

CASCC



CENTRO DI ALTI STUDI
SULLA CINA
CONTEMPORANEA

CASCC BRIEFING PAPER

CHINESE OUTWARD INVESTMENTS

AGENCIES, MOTIVES AND DECISION-MAKING

Bernt Berger & Axel Berkofsky

Chinese Outward Investments – Agencies, Motives and Decision-making

Bernt Berger & Axel Berkofsky ¹

China is an emerging player in international investment. Since 2004 it has by means of new more liberal policies relaxed its to date restrictive dealing with outwards investments that was mainly determined by a conservative forex regime. Domestic institutional reforms and re-structuring the finance sector have led to new hold-ups in the system that make centrally steered strategies and decision-making difficult. Simultaneously reforms in the enterprise sector have led to liberalisations for companies to carry out own, market-oriented investment transactions. China's transformation towards an internationally investing nation is far from complete. So far, structural limitations such as lacking know how, possible investment volume and market access determine China's limited engagement especially in industrialised countries.

The spectre that China might be using its foreign assets for direct investment in Europe and the U.S. has received growing scrutiny since September 2007. At that time China announced the establishment of a sovereign wealth fund equipped with financial resources of \$200 billion called the China Investment Corporation (CIC). Back then it was speculated, that China would put parts of its currently \$1,9 trillion forex reserves (Sept 2008) to strategic use. Additionally, Chinese state-owned firms (SOEs) would invest in Europe targeting strategically important and high-tech industries. Commentators in the US including members of congress were concerned that Chinese investments in sensitive or strategies industries might pose a threat to US national security. By contrast, in Europe concerns exist that China might try to

¹ *About:*

The authors are co-heading the 'Chinese Investment in Europe' project at CASCC. The Paper was written under the framework of a joint research programme between CASCC www.cascc.eu and Chatham House www.chathamhouse.org funded by the Compagnia di San Paolo, Italy.

To know more on the project Chinese Investments in Europe go at CASCC and Chatham House websites.

Axel Berkofsky is Adjunct Professor at the University of Milan. Bernt Berger is currently based at the Institute for Peace Research and Security Policy at the University of Hamburg (IFSH) as a Research Fellow.

Key Words:

Chinese Outward Investment; Chinese FDI; Chinese State-owned Enterprises; SAFE; China Investment Corporation (CIC); Investment policy; NDRC; SASAC; China EXIM Bank.

strategically use its assets to pave the way for its industries in order to climb up the value chain. In so doing, they will in the long run become competitors to European enterprises.

So far, knowledge on the CIC's operations and financial transactions has been very limited and ranges of misperceptions were dispersed about its intentions. Especially the question of political influence on decision-making concerning Chinese foreign investment – although only limited– caused worries. The CIC was first and foremost born out of the necessity of bringing China's enormous foreign exchange reserves to effective use. So far a great part of the money was held in US Treasury bonds (\$585 billion in September 2008), which only brought low returns. Initial investments, such as the spectacular investments in Blackstone Group turned out to be risky and brought China some considerable losses. The larger part of the funds capital (approx. \$110-140 billion) was used to bolster up the domestic financial sector.

The general trend shows that China is proceeding cautiously towards greater outward investment and is confronted with a range of internal and external obstacles. While China will continue to increase its FDI in developing countries, the volume of investments towards industrialised countries will remain low in the years ahead. As a traditional FDI recipient country, China had tried to hold a strong grip on its formerly limited forex reserves. Today, China still needs to acquire expertise about outward investment including risk-management, especially in the finance sector and take-overs in industrialised countries. So far, Chinese investment has predominantly gone into the resource sector and increasingly offshoring towards developing countries. However, in the medium term Beijing has an interest in positioning its most potent companies, the so-called *fifty national champions*, in global markets in order to improve competitiveness and catch-up capabilities. Respectively, further priorities include expanding State-owned enterprises' (SOE's) scope of action globally and, perhaps, even investment into technologies in order to upgrade China's economy. Especially after China's WTO accession, Chinese companies needed to develop competitive advantages at home and abroad.

