China’s Outbound Foreign Direct Investment: Sources of Growth and Transformation

Dilip K. Das
Professor of International Economics & International Finance
Director, Institute of Asian Business
SolBridge International School of Business
Woosong University
Dilip.das@solbridge.ac.kr

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Abstract

The Chinese economy is in the middle of a transformation from an economy that was a recipient of the second largest amount of foreign direction investment (FDI) in the world after the US to one that has started making enormous amounts of outward FDI. In 2012 it was the third largest source of OFDI after the US and Japan. This article traces the path of China emerging into a large OFDI-making economy. By some measures China’s OFDI has grown larger than some of the traditional OFDI-making economies. It examines China’s OFDI trajectory and its shifting pattern, its points of inflection, and the domestic and global drivers of this transformation.

Although it started in a subdued manner, commercially and geographically China’s OFDI has reached significant levels. During the new millennium, since the adoption of the “go global” strategy by the government, both qualitative and quantitative changes in OFDI flows have became apparent. There are some specific factors that helped China in its rapid OFDI spurt, such as China’s conscious attempts to integrate regionally and globally, its participation in global value chains as well as the global financial crisis. The government has played a decisive role in the expansion of Chinese OFDI. An overwhelming proportion of large mergers and acquisitions have been made by state-owned enterprises (SOE). Although initially the involvement of private sector MNCs and business enterprises in OFDI was restrained, during recent years they have picked up enormous momentum. As Chinese companies are relatively new to ODFI, they suffer from some limitations. There can be few hastily contrived remedies to alleviate these systemic weaknesses.

Dr. Dilip K. Das is Professor of International Economies and International Finance and Director of the Institute of Asian Business (IAB), SolBridge International School of Business, Woosong University, Daejeon, the Republic of Korea. Professor Das can be reached at Dilip.Das@solbridge.ac.kr.
China’s Emergence as a Source of FDI

China is the largest emerging-market economy (EME), the second largest economy in the world, and the largest trader. It became the largest developing country recipient of foreign direct investment (FDI) recipient in 1993 for the first time. In 2003, it became the third largest global FDI recipient. After operating as a magnet for inward FDI for over two decades, China is in the middle of a transformation into a major source country of FDI. Its outbound foreign direct investment (OFDI) flows are rapidly integrating the country into the regional and global economies (Das, 2008). The brisk growth of OFDI from China is a relatively new development and it is seen as a novel trend to watch in policy-making and academic conclaves as well as in business organizations. The literature on the OFDI expansion of Chinese multinational corporations (MNCs) and business enterprises has grown over the last ten years, but it is renowned for mixed results and frequently contradictory conclusions. Some of the most well-known research and analysis is based on the official, yet unreliable data published by the Ministry of Commerce (MOFCOM).¹

During the 1980s and 1990s, China’s OFDI flows were low-key and barely noticeable. It took off relatively late, therefore China is generally regarded as a bit of a laggard in this respect. In the initial stages Chinese investing entities faced formidable challenges, both domestic and in the recipient economies. Many of them failed due to a lack of experience in making OFDI. The first veritable upswing in the OFDI flows occurred after 2003 (Graph 1). Initially Chinese MNCs and firms focused on mining investments in the developing countries. The resource-rich advanced economies, like Australia and Canada, were also recipients of Chinese OFDI and took the second most important place. In the initial stages, little OFDI went to the advanced

¹ This is a reference to studies like Buckley et al. (2010) and Kolstad and Wiig (2012) and case studies like Zhang and Filippov (2010) and Zhang et al. (2011).
economies. With the passage of time the focus shifted to high-technology investment. A clear surge was seen from 2008 onwards, when the targets were high-technology firms in innovation-intensive areas in the advanced economies. During this period the economic and financial power of the Chinese MNCs and business enterprises noticeably surged and they bought a significant number of overseas assets. A good part of Chinese OFDI was made in the form of cross-border M&As. In 2012 close to 50 percent of Chinese OFDI was in the form of M&As (MOFCOM, 2013).

Another break from the past was that unlike the early period, during recent years the annual growth rate in OFDI flows has been far higher. In the post-global financial crisis period, Chinese companies accelerated their purchase of underpriced foreign assets globally. They acquired a large number of distressed assets and firms at “bargain basement” prices. This made 2008 a second point of inflection (Graph 1). Since this juncture, China has come to be regarded as a major outbound investor economy. Annual OFDI flows began recording large annual increases. So did the scale and scope of Chinese MNCs and businesses. For the most part their acquisitions were in the advanced economies and the other EMEs. Advanced technology assets were their particular focus of acquisition.

In 2012 China’s OFDI flows were in the vicinity of $85 billion, which was a huge spurt in comparison to a decade ago when they were a mere $2.5 billion. After a muted and restrained start, China’s OFDI flows assumed impressive dimensions in a short space of time (Graph 1). By 2012, 16,000 Chinese business firms had made investments in 22,000 overseas ventures in 179 countries (WEF, 2014). Its recent OFDI boom was partly driven by policy liberalization and changing commercial realities in the domestic economy, which encouraged Chinese MNCs and business firms to expand globally. China’s OFDI performance during the recent period was
much superior to that of comparable EMEs like Brazil, India, Mexico, the Russian Federation, and South Africa (Table 1). In terms of OFDI flows, China also outperformed some of the advanced high-income economies like Canada, France, Germany, and the United Kingdom (Table 1).

Graph 1

Outward Foreign Direct Investment Flows From China 1990-2012

Table 1
OFDI FLOWS AND STOCKS FOR SELECTED COUNTRIES (2012)
(US$, Billions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Flow</th>
<th>Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>328.86</td>
<td>5,191.11</td>
</tr>
<tr>
<td>Japan</td>
<td>122.55</td>
<td>1,054.92</td>
</tr>
<tr>
<td>Canada</td>
<td>53.94</td>
<td>715.05</td>
</tr>
<tr>
<td>France</td>
<td>37.19</td>
<td>1,496.79</td>
</tr>
<tr>
<td>Germany</td>
<td>66.92</td>
<td>1,547.18</td>
</tr>
<tr>
<td>U.K.</td>
<td>71.41</td>
<td>1,808.16</td>
</tr>
<tr>
<td>Belgium</td>
<td>14.66</td>
<td>1,037.78</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-3.51</td>
<td>975.55</td>
</tr>
<tr>
<td>Spain</td>
<td>-4.87</td>
<td>627.21</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td><strong>84.22</strong></td>
<td><strong>509.00</strong></td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>83.98</td>
<td>1,309.84</td>
</tr>
<tr>
<td>Singapore</td>
<td>23.08</td>
<td>401.43</td>
</tr>
<tr>
<td>Brazil</td>
<td>-2.82</td>
<td>232.84</td>
</tr>
<tr>
<td>India</td>
<td>8.58</td>
<td>118.16</td>
</tr>
<tr>
<td>Mexico</td>
<td>25.59</td>
<td>137.68</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>51.06</td>
<td>431.15</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.37</td>
<td>96.12</td>
</tr>
</tbody>
</table>


