Unidentified	172	12.49
Total	1,377	100

The impact of the financial crisis has been negative for 16% of Chinese companies and positive for only 3% of firms. Interestingly, 57% were not able to define how the crisis had affected their overseas operations, suggesting that it may be too early to evaluate its effects.

Table 46 - Impact of the crisis on the decision to invest abroad

Q6.2. If there is an impact, how has your company been affected?

	Sample	%
Increase overseas investment	45	3.27
Decrease overseas investment	218	15.83
Don't know	786	57.08
Unidentified	328	23.82
Total	1,377	100

Several firms saw *the effects of the financial crisis* as being positive for investment. In particular, the financial crisis has weakened the power of the rivals, while creating attractive opportunities to purchase foreign assets or companies at cheaper prices than before.

Table 47 - Possible competitive advantages associated with the crisis

Q6.3 How do you describe the favourable influence of the financial crisis on your company's investment?

	Yes		No		Unidentified		Total	
	Sample	%	Sample	%	Sample	%	Sample	%
Access to financing has become easier, due to government stimulus programs	142	10.31	801	58.17	434	31.52	1,377	100
Crisis has created attractive opportunities to purchase foreign assets or companies more cheaply than before	220	15.98	723	52.51	434	31.52	1,377	100
Crisis has increased openness to FDI in recipient countries	101	7.33	842	61.15	434	31.52	1,377	100
Crisis has weakened the power of foreign rivals	286	20.77	657	47.71	434	31.52	1,377	100
Crisis has made it easier to introduce overseas senior professionals, technologies and brands	145	10.53	798	57.95	434	31.52	1,377	100
Crisis has facilitated participation in exploiting overseas natural resources	145	10.53	798	57.95	434	31.52	1,377	100
Others	366	26.58	577	41.90	434	31.52	1,377	100

Table 48 - Negative impacts of the crisis

6.4 How do you describe the unfavourable influence of the financial crisis on your company's overseas investment?

	Yes		No		Unidentified		Total	
	Sample	%	Sample	%	Sample	%	Sample	%
Access to financing has become more difficult	181	13.14	817	59.33	379	27.52	1,377	100
Crisis has led to more strict supervision and control on foreign investment in many countries	214	15.54	784	56.94	379	27.52	1,377	100
Overseas market demand has reduced	660	47.93	338	24.55	379	27.52	1,377	100
Economic recession has re-activated trade protection in foreign countries	372	27.02	626	45.46	379	27.52	1,377	100
Market capitalisation of company has shrunk	122	8.86	876	63.62	379	27.52	1,377	100
Others	195	14.16	803	58.32	379	27.52	1,377	100

Globally, the financial crisis has had mainly negative impacts on overseas investments. Nearly half of the companies indicated that the financial crisis had reduced demand from overseas markets, 27% of companies consider that the financial crisis has reactivated trade protection in many countries and 15% believe that the crisis has led to more strict supervision and control of foreign investment in many countries.

Characteristics, location and motivations of Chinese investors abroad

This section looks at Chinese companies with overseas operations and has three objectives: i) to identify the characteristics of Chinese companies with multinational activity; ii) to understand their location decisions and iii) to analyse the driving forces and determinants of these decisions.

- Characteristics of companies investing abroad

The first section of this report highlighted that the size of Chinese companies in terms of turnover and employment varies significantly. It is important, therefore, to distinguish the characteristics of Chinese companies that engage in multinational activities compared to those that continue to be active only in the domestic market and to those that are active as exporters but have not invested abroad directly.

According to recent economic theory, firms with overseas operations are likely to be the most productive and the largest in terms of employment and turnover, due to the existence of high fixed costs of entry to foreign markets.

We classified the Chinese firms in our sample into three categories:

- firms active in the domestic market only;
- firms active in the export market only;
- firms with multinational activities.

There are some methodological issues related to the questionnaire in terms of the number of firms with overseas operations. As already noted, conclusions as to the number of companies with foreign operations differ, depending on which questions responses are considered. This is probably due to variations in response rates among questions.

Since the purpose here is to look at the motivations and the determinants of Chinese investment location decisions, only companies that provided information on the location of at least one foreign investment, at the country level, are classified as being involved in multinational activity.