In the analysis below we will look at the evolution and trends of Chinese outward investments and identify key decision-makers. The analysis of Chinese strategic decision-making illustrates the complex institutional and sectorially divided decision-making structures. The paper sums up with conclusions about China's strategic outlook and prospects for investments in Europe.

Box 1 – Core findings

- Chinese foreign investments are primarily guided by market rationality rather than by politically steered political strategies.
- Hold-ups in decision-making processes and non-economical undertakings are structurally rather than strategically determined.
- China seeks to position its most promising enterprises globally.
- Strategic acquisitions of industries in the areas of military or high-end commercial technology are not foreseeable yet.
- China's outward investment is only at the beginning. The step from resource related investment to financial investments and takeovers in industrialised countries has not been accomplished yet.
- Beijing is trying to find efficient ways of investing its forex reserves. So far, it has only received low returns.
- The restructuring of China's investment frameworks has led to additional hold-ups.

Going out – new policies' long way coming

The amount of Chinese foreign investment has been rising slowly. According to official statistical data FDI rose from US\$ 16.1 billion in 2006 to US\$ 26.5 in 2007, as compared to less than US\$ 3 billion in 2003. Policy-makers realised that formerly restrictive policies on FDI based on scarce foreign reserves, protectionist market attitudes and lacking knowledge on international markets needed to give way to a change of attitude towards outward investment. The need to position Chinese firms internationally, upgrading the production value chain and the swelling of formerly scarce forex reserves have made way for a new set of policies, which can be summarised as China's 'Going Out Strategy'.

a. Going out

The origin of China's so-called 'Going-out' strategy cannot be clearly dated. Whilst the prime responsibility currently lies with the Ministry of Commerce (MoC), the concept might originate in the 1990s with one of its predecessors – the Ministry of Foreign Trade and Economic Cooperation (MOFTAC). During the 16th Party Congress in 2002 the need of bringing the strategy to perfection was emphasized. During an '*important period of strategic opportunities*', a time slot of about 20 years, China was to position its companies as global players. In the 11th Five Year Program of 2006 the promotion of international economic integration was confirmed. The action plan involved the guidance of foreign investment and the diversification and improvement of the utilization of foreign capital.