As the economy and business enterprises have grown, there has been a notable surge in Chinese companies buying assets overseas. Some of these acquisitions, discussed widely in the media, were huge firms of historical significance. For example, the Chinese IT firm
large Chinese auto maker acquired Swedish giant Volvo in 2010. The China National Offshore Oil Corporation (CNOOC) acquired the Canadian oil and gas company Nexen in 2013. Another huge purchase was Smithfield Foods, Inc. by the Chinese food conglomerate Shuanghui International in 2013. China also had some notable failures, when the M&As could not be concluded after prolonged negotiations.

During the new millennium, following the World Trade Organization (WTO) accession, the pace of OFDI of the Chinese MNCs and firms picked up because *inter alia* they were eager to hone their international competitiveness and globalize their operations. A large range of countries and industries attracted Chinese OFDI. The motives of the OFDI making MNCs were varied. They included market-, efficiency-, natural resources and energy-, technology- and other strategic asset-seeking areas of investment.

Hundreds of acquisitions are made by Chinese companies annually. Driven by large acquisitions in food, energy, and commercial real estate, Chinese OFDI in the US recorded a sudden spurt in 2013. China has arrived at its “Rockefeller Center moment” (*The Economist*, 2013). This is an allusion to Japan’s Mitsubishi Estate buying the eponymous Manhattan landmark complex in the late 1980s, before the Japanese economy fell on hard times and went into a prolonged stagnation. The global financial crisis provided a large impetus for M&As and greenfield investment opportunities for the Chinese firms.

**Principal Objectives and Motivations Behind OFDI**

In the early 1990s, China’s OFDI was still small. Its GDP growth rate was brisk but it was still a low-income developing economy with a small GDP and suffered from an inadequacy of capital, particularly foreign exchange. This is a characteristic trait of the developing economies. At this stage of economic development China deployed its OFDI for acquiring specific assets and resources. Chinese policy-makers were interested in: (1)
expansion of markets, (2) acquiring industrial raw materials and resources, particularly energy for industrial development, and (3) acquiring much-needed technological assets and managerial know-how that they lacked. As this was an early stage of industrialization, the OFDI expansion could only be done in a restrained manner.

As industrialization progressed at an exhilarating pace over the next three decades, needs for industrial raw materials (minerals and ores like bauxite, copper, manganese and iron ore) and energy grew *pari passu*. Rapid growth and industrialization created a favorable investment environment in China. By the turn of the century China began to be referred to as the “factory of the world”. By 2000, a large number of foreign-funded enterprises (FFEs) were also operating in China. Industrial products manufactured in China were penetrating global markets successfully.

Rapid industrialization made China one of the largest consumers of minerals and ores. To be the “factory of the world” China needed industrial raw materials and energy security. By 2003 China surpassed Japan to become the second largest consumer of oil and oil products. China had become the largest auto market by 2009 and achieved the status of world's biggest manufacturer in 2010, overtaking the US which had held this distinction since 1895 (Das, 2014). In 2010 China also surpassed the US and became the largest oil consumer in the world. In 2014, according to the International Energy Agency (IEA), China was projected to consume 10.49 million barrels of oil a day and remain the largest oil consumer (Bloomberg, 2014).

When China’s OFDI picked up during the post-2003 period, the principal reasons contributing to growth in OFDI were, first, the fact that China had grown and industrialized and that its GDP and industrialization levels had reached impressively high levels. Second, its regional and global integration endeavors coalesced to make China an important source economy of OFDI. Third, expansion of the global value chains (GVCs) led to increasing
global division of labor and China became a large and expanding participant in the GVCs, which increases its OFDI. Fourth, China was an active and significant part of the regional value chains as well. Its active participation in them is another important contributing factor to the rising flows of OFDI. GVC participation enabled industrial and technological upgrading of the domestic manufacturing and service industries. Trade in GVCs is the fastest growing part of international trade as well as a critical driver of productivity, growth and employment. Country level data reveal that being part of GVCs is associated with a higher growth rate since the mid-1990s (IMF, 2013). As regards the plausibility of future expansion of the OFDI, it was reasonable to expect that expanding GDP, rising income, technological upgrading of the manufacturing sectors, as well as expanding and globalizing MNCs and business enterprises would coalesce to augment levels of OFDI. Although relatively new in the OFDI game, in their endeavors to increase production and expand markets Chinese MNCs and business enterprises were endeavoring to expand globally and spread their investment.

An important development relating to China’s GVC participation was that China was endeavoring to climb from the lower end of the GVCs, where it produces low cost, low-technology, and low value-added products, to the higher end, where it would be able to produce high-technology, high value-added products (see section 6). This was necessary to earn higher profits than before (Das, 2014a). Endeavors related to moving up the GVCs gave a further impetus to Chinese OFDI flows. Although Premier Li Keqiang’s target is high, it may well be achievable by the end of the present decade. At that juncture, China’s OFDI stock can be expected to be considerably higher and it may become comparable to the big league players. According to one projection, it may reach $2 trillion by 2020 (Rosen and Hanemann, 2011).
As growth and industrialization progressed, motivating factors behind OFDI kept changing from period to period. With progress in industrialization, two additional motives became relevant: namely, (1) acquiring strategic assets like brand assets and marketing networks in addition to technology assets and (2) accomplishing global and regional diversification of MNCs and businesses. As the Chinese business enterprises grew in terms of production, they also made OFDI for organic international expansion. This was in accordance with the natural process of economic growth (Cheng and Ma, 2010; Wang et al., 2012; Zhang et al., 2011).

As industrial development gained momentum, Chinese MNCs and large business enterprises had another motivation for making OFDI. They began making efficiency-seeking OFDI. Chinese MNCs planned to benefit from geographically dispersed activities. Two instances are air-conditioner manufacturer Green and machinery manufacturer Sany. To minimize costs and sell at competitive prices, both established production centers in other countries. They also set up regional bases.