Regarding the identification of exporting firms, all *firms providing strictly positive information about the share of their business revenue coming from exports* are considered to be exporters.

These criteria result in the following samples: 28% of firms active only in the domestic market, 49% of firms active in export markets, and 23% of firms with engagement in multinational activities (of which 60% are active also in the domestic and export markets).

Table 49 presents the distribution of *gross revenue* among respondent firms, respectively for firms active in the domestic market, for exporting firms, and for firms engaged in multinational activity. Nearly 55% of firms active in the domestic market have gross revenues of less than 100 million yuan and 5% have gross revenues of over 1, 000 million yuan. Among exporting firms, the distribution of turnover is quite similar, with 60% of firms reporting gross revenues of less than 100 million yuan and 5% reporting gross revenues of over 1, 000 million yuan.

Hence, the majority of both domestic and exporting firms are small in terms of turnover, while the characteristics of firms engaged in multinational activity are very different. Only 26% of firms with overseas operations report revenues of less than 100 million yuan and 54% have gross revenues equal to or over 1, 000 million yuan. Thus, the Chinese companies with multinational activities are the largest firms in terms of turnover, among the respondents.

Table 49 - Turnover distribution of domestic, exporting and multinational firms

Revenue	Domestic Firms		Exporting firms		Multinationals	
	sample	%	sample	%	sample	%
Under 10,000,000 yuan	91	23.76	160	23.29	25	8.14
Equal to or over 10,000,000 and less than 100,000,000 yuan	122	31.85	256	37.26	57	18.57
Equal to or over 100,000,000 and less than 1,000,000,000 yuan	70	18.28	118	17.18	57	18.57
Equal to or over 1,000,000,000 yuan	19	4.96	37	5.39	167	54.40
Missing	81	21.15	116	16.89	1	0.33
Total	383	100	687	100	307	100
Average revenue	665,000,000		599,000,000,000		2,480,000,000	

Table 50 presents the distribution of number of employees for firms active in the domestic market only, for exporting firms, and for firms engaged in multinational activities. The patterns for employees are similar to those for distribution of turnover. Most domestic firms are characterised by relatively low numbers of employees: nearly 66% of domestic firms have less than 500 employees, and only 22% have more than 500 employees. The distribution of employees among exporting firms is also similar. However, 48% of multinational companies have 500 or over employees (and 34% employ more than 1, 000). Therefore, among Chinese responding firms, those engaged in multinational activities seem to be the largest in terms of employment.

Table 50 - Number of employees for domestic, exporting and multinational firms

Number of Employees	Domestic Firms		Exporting firms		Multinationals	
	sample	%	sample	%	sample	%
Under 100	137	35.77	263	38.28	55	17.92
100-500	121	31.59	256	37.26	86	28.01
500-1,000	28	7.31	65	9.46	44	14.33
More than 1,000	59	15.40	85	12.37	105	34.20
Missing	38	9.92	38	5.53	17	5.54
Total	383	100	687	100.00	307	100.00
Average number of employees	1,079		558		3,358	

This analysis suggests that although the number of Chinese respondent firms that indicated involvement in overseas operations is quite small, these firms are larger than firms active only in the domestic market and larger than exporting firms, in terms of both gross revenue and employment. These patterns are consistent with the evidence of large heterogeneity in firm size and productivity highlighted by recent empirical studies[6] that are based on firm-level datasets.

In order to investigate whether there are significant differences in the sizes of multinational, exporting, and domestic firms, we conducted ordinary least square regressions of Chinese firms characteristics on multinationals and exporters dummies. The results are presented in Table 51. They show that multinationals firms have significantly higher gross revenue and are significantly bigger in terms of number of employees than domestic firms. However, there is no significant difference in the sizes of exporting firms and domestic firms, confirming that there is a multinational premium for size. In other words, firms engaging in overseas operation are the largest in terms of both turnover and number of employees. This suggests that firm characteristics are an important driver of the firm's probability to enter a foreign market.

[6] Mayer T. and G. Ottaviano, 2007 "*The happy few: new facts on the internationalisation of European firms*", Bruegel-CEPR EFIM2007 Report, Bruegel Blueprint Series.