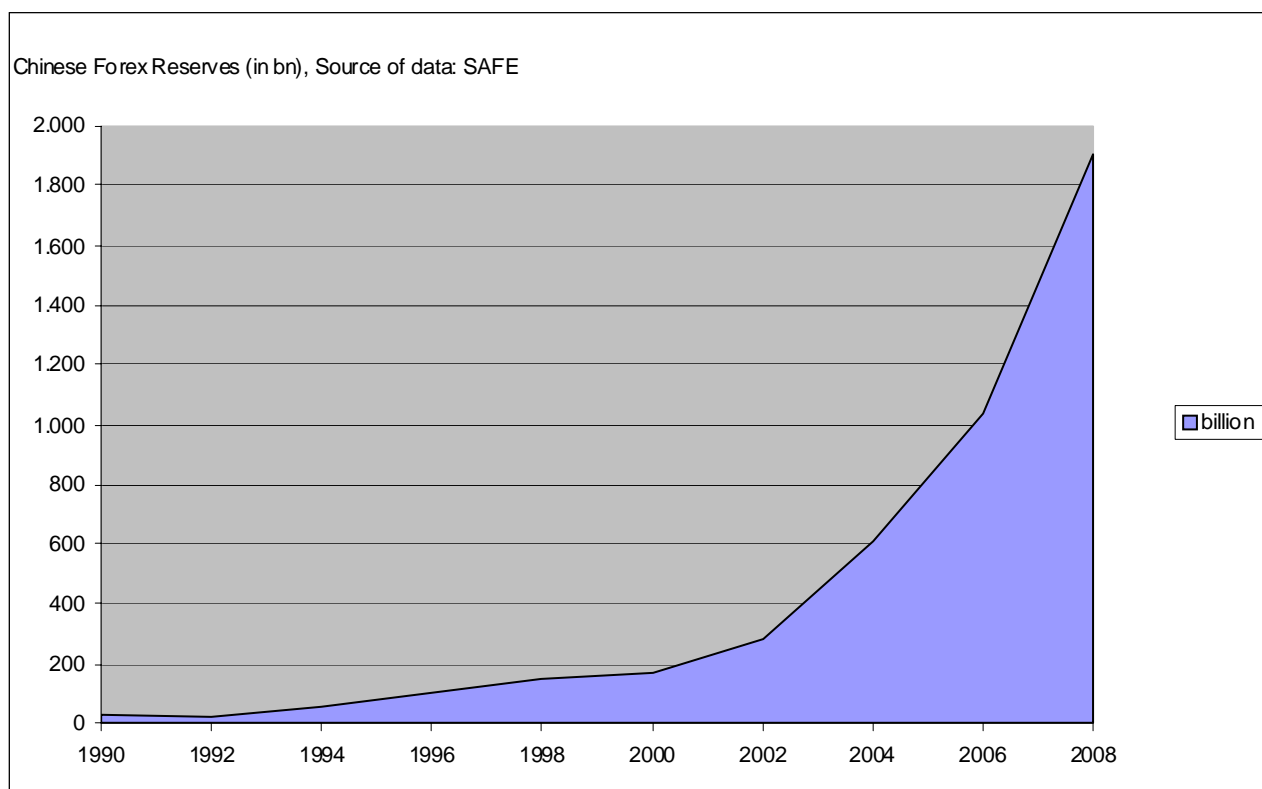
Apart from the conceptual development and clarity of China's road towards developing a FDI strategy, the practical necessities of investing abroad are of great relevance. China's foreign policy concepts, approaches and principles have often caused perplexity abroad because they were understood as foreign policy

strategies *per se*. However, China's foreign policy principles had primarily been defined for domestic purposes and as guidelines for Beijing's own policies.

The internal and external goals of China's *Going-out* Strategy are targeted at laying the basis for external investment. The central assertion is that enterprises need to be encouraged to invest globally and that a general change of attitude towards outward FDI needs to take place. Regarding strategic development, the initiative involves a range of measures. Firstly, creating a favourable external environment for Chinese companies that strive to invest abroad. Secondly, preparing enterprises for international competition and participation in international cooperation. Thirdly, boosting innovation capabilities of Chinese enterprises.

A changing attitude towards outward FDI was indeed of central importance. During the 1990s, Chinese FDI was strongly restricted. Limited foreign exchange reserves, strict control over states assets and the fear of foreign exchange leakages led to an unfavourable attitude towards FDI and tight approval procedures. According to China's State Administration of Foreign Exchange (SAFE), in the 1990s forex reserves were still below \$200 billion. At the same time the total outward investment did not exceed US\$1,2 billion (1997).

Box 2 – China's Forex Reserves



During the 1990's State Planning Commission (SPC), a macroeconomic management agency (under the State Council) and the forerunner of today's National Development and Reform Commission (NDRC), declared that Chinese enterprises were not ready to invest abroad. Until 2004 Chinese regulations were primarily directed FDI at foreign technologies and resources in order to tackle domestic deficiencies in these areas. Until 2004 foreign investment that exceeded US\$1 million needed authorization by the SPC.

Box 3 – The National Development and Reform Commission (NDRC)

The NDRC succeeded the State Planning Commission (SPC) in 2003 after an institutional restructuring took place. The SPC (or later State Development Planning Commission - SDPC) was since 1952 (as its Soviet equivalent) the macroeconomic control agency under the State Council. It was responsible for the control of administration and planning in China's economy. The SPC had a strong position within the Chinese state system. Originally, as the central organ that controlled the planned economy, the Commission had subordinated all provincial planning commissions and oversaw the work of all economic ministries. During the reform period repeated attempts were made to cut down the powers of the SPC. However, it remained a large and powerful tool for state planning.

