

# Growth spurt

China's outbound investment is both rising and maturing

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In the last two years, the development of Chinese outbound direct investment (ODI) has stepped up significantly. This is partly because policy-makers swiftly adapted the legal framework, allowing the country's massive €1.8 trillion of foreign reserves to be utilised at a time when many economies are under a capital crunch.

China delegated the authority to approve outbound investments to the Ministry of Commerce's (MOFCOM) provincial agencies, and refined guidelines for administrative procedures in 2009. Regulatory conditions were widened, allowing foreign currency to be released for overseas investment and financial tools – such as the credit-support mechanism, or the reimbursement of incurred fees in certain strategic industries – to be more readily available.

Although fewer regulations were imposed in 2010, several government agencies reaffirmed their willingness to help Chinese companies invest abroad. The State Administration of Taxation, for example, announced some measures to adjust tax policies, standardise tax procedures and strengthen tax treaties. In October 2010, the State Administration of Foreign Exchange also launched pilot policies in selected provinces that allowed export earnings to be deposited in overseas bank accounts, instead of being repatriated to China.

## Making changes

The result of these changes have been impressive: MOFCOM figures show that China's ODI totalled €41.6 billion in 2009, while 12,000 Chinese enterprises invested in 177 nations and regions worldwide. This is a substantial increase from the €19.5 billion of total

ODI among 7,000 Chinese enterprises in 2007. As such, China is now the fifth-largest global investor, up from its 12th-place ranking two years ago.

Some of the ODI comes from private-owned enterprises which invest abroad with business-driven agendas – such as developing new markets or seeking lower production costs. Many expect, for example, that recent workers' demands will eventually lead to an increase in wages and production costs in China.

According to a Nottingham University study, private firms that lack access to state-backed credit channels are investing overseas to take advantage of funds in international capital markets. Greenfield investments, with their ensuing development of sales channels abroad, are preferred methods of investment.

At the same time, Chinese companies are increasingly willing to embark on global mergers and acquisitions (M&A). This is a result of their growing experience and a move away from some of the rigid management methods that led to high-profile failures. Chinese electronics manufacturer TCL, for example, lost €150 million as a result of its acquisition of Thomson Electronics.

Companies in China now pay greater attention to post-deal management. There is greater emphasis on integrating the target company by keeping the local team and using professional advisors throughout the process. As one CEO said to us before signing the agreements for an important acquisition: "We don't want a situation where we purchased a reputable restaurant but could not retain any of the good cooks."

The increase in M&A transactions is mostly a result of a massive flow of state-driven ODI. The above policies have par-

ticularly benefited state-owned enterprises, which form the vast majority of China-based multinationals and overseas investors. Their main motivation for going global is usually to acquire strategic assets like valuable technology, knowledge and access to natural resources.

### Target regions

Asian countries are the preferred destinations for ODI. However, according to a recent KPMG report, large companies with annual revenues of more than €110 million are also looking to Europe for future investments. In the EU, the China Council for the Promotion of International Trade found that Chinese investors mainly target Germany, France and the United Kingdom. That said, they realise that more recent member states also provide opportunities by granting easier access to a unified market with a single currency and a highly-valued



reliable regulatory environment.

The noticeable rise of China as a key world investor has been met with mixed feelings. For example, some argue that the recent signing of a protocol to stimulate Chinese investments in Greece is an attempt by China to use its financial might to garner EU support for the country's global political ambitions.

At the same time, the tightening of export rules by the Chinese gov-

ernment on Rare Earth Elements (REE) initiated at the end of 2009 created fears that China will manage its strategic assets in an increasingly protectionist manner. The shortage in REE could further weaken production companies abroad, resulting in a greater number of available targets for Chinese ODI willing to trade a guaranteed source of supply for a Chinese stake.

China's business community, which prioritises economics and not politics, is aware of European concerns over the sudden increased inflow of Chinese capital. The country's outbound investors are therefore anxious to be seen as willing to learn from past mistakes, demonstrated by management improvements and a willingness to adapt to local environments. Meanwhile, China's business leaders aim for sustainable development – all the while hoping to alleviate worries about their global ambitions. ■

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