Table 51 - Is there a multinational premium in firm size?

dependant variable	log turnover	log employment
multinationals	1.870***	1.113***
	(0.220)	(0.136)
exporters	0.0304	-0.102
	(0.173)	(0.114)
Constant	18.84***	3.676***
	(0.834)	(0.635)
Observations	1038	1265
Pseudo R^2	0.119	0.193

Results are from ordinary least square regressions of Chinese firms' characteristics on multinational and exporter dummies. All regressions include industry fixed effects. Standard errors are in parentheses. *, **,*** indicate coefficients significant at 10%, 5% and 1%, respectively.

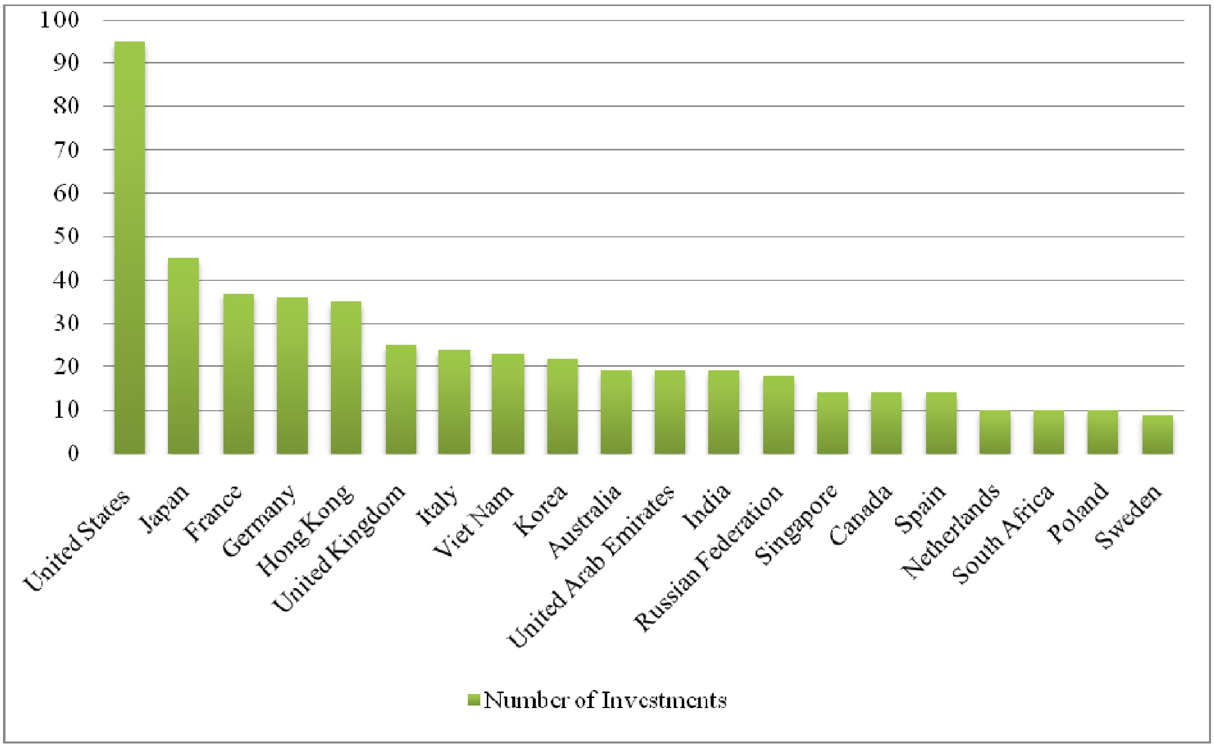
Although the characteristics of Chinese firms that engage in overseas operations are important for understanding the internationalisation patterns of Chinese firms, we also need to look at the privileged locations of Chinese investment abroad.

- Where do Chinese firms locate abroad?

The survey asked about the locations of overseas investments at country level. Respondents were asked to quote up to five countries where they had operations abroad. 307 companies gave information about operations in at least one foreign country, and 58 companies declared involvement in five countries. In total, respondent firms active abroad made 720 investments between 1972 and 2010, which corresponds to an average of two investment destination countries per firm.

Chinese companies declared overseas investments in 93 different countries. However, we are interested in what are the most attractive foreign locations for Chinese companies. Figure 6 depicts the 20 top destination countries for Chinese multinational firms, in decreasing order of importance. The ten favourite destinations are the US, Japan, France, Germany, Hong Kong, the UK, Vietnam, Italy, Korea, and Australia. Chinese companies seem to favour big markets with investment in the Triad (US Japan and Europe) and also proximate markets with important overseas operations in Asia (Hong Kong, Vietnam, Korea).

