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# **An analysis of Chinese outward FDIs in Europe with firm-level data**

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**Abstract**

The empirical literature on China's outward foreign direct investment (OFDI) mainly relies on aggregate data from official statistics, whose international reliability is currently a matter of concern, and that do not take account of some relevant features such as the industry breakdowns, ownership structures and modes of entry. A novel firm-level database (EMENDATA), compiled by matching data from several available sources, on various types of cross-border deals, and including information on group structure, enables new empirical analyses and provides new insights into the rapidly increasing presence of Chinese companies abroad. In this paper, exploring the potential of these data we offer an informative and comprehensive assessment of the geographical and specialization patterns of Chinese outward FDI into Europe and suggest new avenues for further research on this highly policy relevant issue.

**JEL codes:** F21; F23

**Keywords:** China, FDI, firm-level data, MNEs

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## **An analysis of Chinese outward FDIs in Europe with firm-level data**

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## 1. Introduction

The literature on the outward expansion of Chinese firms has grown rapidly in the last ten years, with mixed and often contradictory results. Most of the existing studies is based on aggregate official FDI data from the Chinese Ministry of Commerce (MOFCOM) (among others see Buckely et al, 2007 and Kolstad and Wiig, 2012) or on case studies on individual firms (Zhang and Filippov, 2009; Zhang et al., 2011). With regard to FDI data from MOFCOM despite recent improvements, it is well known that a number of concerns remain about their reliability and comparability with international data sources. Moreover, official FDI data do not allow a disaggregated and detailed investigation of the internationalization strategies of Chinese multinational companies in terms of their preferred mode of entry, their main sectors of destination and target countries. On the contrary, the strategy of internationalization is the focus of a number of case studies, many of them investigating the same well-known companies, providing very useful anecdotal evidence but with an obvious limitation in terms of generalization (e.g. Fan et al., 2012).

To address these limitations, there are some recent empirical studies focusing either on greenfield FDI (Amighini and Franco, 2013; Amighini et al., 2013a, b; De Beule and van de Bulcke, 2012) or on M&As (Bhabra and Huang, 2013). In this paper we overcome the drawback of focusing on one mode of entry at the time and present a novel database – the Emerging Multinationals' Events and Networks DATABASE (EMENDATA), which includes greenfield investments, mergers and acquisitions (M&A), and other minority investments. The data are based on company information gathered from numerous different sources such as the Financial Times Group's fDImarkets, Bureau van Dijk's (BvD) Zephyr, and Thomson Reuter's SDC Platinum. In EMENDATA each cross-border deal is associated with information available in BvD's Orbis, on the investing company and the group to which the firm belongs based on its Global Ultimate Owner (GUO). This allows us to examine the foreign expansion strategies of Chinese multinationals and their groups over time via multi-level analyses: a) at deal level to investigate the distribution across sectors, business activity, and countries distinguished by deal type, over time; b) at company level, and more especially group level, to map foreign expansion corporate strategies; c) at country and regional levels to examine the location choices broken down by sector and deal type. Overall, the database combines extensive macro data with in-depth company level data typical of micro datasets.

In this paper our contribution to the literature on Chinese OFDI is twofold. On the one hand, we argue that highly debated findings on the Chinese MNEs internationalization strategies are largely influenced by the sources of data used and that with more detailed information becoming available, the interpretation of these specific features becomes less problematic. On the other hand, we introduce a new database with the objective of promoting a research agenda aimed at strengthening

the robustness of the early findings of the literature and proposing new directions to improve the knowledge base on such a rapidly increasing phenomenon.

The rest of the paper is organized as follows. Section 2 presents some shortcomings of the FDI official statistics and reviews the empirical literature on the outward expansion of Chinese firms focusing on the different data sources and the implications of their use for the empirical findings. Section 3 describes EMENDATA and provides an overview of its content. Section 4 presents some examples of group level empirical analyses allowed by EMENDATA. Section 5 concludes.