As the Chinese MNCs and business enterprises grew, they realized the value of strategic assets, particularly advanced technology. They began acquiring technology-intensive and innovative companies in advanced economies. Such acquisitions were necessary for enhancing future competitiveness in the domestic and global markets as well as ability to innovate. Results of an empirical exercise by Ramasamy et al. (2012) confirmed this proclivity of the Chinese investors. Several large companies, like Gily, Haier, Lenovo, Sany, etc. made large OFDI to achieve these objectives. During the early part of the last decade the objective of acquiring strategic assets like technology, brand, marketing network, and managerial know-how was found to be more acute for the SOEs than for the private sector firms (Rui and Yip, 2008; Ramasamy et al., 2012).
Empirical analysis of 1,350 investment projects by Ramasamy et al., (2012), based on the Paisson and negative binomial model, concluded that Chinese firms invested to ensure the supply of natural resources and industrial raw materials. For industrial raw material and energy security China forged long-term contracts with the supplying countries and purchased overseas energy assets and natural resources, which increased its OFDI outflows. The OFDI from China was also attracted by politically high-risk countries, like Sudan, Mali, Lao PDR etc., which were not considered suitable for OFDI by the advanced countries.

**Government Influence and the Role of the SOEs**

The Chinese government had a lot of influence on OFDI made by the Chinese MNCs and state-owned enterprises (SOEs), particularly for the purpose of acquiring industrial raw materials. When established in the 1950s, SOEs originally followed the Soviet prototype, but they are markedly different entities now. The Chinese government progressively reformed their operations and management. The historical turning point for the SOEs was 1998, when erstwhile Premier Zhu Rongji launched comprehensive SOE reforms. He is widely credited with bringing about a sea change in SOE operations and closing down the inefficient ones. At the microeconomic level, reforms were aimed at transforming the SOEs into modern corporations with independent decision-makers and clear legal responsibilities. In their present form, in many respects SOEs look like multinational companies. Some are listed on prominent global stock markets and feature on lists of the largest business corporations in the world. They can be wholly or majority-owned by the Chinese central, provincial or municipal government (KPMG, 2013). During the early period, business enterprises that made OFDI were either SOEs or had close contacts with different levels of the government. Central government-owned SOEs were active resource seekers and made OFDI specifically for this purpose.
After the 1998 SOE reforms, the large SOEs in strategic sectors came under the jurisdiction of the central government. They were managed by a state entity known as the Assets Supervision and Administration Commission (ASAC) of the State Council. The SOEs owned by central government played a major role in the OFDI expansion. There are 129 central SOEs of this kind, with total assets of $3,083 billion in 2009 (Li, 2013). Between 2003 and 2009, this group of SOEs accounted for approximately 80 percent of the OFDI flows and stock (Li, 2013; Sauvant, 2013). For a long period almost three-quarters of the Chinese OFDI stock was controlled by the SOEs. M&A deals worth $50 million or more were overwhelmingly dominated by the large SOEs. Between 2004 and 2009 81 percent of such large M&A transactions were conducted by the large SOEs (EIU, 2010). The SOEs received financial and fiscal resources and other procedural support from the government for making OFDI in the policy-determined industrial sectors.

During the early periods of OFDI expansion, the Chinese MNCs, both large SOEs and relatively small private sector firms, found natural resource-rich countries alluring for their locational decisions. These countries included Indonesia, Kazakhstan, Tajikistan, and Ukraine. The private firms’ operations and investments were relatively small. Those that chose to invest in the resource-rich countries were usually not mining companies but heavy equipment related industries. They followed the operations of the large SOEs and provided them with related equipment and services. Two good examples of this were OFDI made by Sany and Tebian, which invested in Ukraine and Tajikistan, respectively.

The investing SOEs faced reservations in the host economies. There were occasions when the OFDI made by SOEs was not readily accepted, albeit frequently their OFDI were large in volume. The SOEs that had a large state equity share tended to face strong pressure to attain local legitimacy in the host economies by choosing a joint-ownership structure as against being a wholly-owned subsidiary (Cui and Jiang, 2012).
Government Policies towards OFDI

Government policies had a great deal of impact on the direction, sector and target industries of the OFDI. They were directly or indirectly controlled by national and provincial governments. They disallowed or promoted OFDI on the basis of the domestic economic development policies. The SOEs were treated as an instrument of implementing the government OFDI strategy. In the early stages of economic development in the 1980s and 1990s OFDI was officially discouraged. It was tolerated in a small way. Foreign exchange constraints were one of the principal reasons behind restrictions on OFDI. That scenario has changed. Two of the important developments in this regard are China’s accession to the World Trade Organization (WTO) in 2001 and the adoption of the “go global” (zou chu qu) strategy in 2003. From this period onwards, the SOEs, other MNCs and large business enterprises were encouraged to invest abroad and the OFDI flows picked up momentum.

After the adoption of the “go global” strategy during the Tenth Five-Year Plan (2001–2005), a structural change in China’s OFDI became obvious (Graph 1). One factor contributing to this structural change was the availability of plentiful forex reserves. This led to increasingly less stringent approval processes. They were both relaxed and decentralized. Government agencies began steady encouragement and support for the OFDI.

This strategy was partly inspired by the need to achieve the objective of raw materials and energy security. The other important objective was acquiring much-needed modern technology through ownership. Around the Tenth Five-Year Plan period the foreign exchange reserves were not very low. In 2001 they were $215.61 billion and in 2002 $291.13 billion. To persuade businesses to invest abroad, government not only further truncated and

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2 The strategy of “go global” has been variously translated in literature as “go out”, “going out”, “going abroad”, or “stepping out”.
decentralized the OFDI approval procedures and regulatory regime, but also devised incentives for OFDI in target industries (Graph 1).

The Chinese MNCs and large business enterprises have rapidly internationalized in the recent period. One reason behind the dramatic rise in the OFDI flows from them after mid-2000 was the domestic government support for OFDI. Equally important was the improvement in the host country institutional environment. Together they interacted to boost the recent rate of OFDI flows. They also reduced the importance of prior entry experience while making OFDI. Despite their inexperience, Chinese MNCs and those from the other EMEs were able to make large global OFDI in a short span of time (Lu et al., 2014; Meyer, 2014; Wong, 2012). In the case of China, the OFDI flows began to surge at a faster pace after 2005 (Graph 1).

