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Interview—Chinese Outbound Investment

Inside this issue:

The EUAP interviewed Ms. Pansy Yau, Deputy Director of Research of the Hong Kong Trade Development Council and Mr. Wing Chu, Economist of the Hong Kong Trade Development Council about the latest trends in Chinese outbound investment.

Ms. Pansy Yau
Deputy Director of Research
Hong Kong Trade Development Council (Profile)

Mr. Wing Chu
Economist
Research Department
Hong Kong Trade Development Council (Profile)

Chinese Outward FDI has been growing at an average annual rate of 41.6% from 2002-2012 and the growth is expected to continue in the coming years. The reasons are multifold. The Chinese government is playing a major role in implementing the so-called "going-out" policy, with measures such as simplifying investment procedures and encouraging Chinese companies to invest overseas. It is also the Chinese government's objective to groom several big corporations to become multinational or be ranked among the top Fortune 500. In the aftermath of the financial crisis in 2008 some Chinese enterprises have come to the conclusion that now is a good time to invest as asset prices in overseas markets have become more attractive. On one hand, such companies are interested in building international networks so as to expand their overseas markets. More importantly, however, they aim to enhance their competitiveness by bringing in better technology and developing their own brand so as to outperform competitors in the increasingly competitive domestic Chinese market. Chinese businesses, therefore, are currently "going out" to expand their foreign distribution network, but at the same time they are also "bringing in" overseas partners' advantages to help them expand their own domestic market and enhance their R&D capabilities. The two processes are actually happening at the same time.

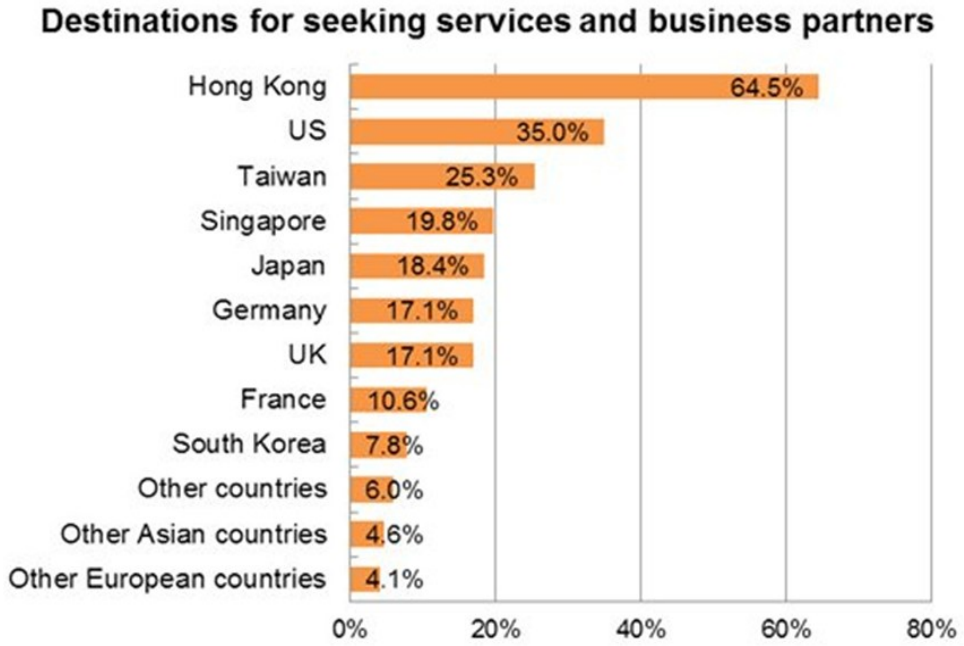
Cooperating with foreign brands, entering into technological cooperation and expanding sales in mainland and overseas markets are the main reasons for "going out".

