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**China Europe International Business School (CEIBS),  
Shanghai**



china goes global™

中国 走向 全球化

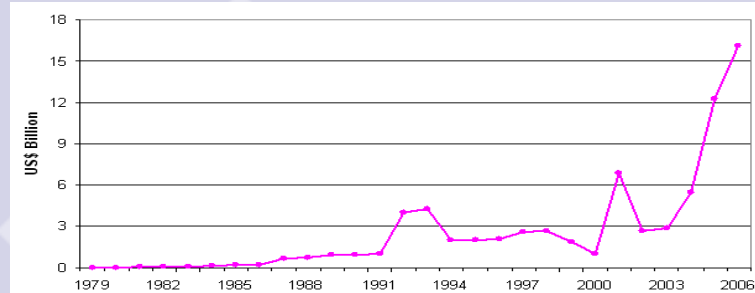
# China's integration in the world economy

	Import	Export	Surplus
1952	0.82	1.94	1.12
1962	1.49	2.66	1.17
1970	2.26	4.59	2.33
1978	9.75	20.64	10.89
1985	27.35	69.60	42.25
1990	62.09	115.44	53.35
1995	148.75	280.85	132.10
1998	140.24	183.71	43.47
2001	243.55	266.10	22.55
2002	295.17	325.60	30.43
2003	412.76	438.23	25.47
2004	561.23	593.32	32.09
2005	660.10	762.00	101.90
2006	791.61	969.07	177.46

Imports and exports;  
*US\$ billion*

	2001	2002	2003	2004	2005	2006
Export to US	54,282.7	125,193.0	152,436.1	196,682.0	243,470.1	287,774.4
Import from US	26,202.2	22,127.7	28,367.9	34,744.1	41,925.3	55,185.7
Balance	28,080.5	103,064.9	124,068.2	161,938.0	201,544.8	232,588.6

Trade surplus with US, 2001-2006  
*US\$ million*



Data sources: Ministry of Commerce and China Statistics Bureau

FDI outflow

## Contracted FDI value

*US\$ billion*

	2004	2005
EJV	16.39	14.61
CJV	3.11	1.93
WFOEs	40.22	42.96
Foreign-invested shareholding ventures	0.78	0.92

EJV: equity joint ventures; CJV: cooperative joint ventures; WFOEs: wholly foreign-owned enterprises

FDI inflow

## Foreign Invested Firms in China, 2005 (Percent of national total)



# Focus is on FDI outflow: summary of the results

- Macro overview of Chinese outward FDI
  - The Globalization of Chinese Enterprises: Transformational Politics, Business Strategies, and Future Paths, Harvard, October 8-10 2008
  - Chapter 6. Meet Your New Neighbors: Chinese Companies Moving Abroad from W. Burgers & H. Ebbers, Pearson, forthcoming
  - Talk with Mr. Gao, president of CIC
- Strategies and cases by Jianhong Zhang
- Chinese companies abroad: cultural dimensions by Fons Lamboo
- Challenges for Chinese firms operating abroad by Boudewijn Poldermans

# Outward FDI

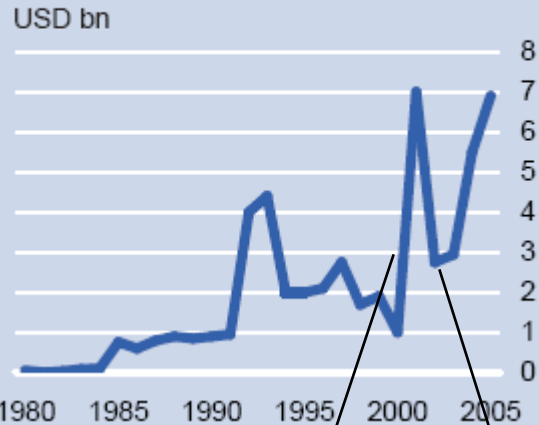
- The final (logical) step in global economic integration
  - Not only China: BRIC, VISTA
  - See: “The emerging markets century” (van Agtmael)
  - Past experience (Japan, Korea)
    - Strong connection between economic development and outflow of FDI
    - Boom period Japan (1970-1990) and Korea (1980-2000): average annual increase of outward FDI was 27%