**The Private Sector's Evolving Role in OFDI**

Prior to 2003, private sector enterprises were prohibited from making OFDI and for a long time they could not invest abroad without government permission. Their OFDI operations remained limited in number. Their motives for making global OFDI were different from those of the SOEs. Often they made OFDI because they faced difficulties in expanding domestically because of intensity of competition. At times private firms were willing to internationalize rather than grow within the country to escape the underdeveloped institutional environment (Luo and Tung, 2007; Voss et al., 2010). China’s high rate of incoming FDI indicates that Chinese MNCs and firms experience increasingly fierce competition in their “backyard”, which in turn pushed these firms to internationalize more rapidly (Sauvant et al., 2009: 10). The OFDI made by private sector firms did not have government support, therefore it was much smaller in scale than that by the SOEs. Initially their OFDI went largely to labor-intensive industries. They also made market-seeking OFDI
in their target markets globally (Ramasamy et al., 2012). For this purpose, private OFDI was largely made in the telecommunications, textiles, footwear, and auto sectors. Private firms also began investing in wholesale and retail trades.

However, the role of the private sector firms in making OFDI has been changing. Since 2008, private sector enterprises have also become active in global investment. In fact, they were the drivers of a new wave of OFDI. Since 2008, private sector firms made up half of China’s OFDI flows and two-thirds of the total number of projects. MNEs and business enterprises in the coastal provinces of China were the most active in making OFDI. In 2011 and 2012, the private sector began to gain further momentum. Private sector businesses accounted for close to 40 percent of the OFDI. In 2012 and 2013, private sector enterprises made many medium and large OFDI deals. In contrast, activity by SOEs was somewhat dampened. They remained limited to energy and manufacturing, in particular aviation.

For the first time, private sector firms accounted for more than half (59 percent) of the total transaction value in 2011 and 2012. This proportion increased further to 76 percent in 2013 (Hanemann and Gao, 2014). These firms are more interested in purchasing minority stakes in offshore business enterprises than making an outright purchase. The favorite investment targets for them are leasing and commercial services, banking and insurance, and wholesale and retail trade (Freemantle and Stevens, 2013).

During the 18th Chinese Communist Party (CCP) Congress, 11th Central Committee, Third Plenum, held in mid-November 2013, the top CCP leadership decided that markets would play a decisive role in the allocation of productive resources in future. The policy document mentioned that wherever market mechanisms can successfully allocate resources, the government should keep away from the markets and limit its role to providing public goods and overcoming market failure. If this is to become the new mindset of the top policy-makers in China, private business firms are likely to become a leading force in increasing the
OFDI in the foreseeable future. Private sector firms can be reasonably expected to face fewer bureaucratic hurdles in making OFDI. Decisions will increasingly be in the hands of the business enterprises.

Large Chinese private corporations and other investing entities have aggressive globalization plans as well as blueprints for expanding functionally. Heavy and high-technology industrial sectors will continue to attract China’s OFDI in the short and medium terms. Also, the OFDI from the mid-sized manufacturers is poised to take off. Privately owned companies will make smaller OFDI, particularly in the technology sector, but a large number of them are joining in the OFDI game. The technology firms are inherently more global than those in the other sectors and are also the candidates for future OFDI.

The Growth Trajectory of OFDI

In comparison to the traditional OFDI making advanced economies, Chinese OFDI outflows have a rather short history. At the time of adopting the “open door” policy in 1978, China was too impoverished an economy to make any OFDI. Its per capita income at this time was a paltry $154, less than one-third of the average in sub-Saharan African countries (Lin, 2013). However, a small trickle of OFDI began at an early stage. By the mid-1980s annual OFDI flows were $913 million, but in 1990, they declined to $830 million. Under the leadership of Deng Xiaoping China embraced liberalization, macroeconomic restructuring, and globalization. Comprehensive economic and social transformation of China took place after 1992 (Das, 2008). In this context, a significant event was Deng Xiaoping’s early 1992 tour to the Pearl River delta (nanxun). He made this tour because he believed that his successors were overly cautious in promoting growth and expanding the role of markets in

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3 A survey of 125 leading Chinese corporations by Booz & Company (new name Strategy&) revealed their eagerness to globalize. Large Chinese business corporations have definite plans to expand in all the regions of the global economy during the next five years. This survey is cited in WEF (2014).
the economy. The surge in GDP that began in 1992 was significant. It freed China from its planned economy straitjacket. At this point, OFDI spurted to $4 billion. Although it remained $4.4 billion in 1993, this level of OFDI was unsustainable.

The source of the early OFDI statistics was the United Nations Conference on Trade and Development (UNCTAD). UNCTAD’s analysis was based on balance-of-payments (BOP) accounting and collected by the International Monetary Fund (IMF). UNCTAD defines FDI as investment involving a long-term relationship in a foreign country, which in turn improves the OFDI data quality.

Until 2000, the volume of OFDI outflows remained low and without an obvious trend (Graph 1). They were unsteady from year to year and erratic. The total OFDI in 2000 was less than a billion dollars, a mere $915.8 million, a trivial amount by any measure. In 2001, OFDI recorded a sharp spurt and reached $6.88 billion but declined dramatically in 2002 to $2.51 billion (Graph 1). With the adoption of the “go global” strategy in 2003, a new epoch began in China’s OFDI. Policy-makers were serious about the implementation of the “go global” strategy. From this point OFDI rose steadily. It soared dramatically in 2005, reaching $12.3 billion. This can be regarded as a point of inflection, a time point when Chinese OFDI entered an investment extravaganza. It grew to $21.16 billion in 2006 and $26.51 billion in 2007.

In 2008 OFDI skyrocketed to $55.91 billion, more than double in comparison to the previous year. Between 2000 and 2008, China’s OFDI outflowed in a remarkable manner. At this juncture China became one of the major OFDI making countries. The OFDI flows further soared to $68.8 billion in 2010, when China became the fifth largest investing economy in the world. In 2012 it stood at $84.2 billion (UNCTAD, 2013). Its compound rate of OFDI growth for the 2008–12 period was 12 percent, the highest in the world. At 10 percent, Hong Kong SAR was the second highest. This volume of OFDI flows made China the third largest global
foreign direct investor after the US and Japan. Chinese OFDI is closing in on its inflow of FDI. In 2012, FDI inflows in China were $121.08 billion, which was the second highest after the US, $167.62 billion (UNCTAD, 2013).

The ratio of China’s inward FDI flows and outward FDI flows averaged around 6:1 in the 1980s. This ratio rose to approximately 12:1 in the 1990s and 2000s. This trend peaked in 2004 at 30:1. Thereafter, the OFDI flows relative to inward FDI flows surged. The ratio of China’s inward and outward FDI flows averaged 5:1 in 2005. It did not change until 2008, but was down to 2:1 in 2009. Parity could be reached by 2015 (UNCTAD, 2012). According to the estimates made by the Economist Intelligence Unit (2013), by 2017 China will be a net investor in the global economy.