When the NDRC was established it continued to take a central role in the economic development and central planning in China. As the SPC before, attempts to delimit its powers were made by defining its areas of responsibility. Institutional reforms in conjunction with the 17th National Congress of the CCP in 2007 had the goal to create more integrated ministries with greater competence and efficiency. These reforms were arguably also targeted at downsizing the NDRC's influence; yet, it survived relatively unharmed. Officially, the NDRC's role is to the study and formulation of new policies for economic and social development in order to implement long-term plans, annual plans, industrial policies and price policies. Therewith, it has similar powers as a central bank.

Additionally, the NDRC seeks to control the balance of economic development and guides the restructuring of the economic system. This has been important because in the recent past China's economy has shown tendencies towards overheating. In recent years a great share of attention was directed at its role in building up China's energy sector, the management of national oil reserves including strategic reserves. The NDRC possesses an own Energy Research Institute (ERI). Additionally, the NDRC also controls and supervises outward investment.

b. New Policy Guidelines

In 2004 several changes in the regulation foreign investment took place and new policy guidelines were adopted.

1. In October 2004 the MoC enacted a document called *Provisions on the Examination and Approval of Investment to run Enterprises abroad*. The paper stated that relatively competitive enterprises (in the non-financial sector) are encouraged to invest and run enterprises abroad. The MoC on its part will examine

enterprises that seek to run enterprises abroad. At the same time the MoC authorised administrations on provincial level to undertake examinations on its behalf. Generally speaking, by applying a range of measures, the MoC sought to improve the guarantee and supervision system, upgrade services to enterprises (including information about investment environment, destination and local regulations), simplify application procedures and introduced a reporting mechanism. Criteria for approval of investment include reasonable diversification of investments, safety, general investment environment in target country, political and economic relationship with China and international treaties. Negative criteria are the impairment of state sovereignty, security and national interest, violations against the law, prohibited technology exports under Chinese regulations and security issues in the countries targeted for investments.

2. In October 2004 the NDRC also adopted a policy paper called the *Verification and Approval of Overseas Investment Projects Tentative Administrative Procedures*. The bottom-line of the document is that the government's role is mainly guidance, provision of services and support. Enterprises were henceforth asked to make their own decisions. Verification and approval are needed, where large amounts of foreign exchange are involved. The official thresholds for verification and approval of investment are as follows:

Box 4 – Thresholds for verification and approval of overseas investments
<p>Overseas investment for exploration and development of natural resources:</p> <ul style="list-style-type: none"> ≥ US\$ 30 million: verification and approval by the NDRC ≥ US \$ 200 million: verification and approval by the NDRC; report to the State Council < US\$ 30 million: verification and approval by Development and Reform Dept. on provincial level <p>Overseas investment non-resources sector:</p> <ul style="list-style-type: none"> ≥ US \$ 10 million: verification and approval by the NDRC ≥ US \$ 50 million: verification and approval by the NDRC; report to the State Council < US\$ 10 million: verification and approval by Development and Reform Dept. on provincial level <p>Regulation for overseas investment for SOEs</p> <ul style="list-style-type: none"> < US\$ 30 million, resource development: independent decision by enterprises < US\$ 10 million, other investment: independent decision by enterprises

3. Measures in promoting Chinese FDI have been specified in a joint document issued by the NDRC and the China EXIM Bank, a policy bank reporting to the State Council. From an outside perspective, the paper called *Giving Credit support to key overseas investment Projects encouraged by the State* has been, in view of state backed deals and likely distortion of competition, the most controversial policy so far. Both

organisations jointly established mechanisms to support investment with low interest credits reserved for exports. Parts of the banks credit capital will be earmarked for key investment projects that are encouraged by the government. In 2005, the NDRC published a similar programme with the China Development Bank (CDB).

