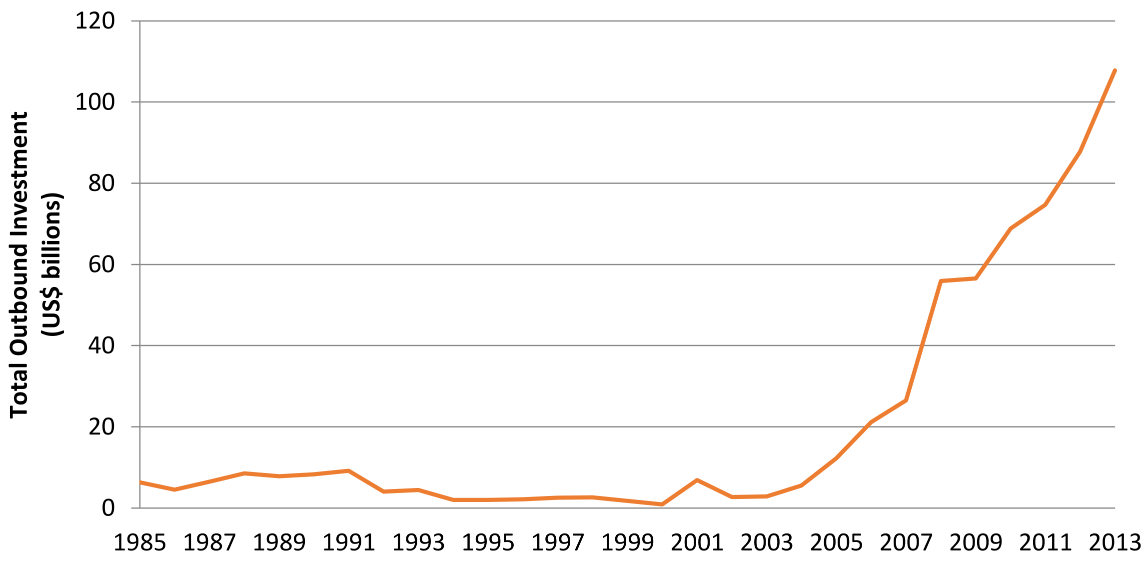
China's Outward Foreign Direct Investment in 2013

In September 2014, China's Ministry of Commerce (MOFCOM) released its statistical bulletin for outward foreign direct investment (FDI) in 2013.[1] The statistics show that China's overseas investment flows reached a record high of US$107.84 billion in 2013. This is the first time that outbound FDI has exceeded US$100 billion, and represents an increase of 23% on the amount invested in 2012. According to statistics from the United Nations Conference on Trade and Investment (UNCTAD), China ranked third behind Japan and the US in terms of total outward investment flows in 2013. While MOFCOM's statistics do not provide a complete picture of the exact nature and destination of China's outbound FDI, they are a welcome resource, and with each annual publication of the statistics more detailed information is made available. This article discusses some of the key data included in MOFCOM's statistical bulletin.

China's Outbound Foreign Direct Investment Flows, 1985-2013



Source: MOFCOM and UNCTAD

Geographical Distribution of China's Overseas Investment: Final Destination Often Unclear