The global financial crisis was a material event in this context. It accelerated China’s OFDI flows. To a considerable extent, the precipitous increases in the OFDI after 2008 can be attributed to it. The crisis interrupted the financial supply chain in the advanced economies, therefore they were forced to open more sectors for foreign investment. Many large Chinese MNCs and large companies benefited from the new liberalization policies in the advanced economies. For the most part, Chinese investing firms made investment in the real economy, which was important for the host countries as well because it supported and steadied recovery from the crisis. Manufacturing industries became a special target for the investing Chinese MNCs and businesses. At this point, M&A was a favorite mode of investment. Interestingly, domestic capital demand in China fell during the global financial crisis period.

During this period there was a discernible surge in the number of Chinese MNCs and companies eager to buy overseas assets, which signified the rising economic strength and liquidity position of the Chinese MNCs and business enterprises. They grew increasingly bullish over the years and were assertively making M&A deals, a large proportion of them in the advanced economy. Between 2005 and 2011, annual Chinese outbound M&As jumped
fivefold, to $63 billion. In 2012 it stayed at $64 billion and rose to $68.7 billion in 2013 (Koons, 2014). China’s OFDI was welcomed by cash strapped companies in the European Union (EU) and the US. Although China’s M&As spree also raised concerns, particularly when the acquiring company was an SOE, the value of the Chinese M&A transactions went on rising. In 2012, there were 30 M&A deals larger than $1 billion and in 2013 the corresponding number rose to 43. In recent years, these large M&A deals were completed by both SOEs and large private sector companies, or publicly held companies with widespread ownership. In the past, large M&As were a privilege SOEs alone enjoyed. Target firms in the EU and the US became increasingly popular with the Chinese MNCs.

China’s OFDI has had a close relationship with its accumulation of foreign exchange (forex) reserves. Since the 1980s China persistently enjoyed the “twin surpluses”, that is, surplus in both current and capital accounts. This was an idiosyncratic feature of China’s macroeconomic imbalances. While a common pattern for a developing country is to run a current account deficit and a capital account surplus, China was different. The explanation for this atypical behavior is that, first, as China is a successful exporter its export boom ensures that the current account remains in surplus. Second, as it is one of the most attractive destinations for FDI, a lot of countries invest in China. Therefore, capital flows into China through both current and capital accounts, which is an unusual situation. These twin surpluses coalesced to make China the largest holder of forex reserves.

China’s foreign exchange reserves continuously rose from $29.6 billion in 1990 to $75.4 billion in 2000 and $821.5 billion in 2005. In 2007, total reserves soared to $1.5 trillion. At this juncture they surpassed those of Japan and became the world’s largest. Large forex reserves are a strong motive for expanding and diversifying foreign investment. The government has been searching for profitable global channels for investing its financial

4 Only in 1993 did China suffer a current account deficit.
capital in long-term productive assets. The OFDI is a superior alternative to holding US government securities, which are known for very low rates of return. At the end of 2011 the forex level reached $3.18 trillion. This amount could finance approximately 24 months of Chinese imports and was almost half of the 2010 GDP. Such a large size of forex reserves became a bone of contention in the international arena. China was open to allegations of quasi-mercantilism due to the volume of its forex reserves (Financial Times, 2011). Due to heavy capital inflows, forex reserves reached $3.44 trillion in March 2013 and $3.82 trillion at the end of 2013.\(^5\) This was three times that of Japan, the country with the second largest forex reserves. However, while the Chinese MNCs and business enterprises have plentiful financial capital, what they sorely lack is human capital resources suitable for managing global corporations.

**Progress in the OFDI Regulatory Regime**

The regulatory framework entails policies, laws, rules and regulations formulated by the government and its various departments. They are an important determinant of the growth of OFDI (Cui and Jiang, 2012; Luo et al., 2010). It has been noted above (section 2) that at the time of adopting the “go global” strategy the regulatory regime and approval procedures were relaxed. Foreign exchange related regulations and fiscal and administrative obstacles to making OFDI were gradually eliminated. Liberalization of the regulatory regime made a decisive contribution to China becoming the third largest foreign investment making country in 2012. Government moved out of the way so that MNCs and business enterprises could make rational judgments regarding their OFDI based on economic criteria and commercial realities.

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\(^5\) The sources of forex statistics are the various volumes of the *World Development Indicator Database*, World Bank, Washington DC.
Through its OFDI regime, the Chinese government has been helping the domestic MNCs and business firms in investing globally. The two broad objectives of the present regulatory regime are: first, to “facilitate and support OFDI in order to nurture globally competitive Chinese firms” (Sauvant and Chen, 2014: 142). Second, the institutional framework that determines OFDI related strategy essentially tries to encourage OFDI that can contribute most to China’s economic growth and development. The OFDI provides opportunities for growth by creating opportunities for economic restructuring and optimization of resource allocation. Economic restructuring can take place by utilizing the OFDI for upgrading and expanding regional and global value chains as well as by integrating regionally and globally. Optimization of resource allocation can occur by accessing and reducing the cost of raw materials as well as by controlling the unit cost of labor. That these development objectives are being taken seriously by the authorities is reflected in the fact that an array of government institutions now exist for encouraging OFDI.

The two essential objectives noted in the preceding paragraph are not new. They can be found in the earlier government pronouncements and documents. One of the first was the documents of the Third Plenum of the Ninth National People’s Congress in March 2000. The second one was the Tenth Five-Year Plan (2001–2005) where they were mentioned. Even at this early stage it was clear to Chinese policy-makers that they needed to expand OFDI and that the government had a role in facilitating the OFDI of capable and competitive Chinese firms. They were cognizant that internationally competitive MNCs cannot be developed without it. Subsequently these two policy objectives were elaborated in numerous policy documents that provided guidelines for promoting OFDI. An authoritative guideline was provided by a State Council document in 2006, which was entitled Options on Encouraging and Guiding Foreign Investment and Cooperation by Chinese Enterprises. The State Council is the chief administrative authority of China and is chaired by the Premier.
Following up on the same policy initiatives, the Eleventh Five-Year Plan (2006–2010) called for increased OFDI for enhancing China’s industrial competitiveness and for having access to resources overseas. This encouraged SOEs to increase their involvement in making OFDI in large measures. When SOEs made resource-seeking investments in the developing countries, the Chinese government frequently made offers to improve its infrastructure to sweeten the deal. This became known as “dollar diplomacy”. Recently the Twelfth Five-Year Plan (2011–2015) made comprehensive suggestions regarding the direction of OFDI, and published two *ad hoc* documents for this purpose. These two documents encourage private sector enterprises, particularly SMEs, to make OFDI. The government has shown its willingness to support OFDI by private sector enterprises. The recommendations and policy pronouncements made in these documents were given in detail; they go down to the level of specific industries. For instance, building a research and development (R&D) center with a foreign partner as a joint venture in the pharmaceutical industry is considered a high priority business venture. If such a project is undertaken by a private sector firm, the government may well support it with financial and informational resources and in other ways.