## **2. Chinese outward FDI: data sources and empirical findings**

### *2.1 Official statistics on Chinese outward FDI: a methodological note*

In China, there are two main agencies - the State Administration of Foreign Exchange (SAFE) and the Ministry of Commerce (MOFCOM) - that collect FDI data according to different criteria. SAFE data are aggregate Balance of Payments (BoP) data, which provide a picture of China's international investment position. They are published annually and generally do not allow either sectoral or geographic disaggregation.<sup>1</sup> FDI flows recorded by BoP statistics comprise: a) equity capital transactions, which are purchases and sales by parent companies of the shares of subsidiaries registered in foreign countries; b) reinvested earnings, which are foreign affiliates' earnings that are neither distributed as dividends by affiliates nor remitted to the parent, but are reinvested; c) intra-company debt transactions, which are short and long-term borrowing and lending funds that operate between the parent and its affiliates. In BoP FDIs are cross-border flows of financial capital measured as the difference between the funds transferred from parent to foreign subsidiary, and from foreign affiliate to parent firm. Thus, FDI data based on official statistics can be positive or negative figures therefore a major limitation is that a negative figure could be understood as a reduction in the multinational activity and this may be in fact an incorrect interpretation (Beugelsdijk et al., 2010).

FDI data provided by MOFCOM are based on officially approved investments. Despite recent data improvements and formal commitment by MOFCOM to comply with international standards<sup>2</sup>, there are still some concerns about the reliability of Chinese official FDI data and within the research community there is broad consensus that there are consistent problems of underestimation as

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<sup>1</sup> A notable exception are the 1991-2001 data – a period when SAFE published a project level database – which include information on the foreign exchange amount approved for each investment, as well as information on geographic destination and sector (see Buckley et al., 2007 for a short description of these data). This information has not been available since 2001 (Buckley et al., 2008).

<sup>2</sup> A statistical system consistent with international standards was established in 2002, and from 2003 MOFCOM (in collaboration with SAFE) began to publish official statistics on Chinese outward FDI in the annual Statistical Bulletin of China's Outward Foreign Direct Investment.

explained in what follows. First, reinvested earnings and intra-company loans are not officially recorded by this source (OECD, 2008; Buckley et al., 2008). Second, at least for the period 2002-2005, they do not include FDI from financial institutions, whose approval procedure was not under the control of MOFCOM.<sup>3</sup> Third, given that MOFCOM data are based on information recorded during the approval process rather than through surveys (mandated by international standards), under-reporting is common practice especially among private firms that are treated differently depending on the specific regional regulations (Davies, 2013) and can often avoid the formal approval (OECD, 2008; Rosen and Hanemann, 2009).<sup>4</sup> Fourth, MOFCOM data are also strongly affected by the practice of round-tripping, i.e. channeling of large investment outflows through tax havens via the establishment of special purpose entities, and reinvesting in China or in third countries (Sutherland and Ning, 2011). This is the result of a common practice among firms to register only the first destination of their investments, which results in overestimation of some transit locations with respect to the final destinations. According to the official data, up to 2011, 73.6% of total Chinese outward FDI (OFDI) stock went to Hong Kong, the Cayman Islands, and the Virgin Islands, with the final location generally undisclosed (MOFCOM, 2012). Lastly, Chinese statistics do not follow the International Standard Industry Classification (ISIC) system, but are based on a domestic classification, which prevents detailed international comparisons (OECD, 2008).

There are some recent attempts to estimate differences between official Chinese statistics with disaggregated data from alternative sources. First, differences in the recorded amount of flows are significant when comparing Chinese OFDI based on MOFCOM data, with inward FDI recorded by the host countries. In the case of the OECD countries, this difference has been estimated at around 40% of the total value (OECD, 2008), and this large difference is confirmed by Eurostat data (Hanemann and Rosen, 2012). Second, the geographic distribution of Chinese FDI is different from the distribution according to MOFCOM data. A new database published by the Heritage Foundation,<sup>5</sup> which records transactions (of more than \$100 million) at firm level, shows that when financial centers such as Honk Kong are not counted as the final targets of investments, OECD countries, such as Australia, United States, Canada and the UK attract the bulk of Chinese flows.

Finally and in addition to the problems described above, official Chinese FDI data do not allow disaggregated and detailed investigation of the international strategies of multinational enterprises

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<sup>3</sup> In 2006 when financial data started to be recorded, they represented 20% of total flows.

<sup>4</sup> Extreme bureaucracy and detailed screenings are two major reasons why private firms try to escape the approval process. Recent reforms to MOFCOM's approval system have simplified the approval process, raising the threshold for examination and approval to apply only to large investments (\$10 million to \$100 million) (for a detailed review of the investment policies in the context of Chinese OFDI see Bernarsconi-Osterwalder et al, 2012).