Figure 6 - The top 20 destination countries for Chinese multinational firms



In order to understand how market size influences the location of Chinese investments abroad, Figure 7 presents the number of Chinese investments per country as a function of the market potential of this country. The market potential[7] of a country is a measure of market size that takes account of its proximity to world markets. The graph shows a clear positive relationship between a country's market potential and the number of Chinese investments it receives, which is consistent with the literature on location determinants. Market size seems to be an important pull factor for Chinese overseas investment, which suggests that Chinese companies invest abroad mainly based on demand-driven considerations.

[7] The data in this study come from CEPII, see in particular: Mayer (2008), "*Market Potential and Development*", CEPII working paper n°2009-24.

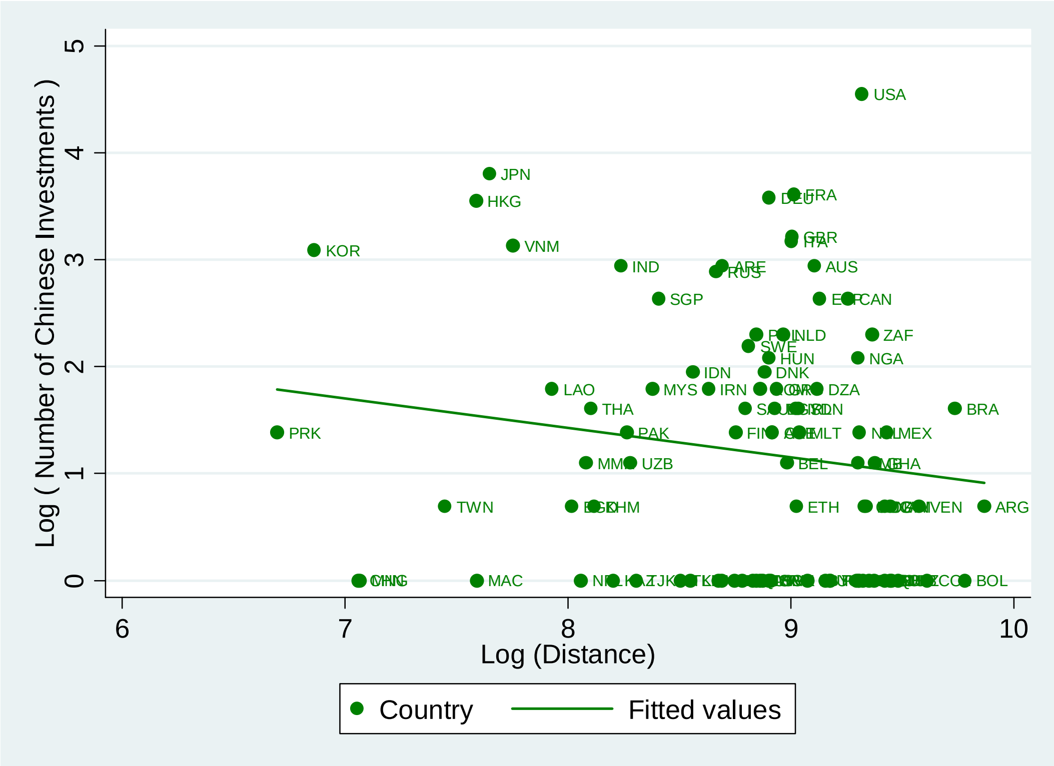
Figure 7 - Number of Chinese investments and market potential

However, the size of a destination market cannot be the only factor influencing Chinese companies' location decisions. As noted above, investments are also highly concentrated in Asian countries. The proximity of a destination market to China may also affect the location decisions of Chinese multinational firms since the costs of entering a foreign market or to manage overseas operations are likely to rise with geographic distance, other things being equal.

In order to evaluate more precisely how geography affects Chinese overseas investments, Figure 8 below presents the number of Chinese investments received by a given country as a function of the distance of this country from China. Distance[8] is measured here as the geodesic distance between capitals, or the most important cities in terms of population, of the two countries. The graph shows that there is a decreasing relationship between the number of Chinese investments and the distance of a country from China. This suggests that geography is an important determinant of Chinese overseas investment, other things being equal. However, the adjustment is highly imperfect, and there are many other correlates that are not controlled for in this bivariate analysis.