To facilitate and encourage OFDI MOFCOM decentralized the authority to approve projects to local departments of commerce. A handful of sensitive areas were not decentralized and were made exceptions to the general rule. With that the approval procedure was simplified by reducing the number and size of the application forms. The new procedure promised to grant approval in three business days. In addition, since 2009, OFDI making firms could do the feasibility study of their projects themselves. In another round of simplification of the approval procedures in August 2012, both MOFCOM and the National Development and Reform Commission (NDRC) further decentralized the approval procedures to sub-national offices (Sauvant and Chen, 2014).
Since mid-2014, Chinese firms planning to invest less than $1 billion in an M&A no longer need approval from the authorities, but only to register with the NDRC. However, M&A deals above $1 billion with need NDRC approval and those above $2 billion will need the approval of the State Council. Through numerous instruments, the current OFDI activity is encouraged by the government. Efforts are afoot in the government to further liberalize OFDI regulations in the future and make it a part of its broad economic and development strategy.

**Inexperience in Making M&As and Integration of Acquired Assets**

Recently M&A transactions by the Chinese MNCs have increased appreciably, particularly in the advanced economies. However, the majority of them acutely lack *savoir faire* in this regard because they have a short history of operating in this demanding area of skill and proficiency. For instance, not many Chinese MNCs have knowledge about running foreign subsidiaries. Operating them requires expertise and experience in strategic, service, sourcing, and R&D functions and other areas of strategic management. While the Chinese MNCs are ambitious, they find it obfuscating and arduous to operate in the unfamiliar business environment of the EU and the US, where they are making an increasing number of acquisitions.

In an EIU (2010) survey of 110 top Chinese executives, 82 percent of respondents reported that they were concerned about lack of management expertise of the Chinese MNCs in handling M&A operations and the other modes of OFDI in a methodical, professional, and fully value-adding manner. They considered it “the biggest challenge” facing the Chinese companies. In addition, only 39 percent had some confidence in integrating foreign acquisitions. Another failing of the acquiring MNCs was neglecting to research the target company and the impact of the acquisition. Close to half of the respondents regarded this as
one of the principal limitations. Choice of the appropriate target for M&A, which could prove to be a strategic fit in the future, and determining a reasonable acquisition price require both knowledge and research. So far they are in short supply among the Chinese MNCs.

The costly and high-profile M&As resulted in an environment of tension, even anxiety, in the acquiring MNCs. The Chinese decision-makers usually took a narrow procedural approach, where there was a critical need to take a broad approach and look at it holistically. The first step in this regard is to draw a well-defined commercial and economic profile of the potential M&A transaction and how it would be suitable for the acquiring MNC. With that on the table, the next step would be spelling out the role of various stakeholders, including that of the government.

Integration of the acquired company is another important and more complex operation than the M&A per se. Without it the usually pricey M&A transaction would fail to generate the required synergy for the acquiring MNC. A lack of knowledge of integrating techniques often holds up, or even prevents, the M&A operation itself. There are few known “management system” models for this purpose. Learning these techniques would necessarily include paying attention to differences in cultures, modes of governance, processes and procedures, and people. Based on such knowledge best practices can be devised. Effectively dealing with these limitations and adoption of best practices will take both time and effort. There can be few hastily contrived remedies to alleviate these systemic weaknesses. Learning by doing is another method of coping with these problematic issues.

**Chinese OFDI in the European Union and the United States**

Despite data inaccuracies, it is not difficult to discover that historically neighboring Asian economies were the major hosts of Chinese OFDI. Both official government statistics and more refined EMENDATA statistics prove that. Two of the principal reasons were
China’s conscious attempt to integrate regionally and be part and parcel of the Asian economic dynamism as well as its active participation in the GVCs. Although this dynamic region was the largest recipient of Chinese OFDI, this trend has been going through a transformation. Of late, both the EU and the US are turning into major recipients of China’s OFDI. To both of these destinations Chinese OFDI flows picked up momentum in the mid-2000s, more so since the global financial crisis. There are striking similarities between China’s OFDI going to two of the largest market economies, which have the largest and most affluent middle classes and consumer markets in the world.

The reasons why these two high-income economies are attracting Chinese OFDI are also identical. Both the matured market economies have been in the doldrums since the global financial crisis. Business firms in these economies needed capital. External capital was also welcome to stimulate the tepid recovery in both the EU and US. The crisis created plenty of investment opportunities for the eager Chinese MNCs and large businesses. Even before the global recovery gained momentum, the Eurozone crisis struck the EU. Given this background, China’s OFDI coming into the EU economies was greeted with relief. However, in receiving the Chinese OFDI these two economies were not without skepticism, distrust, and trepidation. Harsh expressions like “Faustian bargain” were used for the incoming Chinese OFDI. National security considerations made many governments agonize regarding the Chinese OFDI surge. There have been numerous cases of M&A deals blocked by government agencies, although this trend is weakening.

Although Chinese OFDI flows started slowly to these two economies and are still diminutive, they have strong growth trajectories. There are indications that in the medium term Chinese OFDI will continue growing at a rapid pace in both the EU and the US. Two motives were particularly strong during the recent period. First, the interest of Chinese MNCs and large firms intensified in market access in the EU and the US. Second, they were drawn
towards acquiring strategic assets, like technology, managerial know-how, and brands through M&As. Initially the majority of the M&A deals were small or medium-size, but gradually large M&A deals started growing in number. As this trend continues, they are likely to grow larger. By expanding OFDI in the EU and the US the Chinese MNCs and business enterprises are *inter alia* trying to improve their competitiveness in the global and domestic markets.

A new development is that the OFDI deals are no longer dominated by concern regarding securing natural resources for rapid industrialization. This focus has become a thing of the past. During the recent period a discernible penchant towards acquiring assets in a whole range of high-technology industries, services sectors, and strategic assets, noted in the preceding paragraph, has been apparent. Large or very large greenfield projects and M&As have been undertaken in recent years by Chinese MNCs and business firms. This is happening in a broad range of industrial sectors. The old trend of “cherry picking in a handful of strategic industries” is on its way out (Hanemann and Rosen, 2012: 4).