Box 5 – The Export-Import Bank of China (EXIM Bank)

The China EXIM Bank is one of three so-called policy banks under the direct control of the State Council. Among the main task of the bank are the provision of export and import credits as well as buyer credits for the ex- and import of goods such as mechanical or electronic products. The EXIM Bank engages in on-lending loans to foreign governments and loans/mixed credits to foreign countries in general. Within the scope of the banks activities are international inter-bank loans, provision of export credit insurances, export credit guarantees, import and export insurances and factoring service.

The bank officially implements government policies in industry, foreign trade, diplomacy and economy. It supports Chinese companies with a comparative advantage in order to engage with foreign partners in offshore construction contracts and overseas investment projects. Resources are made available to strengthen foreign relations and enable economic and technological cooperation and exchange.

What are the keys overseas investments encouraged by the state? According to an official document by the NDRC, four areas of investment are prioritised. Firstly, projects that develop overseas resources in order to countervail shortages in China, who is lacking own resources. Secondly, overseas production and infrastructure projects that necessitate Chinese technology, products, equipment and labour. Thirdly, R&D projects abroad that use advance international technologies, management experience and professional skills. Fourthly, mergers and acquisitions of foreign enterprises that can help to raise China’s international competitiveness and provide access to international markets.

Box 6 – Outward investments encouraged and promoted by the NDRC

Promotion in the manufacturing sector:

textile, garment and footwear, production of chemical fibers and polyester, processing of wood products/ production of paper, chemical fertilizers/pharmaceuticals, smelting of processing of cooper and aluminum, production and installation of large-scale telecommunications satellites, consumer electronics.

Support in the service sector:

transport of goods on sea-lanes, operation of telecommunication networks, software development, product research in high-end technology, road and rail, transport of goods.

The NDRC and policy banks encourage and support the following investments:

natural resources and raw materials, constructions and infra-structure, export sectors in which China has a global competitive advantage, sectors which raise China’s technology R&D capabilities and capacities, sectors which enable China to obtain advanced technology and management skills and capabilities.

Kinds of support for encouraged outward investments:

macroeconomic support such as the formulation of domestic industry plans, support for business and financial costs, customs support, insurance and credit issues, foreign exchange related issues.

In sum, Beijing's new policies encourage overseas investments rather than restricting them. The State Administration of Foreign Exchange (SAFE), who has traditionally managed forex reserves, has simplified procedures for outward investments and abolished restrictions on the amounts of forex. According to the documents, the MoC seeks to take on an advisory role. Since Chinese enterprises usually possess little experience and know-how in FDI transactions, foreign markets and investment environments, the MoC is assisting investors in minimising their risks by examining and providing market data.

Under the new framework, the FDI system is divided into authorisation, encouragements and supervision. As regards the authorisation procedures, the number of bodies and actors involved still seems too high in order to gain effective results.

Current framework of outward investment

The overall framework of foreign investment is divided between the financial sector and enterprises. Since the foundation of the CIC, the financial sector has gained major international attention. The prediction was that China would begin to strategically target key industries in order to push ahead its development and upgrade its economy and international investment portfolio. Indeed, China acquired equity shares and the China Development Bank holds minority shares of Barclays Group and Morgan Stanley. However, the purpose of recent reforms was to gain greater efficiency in the investment sector after forex reserves only brought low returns and China's banking sector suffered a crisis through 2003. Additionally China's investment profile was to be raised. However, reforms have also led to a new set of problems. Competing agencies inside China make outward investment less predictable and transparent and might even be an obstacle to greater efficiency and coordination.

a. Financial Sector

In recent years the financial sector has undergone several changes. Attempts to make the finance sector more effective and take over competencies from old institutions has not led to new lucidity. What has led to the reforms of the financial sector and its international activities?