[8] This dataset is from CEPII, see in particular *dist_cepii*.

Figure 8 - Number of Chinese investments and distance from China



While this analysis suggests that Chinese overseas operation are influenced by market potential and geography, Figures 7 and 8 present correlations only. An econometric analysis is needed to identify more precisely the motivations for and determinants of Chinese multinationals location decisions. This is conducted below.

- Modelling the location determinants of Chinese overseas operations

Information on the location decisions of Chinese companies abroad at country level helps our understanding of the determinants of Chinese overseas investments. A large body of the academic literature discusses the location determinants of multinational firms based on their location decisions.

The intuition is as follows. Firms are assumed to choose the locations that maximize profit. We cannot observe directly the profitability of different destination countries. However, we know about the location decisions of firms in countries with observable characteristics. This makes it possible to assess the influence of country characteristics on location decisions. Our econometric analysis is based on this literature.

In the first step, the *dependent variable* is defined as the number of Chinese investments received by a country *j* during the period under study. In a second step, the dependent variable is defined as the number of Chinese investments received by a country *j* in industry *i* during the period under study, to account for potential industry heterogeneity in location decisions.

In terms of the *independent variables*, the literature identifies four categories of determinants: size of the market, distance from the country of origin, cost and quality of the factors of production, and the institutional environment. The explanatory variables in our analysis are thus:

- ***Market size:*** Market size is proxied by the market potential of the destination country. As noted above, this proxy for market size takes account of both the economic size of a country and its proximity to world markets. The data come from CEPII (rmp_cepii), which provides market potential measures for the period 1996-2003. We exploit the data for 2000, because the first investments abroad of most Chinese companies started in year 2000. We can expect market size to positively affect the location decisions of Chinese overseas investments.
- ***Distance:*** Distances are calculated by using the latitudes and longitudes of the capital or most important (in terms of population) cities in the respective countries. The data come from CEPII (dist_cepii).
- ***Cost and quality of production factors:*** Costs and quality of production factors are proxied by countries' GDP per capita. Controlling for market size, GDP per capita is usually a good proxy for labour costs. However, high labour costs may reflect higher productivity, better qualified workers or greater wealth. Thus, should we expect higher labour costs to have a negative effect on location decisions, while better qualified labour and greater wealth may have a positive effect? The expected coefficient of this factor is undetermined.
- ***Institutional Environment:*** Several variables are included to account for the institutional environment. The first variable is a synthetic indicator of ease of doing business. The data come from the World Band Indicators (Doing Business). They are available for the period 2004-2010, but we use the computed average by country over the period for the present analysis. We also include four sub-indicators for ease of doing business. The first is *starting a business*, which takes account of bureaucracy, time, costs and minimum capital required to open a new business. The second is *protection of investors*, which is a measure of the level of investor protection. The third is *paying taxes* and accounts for the number of tax payments, time to prepare and file tax returns and to pay taxes, and total taxes as a

share of the profits before tax. The fourth is *trading across* borders and corresponds to the documentation, time and costs associated with exporting and importing. For each of these indicators, economies are ranked from 1 to 183 with decreasing favourability. Finally, we include a synthetic index of employment protection developed by the OECD to account for the degree of labour market regulation.

All explanatory variables are expressed in logarithms. The results are from ordinary Poisson regressions where the dependent variable is the *count of the number of Chinese investments received* by a given country (see Table 52).

- ## Econometric analysis

The first column in Table 52 analyses the effect of market size and distance on Chinese location decisions. The results confirm that market potential has a strong impact on the decision to invest. The effect of distance is significant if we control only for income per capita or other country characteristics.

In column (2) of Table 52, GDP per capita is included in order to control for the quality and cost of labour. High GDP per capita has a positive effect on Chinese investment location decisions. Chinese firms invest in both large and rich markets. Furthermore, as expected, the effect of distance becomes negative and significant.

In column (3) we control for the ease of doing business. The effect is only weakly significant, but positive (remind that the value of the indicator is the rank of the country).