An appreciating renminbi and growing financial capital made assets in the EU and US look like attractive deals. The investment motivation of the Chinese MNCs in both the EU and the US was essentially commercial. Investing Chinese MNCs and business enterprises see both the EU and the US as potentially safe, stable, and large consumer markets for goods and services. Chinese investing MNCs are essentially driven by the profit motive and do not give the impression of being politically guided or having an intrusive agenda (Ciuchina, 2013). Both of these destinations are technologically highly advanced, have highly skilled workforces, and are known for world famous brands. In the post global crisis period, involvement of the private sector enterprises in OFDI increased both in the EU and in the US.
The European Union

Although Chinese OFDI in the EU took off only recently, investment has surged at a brisk pace. Annual flows tripled between 2006 and 2009, to €2.3 billion. They tripled again in 2011, reaching €7.4 billion. Given that the EU is a large receipt of FDI, China’s OFDI is still small in absolute terms. However, these statistics clearly show a change in the trend line. The volume of OFDI transactions also increased. The number of deals with a value of $1 million doubled, from less than 50 in 2009 to close to 100 in 2010 and 2011 (Hanemann and Rosen, 2012). Both Chinese and EU data in this regard are insufficient. The post-2008 period saw a remarkable surge in Chinese business activity in the EU. According to a report from the Antwerp Management School (2014), the EU has become a more favored destination of Chinese OFDI than the US. At the beginning of 2013, a total of 7,148 Chinese enterprises were active in the EU. In 2011 this number was 4,525. This is a 66 percent jump in a short period.

In the initial stages, the OFDI to the EU came from large SOEs that were seeking resources, markets, and advanced technological and managerial know-how. One respect in which the Europeans were different from the Americans is that they did not have an intense aversion to statism. Subsequently the private sector enterprises also joined in making OFDI in the EU. Their number went on increasing. An overwhelmingly large part—more than two-thirds—of investing entities in Europe were privately held or non-state publicly traded firms. For the most part, OFDI from the private sector firms was market-seeking and they also emphasized managerial know-how. However three-quarters of the M&As in the large-scale capital-intensive sectors originated from the state sector. The pursuit of profit by the Chinese MNCs and business enterprises was influenced by a broad range of consideration. They regarded acquiring famous European brands and advanced technology as two of their key considerations. Their objective was to be more competitive in both the domestic and global
markets.

As regards geographical preference, the Chinese MNCs clearly chose the large economies, France, Germany, and the UK. These three countries are the focus of M&As by Chinese corporate investors in high technology manufacturing and knowledge-intensive services. Other than these core economies, countries that received relatively large shares of the Chinese OFDI were Italy, Spain, and the Netherlands. As regards small EU economies, several countries in Central and Eastern Europe were the recipients of Chinese OFDI. Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Serbia were prominent among them.

During the recent period, M&As accounted for a significant proportion of the OFDI in the EU. The advanced technology firms and those with impressive brand names were the favored acquisitions. Such firms were frequently targeted in the core European economies. After 2007, Luxembourg became an area of high importance. Its significance as a financial center and strategic location made it an attractive proposition. High-end manufacturing activities and modern logistics made Luxembourg worthy of attention of the Chinese investors. As the EU is not known for natural resources, there was little resource-related investment in the EU.

Recently Germany has become the most popular country for Chinese investors. Medium-sized German firms have frequently been targeted by them. As usual they were looking for technology, brands, and managerial know-how. According to an Ernst & Young (2014) survey, Chinese investors bought 120 companies and shareholdings in Europe in 2013. This number was 119 in 2012.\footnote{Cited in Huang (2014).} The investing firms were particularly interested in consumer

\footnote{Cited in Huang (2014).}
goods and automobile sectors. They seemed impressed by the German *mittelstand.* They found the German mindset towards industrial management and their penchant to excel at incremental but constant innovation highly admirable. Chinese entrepreneurs are known to try to emulate the German *mittelstand* (Das, 2014a).

**The United States**

Although the US has been the largest recipient of FDI in the world, China repeatedly won the most attractive destination FDI ranking. For the first time since 2002, business leaders and investing MNCs in the world voted in 2013 for the US as the most favorable economy for making foreign investment. In the A.T. Kearney index, the US displaced China in 2013 as the most appealing destination for FDI. The A.T. Kearney index was launched in 1998 to assess the degree of relative confidence that foreign investors have in deploying large capital in an economy. Numerous factors led to the US acquiring the top spot: a liberal investment regime, the largest consumer market, a highly skilled and productive workforce, an innovation-driven and adaptable business environment, newly found energy independence, strong demographics, a reliable and efficient legal environment, predictable regulations, a declining unemployment rate, and growing job opportunities.

Traditionally the largest investors in the US are a small number of high-income OECD economies, like Switzerland, the UK, Japan, Germany, France, and Canada. In recent

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7 The German term *mittelstand* refers to small and medium-sized industrial enterprises (SMEs). According to the German definition *mittelstand* employ up to 500 employees and have up to €50 million in annual turnover. Many of these successful enterprises are characterized by features like independence or family ownership. If one takes these features as criteria, the concept of German *mittelstand* can also embrace larger companies. They are regarded as the efficient and innovative engines of the German economy. Many innovative German firms remain committed to the spirit of the German *mittelstand* even after they have outgrown the traditional definitions of SMEs due to the success of their products and services.

8 According to UNCTAD (2013), the US received $1.5 trillion in FDI between 2006 and 2012.

9 According to the Bureau of Labor Statistics, after reaching 9.9 percent in 2010, the US unemployment rate has been steadily declining. In March 2014 it was down to 6.7 percent.
years, companies from the UK were the largest investors in the US, followed by Switzerland. However, since 2004 three EMEs have also begun making OFDI in the US. They are Brazil, China, and India—and Taiwan, now classified as a newly industrialized economy. Although OFDI flows from these EMEs are still small, their growth rate is high. Of the four, the Chinese OFDI recorded the highest growth rate. The two-way investment relationship between China and the US is a healthy development. It will serve to integrate the two largest global economies. Close economic and financial interaction will have other intangible benefits for China. As the Chinese economy is widely regarded as taking a developmental state approach, the policy mandarins in China can benefit from monitoring how an open market and innovative economy is run.