# Chinese FDI outflow

- Before the mid 1980s hardly any outward FDI
  - Tight control
- Changing attitude from 1992
  - Total stock of FDI in 1996 was \$17 billion
- 2002: Go out policy
  - Creating national champions
  - Strong outflow of FDI (up to \$18 billion in 2006). Probably an underestimation
- Growth: 1999-2006: FDI outflow average annual growth of 60%
- Attitude in the West:
  - State owned/State controlled FDI
  - CIC

# Chinese stock of FDI

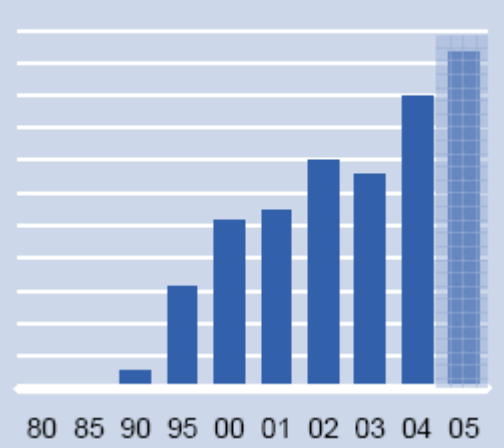
**China's ODI has risen rapidly in terms of both annual flows...**



Go-out policy (2002)

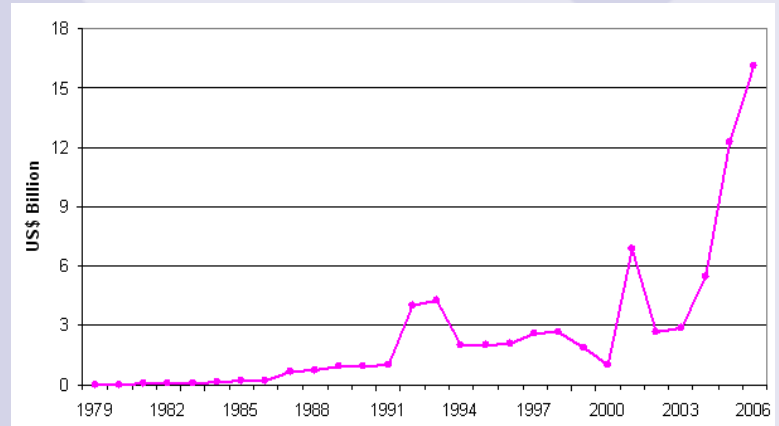
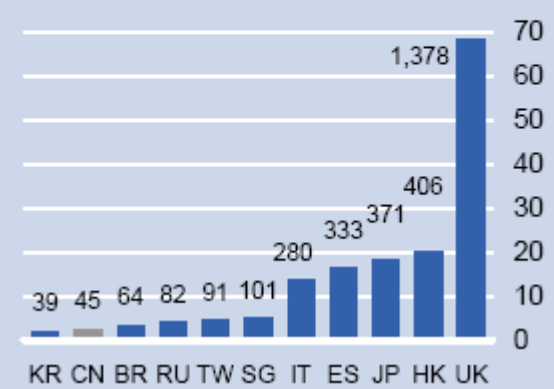
WTO entry in 2001