Column (4) in Table 52 includes the four sub-indicators of the institutional business environment and illustrates why the overall indicator is only weakly significant. Only the ease to start a business plays a positive role. For the protection of investors, the estimated parameter is not statistically significant. Regarding taxation, the amount of taxes paid is related to the level of public infrastructures provided by the host country. Thus the net impact of being taxed and benefitting from better infrastructures is indeterminate. The variable « trading across borders » has a negative impact on location decisions. This can be explained by the fact that companies are more likely to substitute FDI for exports when the costs associated with exporting or importing are high.

Overall, the results show that market potential and distance are key determinants of Chinese location decisions and that Chinese companies invest abroad mainly in order to be near the largest and richest markets. These determinants are reinforced by the ease to start a business. On the contrary, other dimensions of the institutional environment in the host country seem not to be considered as attractors by the Chinese investors. However, these estimations do not necessarily account for potential heterogeneity among industries in terms of location decisions.

Table 52 - The determinants of Chinese overseas investments

Dependent Variable: Number of Investments in Destination Country j				
	(1)	(2)	(3)	(4)
Ln Market Potential	0.357***	0.110***	0.0814**	0.176***
	(0.0177)	(0.0304)	(0.032)	(0.0370)
ln Distance	-0.0310	-0.304***	-0.287***	-0.433***
	(0.0609)	(0.0670)	(0.068)	(0.0719)
Ln GDP per capita		0.415***	0.389***	0.419***
		(0.0397)	(0.042)	(0.0434)
Ln (Ease of Doing Business)			-0.0790*	
			(0.042)	
Ln (Starting A Business)				-0.201***
				(0.0515)
Ln (Protection of investors)				-0.0455
				(0.0468)
Ln (Paying Taxes)				0.247***
				(0.0553)
Ln (Trading Across Borders)				0.143**
				(0.0609)
Observations	91	88	85	85
Pseudo R^2	0.279	0.359	0.365	0.400

All results are from ordinary Poison regressions. Standard errors are in parenthesis. *,**,*** indicate coefficients significant at 10%, 5% and 1% levels.

Table 53 presents the results of the ordinary Poisson regression in which the dependent variable is the number of Chinese investments received by a given country *j* in an industry *i*.

Column (1) includes only gravity variables. Column (2) includes a control for GDP per capita; column (3) includes a control for ease of doing business. The results are similar to those presented in Table 52 and confirm the strong positive impact of market potential on location decisions. These results hold when we control for the different characteristics of the business environment in column (4). However, at the industry level, the quality of the institutional environment is negatively related to the number of Chinese investments, and this is confirmed when we consider the related sub-indicators. This suggests that Chinese investors are mainly attracted by the market potential and disregard the institutional quality of the host countries.

Table 53 - The determinants of Chinese overseas investments

Dependent Variable : Number of Investment in Industry i and Destination Country j				
	(1)	(2)	(3)	(4)
Ln Market Potential	0.221***	0.0486	0.367***	0.523***
	(0.0188)	(0.0324)	(0.112)	(0.124)
ln Distance	0.200***	0.0534	0.308	-0.463
	(0.0608)	(0.0659)	(0.237)	(0.333)
Ln GDP per capita		0.265***	0.133	0.327*
		(0.0386)	(0.111)	(0.175)
Ln (Ease of Doing Business)			0.296***	
			(0.111)	
Ln (Starting A Business)				-0.0236
				(0.128)
Ln (Protection of investors)				-0.145
				(0.148)
Ln (Paying Taxes)				0.768***
				(0.217)
Ln (Trading Across Borders)				0.313**
				(0.158)
Observations	187	183	179	179
Pseudo R^2	0.075	0.099	0.100	0.112

All results are from Poisson regressions. Standard errors are in parenthesis.
*,**,*** indicate coefficients significant at 10%, 5% and 1% levels.

Conclusion

The results of the econometric analysis show that Chinese companies tend to invest in large countries with high levels of economic development. The quality of the institutional environment in the host country does not play a predominant role. We need to compare these results with the responses of Chinese companies about the pull factors influencing overseas investment. Most Chinese companies rate market potential as a decisive or very important factor determining overseas investment in the EU, in other developed countries and in developing countries. These results confirm that accessing the world biggest markets is the main driver of the current internationalisation strategies of Chinese companies.