Geographic distribution. Chinese investments have so far predominantly been targeted at resources. Main outward investment went to Asia, Africa and Latin America. More than 70% of the total investment outflow goes to tax havens in the Caribbean or Hong Kong. The reasons are tax evasion, better local access to trade and finance opportunities or transactions through subsidiaries that can reinvest in China. Investment to the US or Europe, that could help to enhance the productivity of China's enterprises through R&D or creating international brands has so far been comparatively low. Investments to the EU region amount to a modest 3% of China's total FDI.

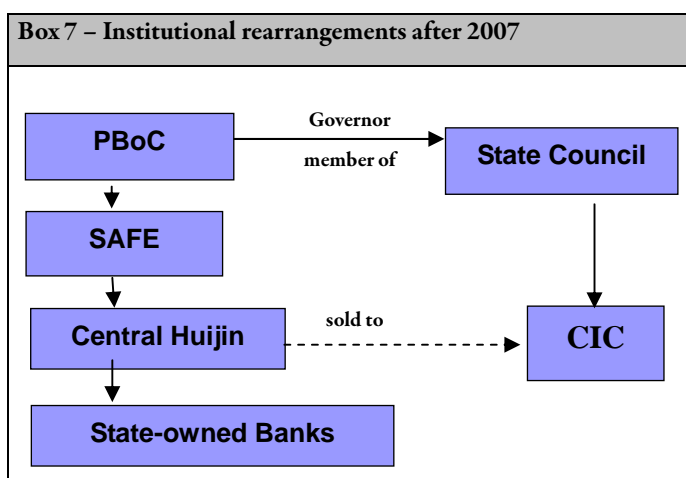
Ineffective use of forex reserves. China's enormous forex reserves had until recently not been put to profitable use. As a result of the peg between dollar and RMB, until 2005 the greatest part of the reserves was in US dollars. The reserves were bundled in U.S. treasury and agency bonds. The placement of funds at minimum risk has only brought low returns between 2 to 4 percent. Gradual adjustments to the dollar, low dollar exchange rates on the world markets and the current crisis in US and global financial markets have added to the fact that China is losing billions of its assets.

Inefficient institutions. In 2003 China had its own banking crisis caused by an unregulated credit system. About US \$45 billion were used to bail out troubled national banks. In 2006 the State Council decided to bring forex reserves to a more profitable use. Several agencies including SAFE –the People's Bank of China's (PBoC's) regulating body for foreign exchange– and the Central Huijin Investment (a state-owned holding that manages financial companies) tried to manage foreign investment initiatives more effectively. After long debate, the internally controversial idea to set up an investment agency independent of SAFE was implemented in 2007. The main conflict of responsibility between the People's Bank of China and the Ministry of Finance (MoF) was resolved by establishing the CIC. The CIC is directly accountable to the State Council and cannot be controlled by individual ministries. Today the PBoC still prefers SAFE as a Sovereign Wealth Fund. In fact SAFE possesses a subsidiary in Hong Kong called the SAFE Investment Company, who has invested in foreign equities; most prominently its acquisition of a €1,8 billion stake in Total. The MoF supported the establishment of the CIC.

The new institutional framework has, however, not improved clarity about responsibilities and lines of decision-making in China's financial FDI. Until 2006 SAFE was solely responsible for the control of forex regulation. Thereafter the limitations on the amount of forex that can be used for foreign investment have been lifted. However, some observers have argued that the introduction of parallel agencies has triggered a

new competition that is wanted and might speed up progress. Others claim, that it has so far been impossible to control the operations of SAFE.

SAFE had been a shareholder of major Chinese financial institutions such as the BoC, Construction Banks and CITIC. During recent years it has maintained its investment activity and acted like a Sovereign Wealth Fund. Theoretically, CIC is the stronger player. The Central Huijin Investment Corporation, through which the PBoC's held its shares of China's state-owned banks, was sold to the CIC at below market price. Before the holdings of the shares of state-owned banks has been a point of contestation between the MoF and the PBoC. In 2007 the PBoC's control over its investment arm was given to the CIC through a purchase from SAFE. After the 2003 banking crisis, Central Huijin was the government's main instrument to control the four biggest state-owned banks: Bank of China, Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China. It was a tool to improve corporate governance and speed up reforms in the banking sector. With the most important investment and financial institutions under the control of the CIC, the fund might be able to shift investment strategies towards more commercial operations.