**... and accumulated stock**  
USD bn



**Chinese stock of ODI still low**

Accumulated stock, year-end 2004, % of US, abs. USD bn values in figures



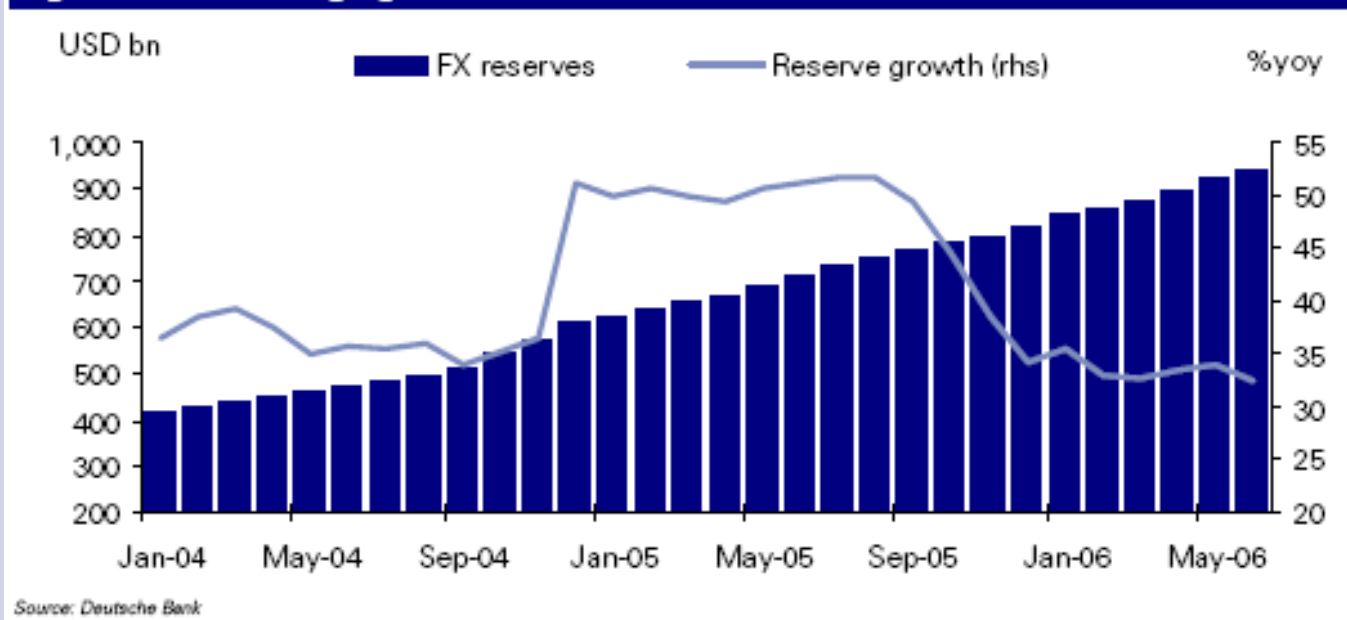
Data sources: Ministry of Commerce and China Statistics Bureau

# Role of sovereign wealth funds (CIC); September 2007

- Government ownership and control en looking for higher (risk adjusted) returns
  - Wen Jiabao: “China will actively explore and expand the use of its foreign exchange reserves”(21-1-2007)
  - Aim: 14% ROI
  - Capitalization of US\$ 200 billion
  - Minority equity investments in companies such as Morgan Stanley, Blackstone and Rio Tinto. Tals with Dresdner Bank

# Role of sovereign wealth funds (CIC)

**Figure 12: Double-digit growth of FX reserves**

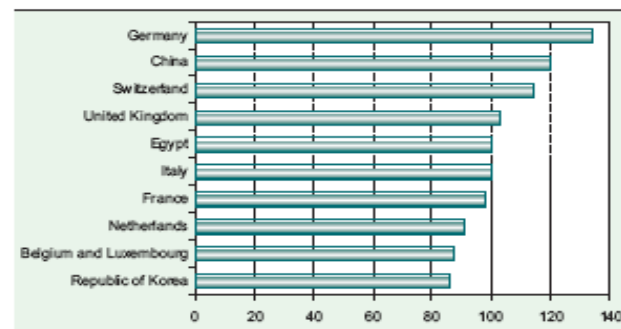


In 2007 China's foreign reserves skyrocketed to more than US \$1800 billion in the beginning of 2008 (Market Profile on Chinese Mainland 2008), and at the same time the return on US government bond declined to 3-4 percent per year because of low interest rates in the USA and depreciation of the US dollar compared to other currencies

# Why going abroad?

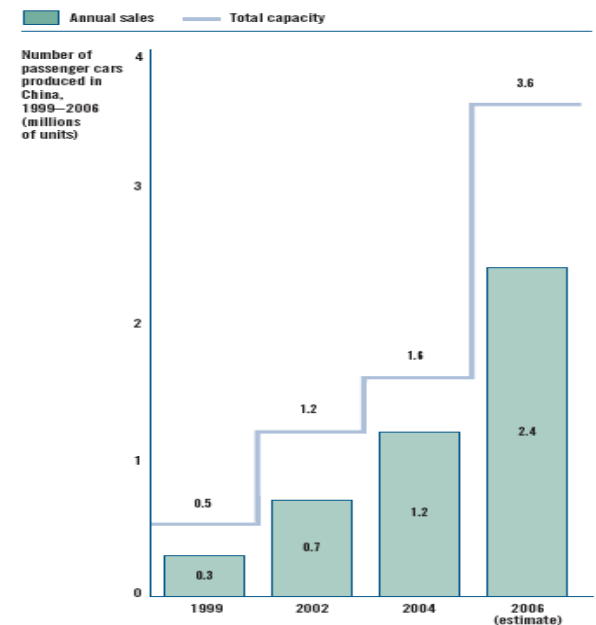
- Strong growth, but from a low base
- Push factors
  - Low domestic profits due to fragmentation and hyper domestic competition
  - Government support is increasing

Figure I.14. Number of BITs concluded by top ten economies, end 2006



Source: UNCTAD ([www.unctad.org/ila](http://www.unctad.org/ila)).