<sup>5</sup> A description of the dataset is available at: <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>.

(MNEs) taking into account that they can engage in cross-border activities: a) by establishing a fully-owned subsidiary (greenfield FDI); b) by merging with a foreign firm (merger); c) by acquiring a share of a foreign firm (acquisition and minority investment); or d) by entering a joint venture with a foreign firm. In Section 3 we introduce a new database that allows a more detailed investigation of Chinese FDI activity.

## 2.2 *The literature on Chinese outward FDI*

In what follows we review the empirical literature on Chinese FDI focusing on the different data sources utilized, aimed at highlighting how they influence the empirical findings.

A large part of the empirical literature on Chinese FDI is aimed at investigating the relative importance of the traditional motivations for overseas investment flows. Most of these studies<sup>6</sup> are based on MOFCOM approved investments, which, as explained in Section 2.1, suffer from several biases. A common finding in these studies is that Chinese FDIs are attracted mainly by the size of the host market, and the opportunity to access natural resources (Buckley et al., 2007; Kolstad and Wiig, 2012). A peculiar result is that Chinese investments are indifferent to economic (Buckley et al., 2007) and political instability, especially in resource rich countries (Kolstad and Wiig, 2012). Their location is also influenced by cultural proximity and geographic and psychological distance (Blomkvist and Drogendijk, 2012; Chou et al., 2011). The empirical studies mentioned do not find empirical support for the strategic asset-seeking objective highlighted in the *Go Global* strategy promoted by the Chinese Government (Deng, 2009). In qualitative case studies, focused on Chinese FDI in Europe, the intention to access strategic resources is instead a core motivation (Zhang and Filippov, 2009; Pietrobelli et al., 2011; Giuliani et al., 2013).

In light of the various concerns over the reliability of Chinese official statistics, a number of recent analyses at firm and deal level have attempted to refine the existing results on the determinants of Chinese outward FDI. Liao and Tsui (2012) use the Heritage Foundation database (see 2.1) and show that factors related to (cultural and geographic) proximity lose their explanatory power because of the exclusion from the analysis of financial centers such as Hong Kong while risk averseness and bad governance become significant because of the increased weight of advanced countries as FDI recipients compared to lower income destinations.

In two papers using data on greenfield FDI provided by fDImarkets, Amighini et al. (2013a and b) show that the findings in the extant literature are likely to be strongly affected by both the sector specialization of the investment projects and the ownership structure of the investors. Amighini et al. (2013b) find that the asset-seeking motivation is statistically significant when the recipients are

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<sup>6</sup> Two exceptions are Buckley et al. (2007, 2008), which use SAFE data for the period 1991-2001 (See fn. 1).

high-income countries and the investment is in the manufacturing industry. They also show that manufacturing FDIs are more likely in countries with a large market size, while investments in resource-intensive sectors are more often located in countries with low levels of GDP. Taking into account of the ownership structure of the investing companies, Amighini et al. (2013a) shed some light on the indifference of Chinese investors to political risky countries finding that only State Owned Enterprises (SOEs), which are backed by government, are relatively indifferent to investing in politically weak contexts, especially those with large resource endowments (Ramasamy et al., 2012 and Duanmu, 2012 find similar results for smaller groups of Chinese firms). Instead, private Chinese MNEs are more likely to undertake internationalization following traditional approaches, including maximization of profits and exploitation of their competitive advantages (Lu et al., 2011 and Liang et al., 2012, based on two ad-hoc surveys of private companies, find similar results).

Firm-level analyses provide more information on Chinese MNEs' entry modes, often investigated only in case studies (see e.g. Zhang et al., 2011). An original survey of a sample of Chinese firms, selected from those with investments registered with MOFCOM, shows that wholly-owned subsidiaries are preferred if the investment is aimed at strategic asset seeking (Cui and Jiang, 2009). The existing literature would seem to confirm that data limitations have reduced the scope of analyses of Chinese FDI. While some more recent work based on firm level information has provided empirical information on the motivations and location choices of Chinese MNEs, further research is needed on issues related to firm organization. This has been confined so far to analyses of entry modes and investor performance, but the evidence for Chinese MNEs is scant.