As for the OFDI trend in the US, a small amount of resource-seeking OFDI began during the mid-2000s. The OFDI did go to technology assets, particularly high technology manufacturing and advanced services, but it was not the principal focus of the Chinese investors. This trend continued until 2010. However, since then the OFDI flows to these two sectors have increased. The willingness of the US to draw investment capital from China is revealed by the fact that 35 trade offices have so far been set up in China by states and cities in the US. The latest state to set up a trade office is Florida. It was established in Shanghai in early 2014. A large part of the Chinese investment going to the US has been in the form of M&As (He, 2014). Since 2010, OFDI deal value topped $1 billion annually. In 2012 and 2013 the number of OFDI transactions fell, making them slow growth years. This applied to the OFDI going to the high technology manufacturing and advanced services as well. However, 2014 started well and is expected to be a breakthrough year (Hanemann and Rosen, 2014).

According to a report by the China–US Chamber of Commerce (CUCC), Chinese investing firms recently made several large-scale acquisitions in energy, food, and real estate,
which led to the doubling of Chinese investment in the US in 2013. The 2013 tally of Chinese 
OFDI projects in the US can be divided into 44 M&As and 38 greenfield projects. The 
average size of these projects was considerably larger than in the past. What was a touch 
unusual was that private sector firms accounted for 80 percent of these transactions and more 
than 70 percent of total transaction value. In 2012 and 2013, private investors were 
essentially interested in medium- and large-sized OFDI deals, while OFDI activity by SOEs 
declined. Their interest was limited to energy, and some areas in manufacturing and services 
(particularly aviation and telecommunications). As the policy environment in China has been 
liberalizing, demand for US assets by Chinese investors was projected to be strong in 2014 as 
well (CUCC, 2014).

At present (2014) Chinese MNCs are making large OFDI in high-technology firms. 
Numerous high-technology M&A deals—worth over $6 billion—were publicized by Chinese 
MNCs and business firms in the first quarter of 2014. This bunch included takeovers of 
prominent firms like Motorola Mobility, IBM’s x86 server unit, and Fisker, an electric car 
maker. Notwithstanding the fact that the US blames China for poor protection of intellectual 
property rights (IPR) and technology pilfering, these high-technology investments did 
materialize. Despite the recent surge of Chinese OFDI in the high-technology sectors in the 
US, the total stock of Chinese OFDI in this sector is still diminutive. At the end of 2013, it 
was $9.1 billion, which was close to a quarter of total Chinese OFDI in the US. The trend in 
high-technology investment from China has shifted from electronic equipment, machinery, 
and auto parts in the early years to a broad mix of industries, like energy, aviation, and 
biotechnology.

A survey of 518 recent transactions by Hanemann and Rosen (2014) in high-
technology investments in the US revealed that many Chinese firms were interested in setting 
up marketing outlets in the US. As these firms moved up the technology ladder, they began
investing in more sophisticated areas and demonstrating their technological prowess and providing superior after-sales services. Another motivation of high-technology investment in the US was acquisition of strategic assets, like brands, distribution channels, and other strategic assets to improve competitiveness. Due to the non-market advantages that Chinese MNCs and firms possess, they do face difficulties in the US. The suspicion that they may transfer innovation-intensive activities to China also makes them a target of cautious treatment, sometimes excessive. To this end, the Committee on Foreign Investment in the United States (CFIUS) examines investment transactions.

**Summary and Conclusions**

OFDI is a valid and effective strategy for globalization. It is instrumental in internationalizing the operations of a business firm. Several MNCs and large business enterprises from EMEs have emerged as important OFDI making enterprises. The objective of this article is to trace the path of China emerging into a significant OFDI making economy. By some measures China’s OFDI has grown larger than that from some of the traditional OFDI making economies. This article examines China’s OFDI trajectory and its shifting pattern, its points of inflection and the domestic and global drivers behind them. There were some specific factors that aided the rapid spurt of OFDI, such as China’s conscious attempts to integrate regionally and globally, its participation in global value chains as well as the global financial crisis. In a short time span, Chinese OFDI flows demonstrated several new trends and transformations, while the old ones receded into the background.

During the 1980s and 1990s, China’s OFDI flows were low-key and barely noticeable. After the adoption of the “go global” policy OFDI flows surged. Although it started in a subdued manner, commercially and geographically Chinese OFDI has reached significant levels. Rapid industrialization made China one of the largest consumers of
minerals and ores. To be the “factory of the world” China needed industrial raw materials and energy security, which in turn stimulated its OFDI flows.

The first veritable upswing in the OFDI flows occurred after 2003. Initially Chinese MNCs and firms focused on mining investments in the developing countries. Another surge was seen in 2008, when the targets were high-technology firms in innovation-intensive areas in the advanced economies. During this period the economic and financial power of the Chinese MNCs and business enterprises noticeably grew. Another break from the past was that unlike the early period, during recent years the annual growth rate in OFDI flows has been far higher. In 2012 China’s OFDI flows were in the vicinity of $85 billion, which was a huge spurt in comparison to a decade ago when they were a mere $2.5 billion. After a muted and restrained start, China’s OFDI flows assumed impressive dimensions in a short space of time. By 2012, 16,000 Chinese business firms had made investments in 22,000 overseas ventures in 179 countries.

The Chinese government had a lot of influence on the OFDI made by Chinese MNCs and state-owned enterprises, particularly for the purpose of acquiring industrial raw materials. During the early periods of OFDI expansion, the Chinese MNCs, both large SOEs and relatively small private sector firms, found natural resource-rich countries alluring when making their locational decisions. These included countries such as Indonesia, Kazakhstan, Tajikistan, and Ukraine. Initially, the private firms’ operations and investments were relatively small. However, government policies had a great deal of impact on the direction, sector, and target industries for OFDI. OFDI flows were directly or indirectly controlled by national and provincial governments. They disallowed or promoted OFDI on the basis of domestic economic development policies.

After the adoption of the “go global” strategy during the Tenth Five-Year Plan (2001–2005), a structural change in China’s OFDI became obvious. One factor contributing
to this structural change was the availability of plentiful forex reserves. This led to increasingly less stringent approval processes.

Recently M&A transactions by the Chinese MNCs have increased appreciably, particularly in the advanced economies. However, the majority of them acutely lack *savoir faire* in this regard because they have a short history of operating in this demanding area of skill and proficiency. For instance, not many Chinese MNCs have knowledge about running foreign subsidiaries.

Historically, neighboring Asian economies were the major hosts of Chinese OFDI. This trend has been going through a transformation. Of late, both the EU and the US are turning into major recipients of China’s OFDI. To both of these destinations Chinese OFDI flows picked up momentum in the mid-2000s, more so since the global financial crisis. There are striking similarities between China’s OFDI going to two of the largest market economies, which have the largest and most affluent middle classes and consumer markets in the world.
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