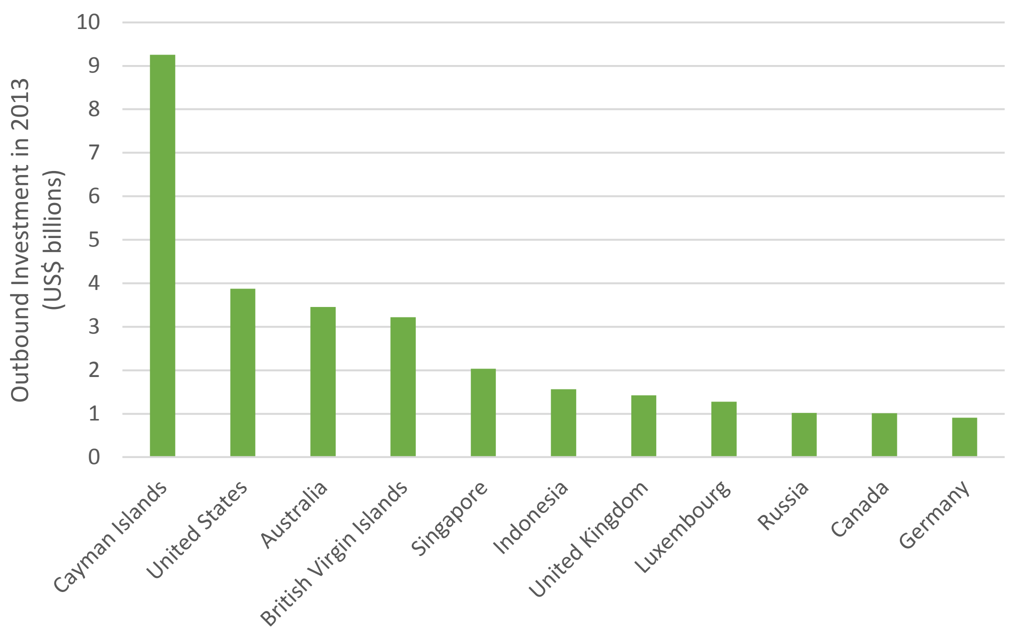
MOFCOM's statistical bulletin provides a geographical breakdown of the geographical distribution of outbound investment flows, and in 2013 the vast majority of investment (over 70%) went to Asia. However, due to the methods used to document outbound investment, it is challenging to obtain a clear and comprehensive picture of the *final* destination of China's outbound FDI. MOFCOM's statistics are based on information submitted by Chinese companies during the registration and approval process. This information often reports the initial destination of investment, rather than final destination.[2]

[1] Unless otherwise noted, all statistics in this article are taken from: Ministry of Commerce, National Bureau of Statistics & State Administration of Foreign Exchange (2014), *2013 Statistics Bulletin of China's Outward Foreign Direct Investment*, Beijing: China Statistics Press.

[2] Daniel H. Rosen & Thilo Hanemann (2009), *China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications*, Washington DC: Peterson Institute for International Economics.

As can be seen in the Statistical Bulletin for 2013, outbound investment is heavily concentrated in Hong Kong, which is likely to be a "stopping off" point, rather than a final destination for many investments. In 2013 Hong Kong was the top destination for outbound investment, accounting for 58% of total flows. When combined with the tax havens of the Cayman Islands and British Virgin Islands, this figure climbs to 75%, or US$75.2 billion. Most investments in these countries flowed to the "business services" sector (discussed below), and the majority of major mergers and acquisitions in 2013 were implemented through re-investment of these funds elsewhere. This practice of "stopping off" obscures the true destination of a large part of China's outbound investment. While MOFCOM statistics give the impression that most of China's outbound FDI went to Asia in 2013, in reality this figure is likely to be much lower.

Top Destinations for China's Outward FDI Flows in 2013 (excluding Hong Kong)