Source: HKTDC survey

n = 212 (multiple answers were allowed)
# Mainland enterprises which are already seeking business partners overseas or carrying out related business activities overseas or considering to do so
* Including technological cooperation in R&D, production, environmental protection, etc
** Including sourcing of raw materials and key parts and components
*** Including business activities related to trade marks and licensing
^ Including investing in start-ups, setting up sales networks or securing raw materials supplies from overseas
^^ Including acquiring/obtaining technologies related to R&D, production, environmental protection etc (including activities relating to patents and licensing, etc)

The "bringing in" approach has become a major trend in current Chinese outbound investment, which foreign partners generally perceive as a win-win cooperation scenario. The growth potential in mature markets, including Europe, the US and all other traditional export markets of European companies, apart from Asia, is not that bright. China, by contrast, still shows great growth potential. Taking the cooperation between MAN, a German truck company, and Sinotruk, a Chinese automobile company, as an example, the partnership has helped Sinotruk build production lines, acquire technological knowhow and strengthen R&D. The German company meanwhile gained access to the Chinese market via Sinotruk's local network. They also succeeded in exporting car models developed in China back to European and overseas markets. This in turn helped lower overall production cost.

In terms of foreign direct investment, Hong Kong remains the largest destination, accounting for around 58% of Chinese FDI in 2012. This can be explained by Hong Kong's gateway function for the Chinese monetary outflow with many companies parking funds in the SAR before these are channeled to final destinations. It is relatively easy for Chinese companies to move capital to Hong Kong in one big lot and make it available for international investment from there. Already having usable funds in Hong Kong provides Chinese businesses an advantageous position in negotiations with foreign partners. The second -most important FDI destination (after Hong Kong) is the European Union, followed by the US in third place. Among all EU countries, Germany is currently the top destination for Chinese overseas investment.



The majority of enterprises expressed interest in sourcing overseas services and business partners from Hong Kong.

n = 217 (multiple answers were allowed)

Source: HKTDC survey

Chinese businesses intend to invest in Europe in quite diverse sectors of the economy. While some of them show interest in German technology and Italian brands, others buy vineyards in France. More generally, an increasing number of Chinese investors focus on brands and technological cooperation with EU enterprises. A recent report by the Asia Society pointed out that high tech and high-end manufacturing sectors are prime targets of investment rather than more traditional business ventures in mining, resources or energy.

In terms of high-end technologies, the export market is regulated by COCOM (now Wassenaar Arrangement). Although the control of high-tech transfer has been substantially relaxed in the last decade, the US still maintains embargoes and restrictions in this field. In comparison, European countries have a relatively more liberal stance towards high tech export and cooperation with Mainland China. The EU and China are currently the number one partners in top-end technology areas.

Regarding obstacles that Chinese enterprises encounter when they invest overseas, the number one concern is with differing business cultures. Chinese newcomers in particular, who do not have prior experience with overseas investment, lack procedural knowledge or understanding, for example when drafting correct investment MOUs or contracts, due diligence or the right pricing strategies. Another challenge is the building of genuine partnerships after acquisition or outright mergers of business operations. The ways of perceiving operations management can differ enormously among Chinese and 'foreign' companies. Chinese companies also may be short of knowledge about rules and regulations in investment markets, including labor laws, legal restrictions or any other regulatory requirements in particular business sectors. If foreign companies or foreign countries want to attract more Chinese investors, providing more information about such issues may be crucial.

The HKTDC sees its objective in strengthening Hong Kong's role as a gateway for Chinese outbound investment. By organizing, for example, investment delegations for Chinese businesses, with the support of the Chinese government, it assists Chinese investors in understanding better the situation in overseas markets, examining potential business opportunities and meeting possible foreign investment project partners. To work out specific details of investment deals, the HKTDC then connects investors with special service providers in Hong Kong, such as consultancies, law firms, banks and other experts as required. Its large overseas networks, including its own overseas offices, governmental agencies of the Hong Kong SAR Government and non-governmental business associations, also help connect potential Chinese investors with companies abroad.

About the Business and Economic Information Platform

The EUAP's Business News and Insights provide regular updates and analysis of the latest EU's economic and business issues which are of interest to the audience in Hong Kong. For more information, please visit the website at http://europe.hkbu.edu.hk/euap/business.html.

Leung Kin Pong
Research Associate

European Union Academic Programme Hong Kong
DLB515, David C.Lam Building,
Hong Kong Baptist University,
Kowloon Tong, Hong Kong
Tel: (852) 3411 6592 Fax: (852) 3411 6588
Email: kpleung@hkbu.edu.hk
Facebook: http://facebook.com/HKEUAP

Leung Kin Pong is *Research Associate* of European Union Academic Programme Hong Kong. He holds an MA in EU International Relations and Diplomacy Studies at the College of Europe and his research focus is on EU financial and economic policies and EU foreign economic relations.