An additional actor that has more or less acted quietly in the background is the China Development Bank (CDB). The Bank is one of the three policy banks and primarily responsible for providing domestic economic development with sufficient funding. The main sector it is involved in is infra-structure building. The bank is under the control of the State Council and its governor is a minister. The bank made headlines because of its low-interest loans to oil companies such as CPC, CNPC and most importantly CNOOC. Additionally it possesses stakes in Barclays Group (3.1%). The CDB tried to use its say in Barclays to buy shares of other companies by proxy such as it was the case with CITI group. The

Chinese government finally opposed the deal. The CDB was also interested in taking over Dresdner. Because of its position outside the usual lines of command it is a policy instrument, which can be used to support government's prestige projects and strategic agendas.

b. Enterprise Sector

Generally speaking, the MoC and NDRC are co-responsible for regulating foreign investment operations by enterprises. Recent shifts involve the liberalisation of bureaucratic procedures and new approval guidelines (see above). Although the organisations share key responsibilities, from the perspective of implementation and strategic directions (i.e. incentives and promotion) the NDRC and the China EXIM Bank seem to be the most influential players. Compared with the weight SOEs have in foreign investment, initiatives by private enterprises have been minuscule. IT giant Lenovo appears to be the only FDI heavyweight in the private sector. Other private investment has been too small for registration processes. The biggest players can still be found in resources, transport and telecommunication.

Box 8 – Top 10 Chinese Companies ranked by their outward investment in 2007
1. China National Petroleum Corporation (CNPC)
2. China Petrochemical Corporation (CPC)
3. China National Offshore Oil Corporation (CNOOC)
4. China Ocean Shipping (Group) Company (COSCO)
5. China Resources (Holdings) Co. Ltd.
6. CITIC Group
7. China National Cereals, Oils & Foodstuffs Corp.
8. China Mobile Communications Corporation
9. Sinochem Corporation
10. China Merchants Group

Source: MoC, Statistical bulletin of China's outward FDI, 2007

In order to tighten supervision state-owned enterprises (SOEs) the State Asset Supervision and Administration commission was launched in 2003. The reason for the instatement of SASAC was to improve the performance of SOEs and fight their mismanagement. The body has become important for FDI insofar that 81% of all outward investment by enterprises is undertaken by SOEs. The largest sources of Chinese outward investment are SOEs that are listed as highly profitable.

Box 9 – The State-owned Asset Supervision and Administration Commission (SASAC)

The State Asset Supervision and Administration Commission (SASAC) was created in 2003 in order to manage and supervise China's large SOEs. It safeguards the central government's right of ownership in non-financial enterprises. The SASAC's central task is to carry out the government role as investor and owner of state assets, i.e. the SOEs. The SASAC establishes procedures to appoint company managers and approves of major enterprise operations and decisions. The most important sectors under the control of SASAC are: petroleum and refining, metallurgy, electricity, military industry, telecommunication. When the SASAC was established it controlled 196 SOEs. By the end of 2007 there were only 152 left. The reason is that many of the smaller non-profitable SOEs were either de-commissioned or absorbed by the larger ones.

However, SASAC has no direct decision-making competences in enterprises although observers claim that its influence and direct interventions have become stronger. It can approve of enterprises' operations and appoints managers. Therefore, in terms of investment it can at most be attested an indirect influence. In how far the government or government bodies assert influence in corporate governance is difficult to assess. Some observers have stated that appointed CEOs remain loyal to their benefactors. Additionally resistance is unlikely in a system that does not reward managers who improve investment opportunities. Especially party officials, who have little stake in the enterprises and who are seeking a future career will underwrite and support futile, yet politically important, projects.