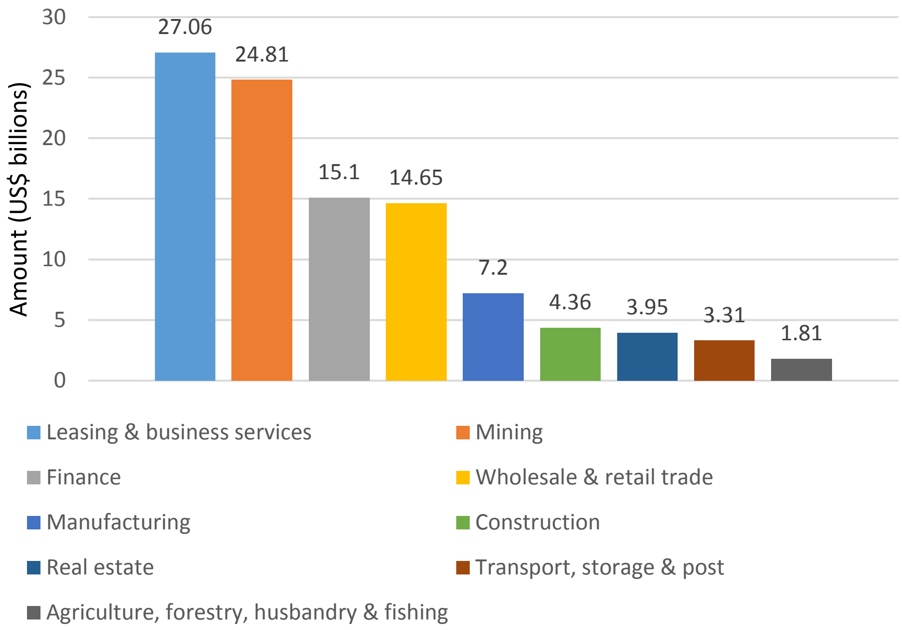


Sectoral Focus of Outbound FDI: Mining, Oil and Gas a Key Focus

China's official outbound investment statistics use 17 different categories to classify outbound FDI flows. The category that has consistently received the largest amount of investment is "business and leasing services", which accounted for US$27.06 billion (over 25%) of China's investment in 2013. However, this is a vague category and overlaps various other sectors. For example, one academic study on this issue found that a large portion of investment reported as "business and leasing services" actually went into the mining sector.[3] While business and leasing services has been the top sector for outbound investment for several years, this is closely followed by "mining", which includes the oil and gas industries. In 2013, MOFCOM statistics show that 23% of outbound investment (US$24.81) went to the mining sector.

[3] Bijun Wang & Yiping Huang (2012), *The Industry and Ownership Structure of Chinese Overseas Direct Investments*, Australian National University: East Asian Bureau of Economic Research.

Industrial Distribution of China's Outward FDI Flows, 2013



Mergers and Acquisitions Remain an Important Vehicle for Overseas Investments

In recent years mergers and acquisitions (M&A) have become an important vehicle for China's overseas investment and this trend continued in 2013. According to MOFCOM, in 2013 Chinese enterprises conducted 424 outbound M&As in 70 different countries and regions. Direct investment in M&A in 2013 reached US$33.79 billion, about 30% of total outward investment flows. The majority of M&A investment flows went to the mining sector, including China National Offshore Oil Corporation's (CNOOC) massive US$14.8 billion acquisition of the Canadian oil and gas firm Nexen.

The Overseas Presence of Private Enterprises Continues to Grow

China's overseas investment has historically been dominated by state-owned enterprises (SOEs), but the role of private actors is now becoming increasingly important. In 2013, SOEs were responsible for just under 44% of overseas investments, down from over 46% in 2012. In 2006, SOEs held over 80% of total overseas investment stock but by 2013 this had dropped to 55%. Private enterprises do not always have the same access to incentives and state support as SOEs, but they are often seen as being more dynamic and quicker to adjust to market conditions. According to one official from MOFCOM quoted by the *China Daily* in 2012, outbound investments by private enterprises will eventual surpass those of state-owned enterprises.[4]

[4] Wei Tian & Ding Qingfen, *Private Investors Play Bigger Role Overseas*, China Daily, 31 August 2012. http://www.chinadaily.com.cn/business/2012-08/31/content_15722433.htm (accessed October 2014).

Conclusion: China's Role as Global Investor Continues to Grow

By 2013 the number of Chinese outward foreign investors had reached 15,300. These investors have established 25,400 overseas enterprises in 184 countries and regions across the world. Accumulated outbound FDI stock has reached over US$660 billion dollars, and MOFCOM report that by the end of 2013, Chinese enterprises had paid over US$37 billion in taxes and duties to countries where investment is taking place. These enterprises have employed over 1.96 million people, of which 967,000 were foreign nationals.

2013 was a landmark for China's outbound FDI, and for the first time it exceeded US$100 billion. Just 10 years ago in 2003, outbound investment was only US$2.85 billion. The total for 2013 represents an increase of almost 3,800% in just 10 years. In 2014, China relaxed regulations for the management of outbound investment. Since the adoption of these new rules, only investments valued over US$1 billion and investments in sensitive areas or industries require approval, the remainder simply require registration at the appropriate level. With the relaxation of outbound investment rules, China's outbound investment is likely to continue to rise, and even increase, over the coming years.