## SURGING FOREIGN INVESTMENT FUELED OVERCAPACITY IN CHINA'S AUTO INDUSTRY



The industry averaged a utilization rate of 65 percent between 1999 and 2006.

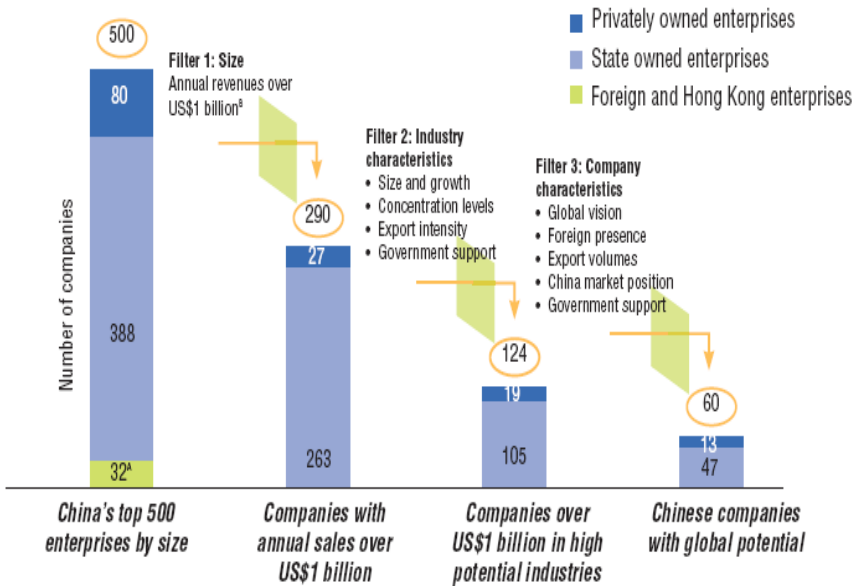
# Why going abroad?

- Pull factors
  - Market
  - Technology, brands and know-how
  - Energy and resources needs
  - Changes in legislation
  - Reduction of barriers

**Primary motivations for global expansion**  
1 = not important, 5 = very important



# Determining globalization potential



## Major outbound acquisitions by Chinese companies

Jan 1999 to Jan 2006

Announce- ment date	Deal status	Acquired stake	Bid value EUR m	Target name	Target domicile	Chinese bidder
May 2005	Aborted	n.a. (100%)	15,255	Unocal	USA	CNOOC
Aug 2005	Completed	100%	3,204	PetroKazakhstan	Canada	PetroChina
Jan 2006	Pending	45%	1,894	Akpo oil field assets	Nigeria	CNOOC
Dec 2004	Completed	100%	1,303	IBM (Personal Computer Business)	USA	Lenovo
Jun 2001	Completed	100%	1,154	Hyundai Display Technology	South Korea	BOE Technology
Jun 2005	Aborted	n.a. (100%)	1,050	Maytag	USA	Haier
Jan 2002	Completed	86%	672	Repsol-YPF (Indonesian assets)	Indonesia	CNOOC
Oct 2003	Pending	13%	593	Gorgon Liquefied Natural Gas Field	Australia	CNOOC
Nov 2003	Completed	67%	450	Thomson SA (television manuf. unit)	France	TCL
Jul 2004	Completed	49%	419	Ssangyong Motor	South Korea	Nanjing Auto
Jun 2005	Pending	100%	370	PetroChina International	Indonesia	CNPC, PetroChina
Jul 2005	Completed	100%	72	MG Rover	UK	Nanjing Auto

1983: 61 Chinese foreign affiliates in 30 countries

1994: 900 Chinese TNC and 4600 foreign affiliates in 130 countries

2006: More than 8000 affiliates in 180 countries