Outlook: Political motives and hold-ups

The main motives of China to "go out" and reform its relevant agencies are of pragmatic nature. Internally it has liberalised outward investment procedures and reorganised the system of checks and balances. One of the main reasons is the necessity to make the use of assets more profitable. Internationally, Beijing's decision-makers seek to position promising Chinese enterprises globally and prepare them for competition in an increasingly liberalised domestic market. So far investment was primarily targeted at the resource sector. Regional and sectorial diversification of investment capital shall help to upgrade Chinese industries through cooperation in R&D and technology exchange.

So far, attempts of hostile take-overs or mergers in strategic industries have been rare. All in all, China has been preoccupied with more substantial investment goals such as access to resources in order to guarantee its own development. So far, the main hindrances to financial investment in industrialised countries were connected with internal rows among responsible agencies over competencies. In the enterprise sector expertise in foreign markets and investment environments has been lacking. Besides, China investments have in recent years been met with alarmism and resulting protectionist attitudes especially in the U.S and

parts of Europe. Concerns about China's allegedly strong market power and influence in developing countries are widespread and Beijing's ambitions to build up competition advantages on markets in industrialised countries. However, not only open protectionism has deterred Chinese investments. On a smaller scale, minor issues such as visa policies pose obstacles to Chinese entrepreneurs.

The internal reasons for a lacking grand strategy are still dominating the agenda. The obstacles involve hold-ups in the system and limitations for the use of available resource. The CIC's next round of funding has not been decided yet and there is no guarantee that a new financing will be granted at all. Generally its funding does not allow long-term and risk-intensive investments. Since its establishment in 2007, it has chosen conservative forms such as portfolio investment. Additional pressure came from of its funding bodies, which expected returns from the outset. For instance, the MoF demanded interest from the beginning. The main reason for the hold-ups in the finance sector is inter-agency competition, especially between MoF and the PBoC who either champion the CIC or SAFE. The conflict and the uncertainties about which agency will act as the main Sovereign Wealth Fund in the future has made long term planning difficult. Additionally, the CIC has since its launch been under close international scrutiny, which made strategic moves almost impossible.

A major hold-up in the enterprise sector is the duplication of approval processes between NDRC and MoC. Both need to agree on outward investments that are subject to approval. Although pragmatism might prevail in smaller cases, especially because the NDRC is chronically under-staffed, in critical cases it might use its powers. Past initiatives of institutional reform, which were also designed to raise the powers of MoC at the expense of the NDRC, failed. The competition between the two agencies is therefore an item that will influence future policies and their implementation.

The division between enterprise sector and financial sector makes targeted, strategic investment more difficult than is generally assumed. Important policy and control agencies are under the control of the State Council, but their influence on corporate management is limited. Although companies might be encouraged by incentives by finance institutes, especially private enterprises (and to varying degree SOEs) are acting according to market laws. Likewise, financial institutions usually employ finance experts who do not pursue political careers and act according to professional rationales.

Box 10 – Chinese FDI outflow by country/region in 2007 (in billion US\$)	
Total outflow of FDI	26.51
Asia	16.59
Japan	0.04
Kazakhstan	0.28
Hong Kong	13.73
North America	1.13
USA	0.2
Canada	1.42
Africa	1.57
Europe (geographically)	1.54
Germany	0.24
United Kingdom	0.57
Russia	0.48
Italy	0.008

Source: MoC, Statistical Bulletin of China's outward FDI, 2007

What does this mean for Europe? So far the EU region has only received limited amounts of Chinese FDI. The reasons are a lack of knowledge of European investment environments and Chinese companies' inability to compete with local competitors. Additionally Chinese firms often cannot raise the volume of capital that is necessary in take-overs or when engaging in mergers. Besides FDI is still to a great degree targeted at resource extraction rather than financial markets or technologies. Figures show that Europe is only slowly absorbing investment, with individual countries taking a large share. It is in Europe's interest to cooperate in areas such as R&D. This, however, necessitates a comprehensive approach including immigration issues, services and consultancy.