### **3. Analyzing Chinese outward FDI using firm-level data**

#### *3.1 The EMENDATA database*

The main sources of data on global FDI are *fDiMarkets* that provides information on greenfield investments, *Zephyr* (BvD) and Thomson Reuters *SDC Platinum* which provide data on M&A and other minority investments (see the Appendix for a detailed description of these data sources). These data sources cover investments worldwide and are the main pillars of a new database called EMENDATA, which includes all cross border greenfield investments, M&A, and minority investments (corresponding to a share of less than 50% of ownership) from MNEs in emerging countries,<sup>7</sup> that occurred between 2003 and 2011.<sup>8</sup> It should be noted that 2003 as the first year in the database does not constitute a major limitation because the international expansion of Chinese

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<sup>7</sup> There is no official definition of an emerging country. In the database we include all countries in the lower and upper middle-income groups according to the World Bank classification.

<sup>8</sup> The investments included are completed deals. It should be noted that when a disinvestment occurs it is not reported in the original sources.



companies only boomed in the early 2000s, promoted by the *Go Global* policy (Buckley et al., 2008).

EMENDATA is obtained by matching several data sources, which differ in nature; therefore, a major accomplishment is the harmonization and consolidation of information based on meticulous manual work in order to make them comparable.

EMENDATA provides information at the level of the individual deal, the investing company, and the ultimate global owner. The main deal level information include: a) entry mode; b) sector of specialization of the investing company and of the subsidiaries; c) activities undertaken by the subsidiaries; d) location of the subsidiaries; and e) number of jobs created. In section 3.2 we show that, based on this rich information, we can conduct a detailed and disaggregated investigation of the multinational activity of Chinese companies exploring the intersections among various dimensions.

It is also worth stressing that the number of deals is a more appropriate unit of analysis than the value of investment for an analysis of the location strategies of multinationals and their investment motivations. The choice of a specific country and the motivation for the investment might be largely independent of the total amount of capital invested. Several empirical studies use number of deals as their unit of analysis (among others see Crescenzi et al., 2013, Amighini et al., 2013a; Amighini and Franco, 2013; Ramasamy et al., 2012).

With regard to firm- and group-level analyses, an innovative feature of EMENDATA is that all the deals included are linked to firm-level identifiers (both investor and target companies) and also group-level identifiers, which takes account of all deals (domestic and foreign) undertaken by the same ultimate global owner (UGO). This coding allows investors to be linked to the company and group information in the three original data sources - fDiMarkets, Zephyr and SDC Platinum.<sup>9</sup> Identifying the GUO allows linking the investing firm to a wide set of information in BvD Orbis such as ownership structure, location of domestic and foreign subsidiaries, sector of economic activity, consolidated and unconsolidated balance indicators, firm size variables, names and types of shareholders, and patenting activity. Other sources of information on GUOs include the FT Emerging 500, the Fortune Global 500, and the EU Industrial R&D Investment Scoreboard.

The information available in EMENDATA allows the investigation of the interplay between different dimensions, and the combination and comparison with firm- and group-level data such as number of deals undertaken by Chinese multinationals disaggregated by deal type or target country, companies undertaking foreign deals within each group disaggregated by mode of entry and

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<sup>9</sup> In some cases, manual checking was undertaken to resolve discrepancies among the different sources.

geographical destination, and sectors of investment and sectoral disaggregation between parent company and subsidiaries. Section 4 discusses some areas for future research.

### 3.2 An overview of Chinese FDI based on EMENDATA

EMENDATA includes 3,020 deals involving Chinese investing companies,<sup>10</sup> of which 2,092 are greenfield investments, 623 are M&A, and 305 are minority investments.<sup>11</sup>

Concerning the role of financial centers and fiscal havens, the information at deal level allows the identification of the location of the direct acquirer and the ultimate owner and whether a transit through a fiscal haven is involved. Also, we have checked whether all the deals originating from fiscal havens can be attributed to a Chinese group and therefore can be considered Chinese investments. Based on this, we have added some additional deals to those originally included in EMENDATA.

Figure 1 presents the number of deals distinguishing between the different modes of entry. All the different types of deals have increased in the time period included in EMENDATA, with the number of greenfield investments showing the most dramatic increase since 2006 while M&A and the minority investments display a slower rate of increase. These trends can be explained by the recent effort to extend the provisions of the *Go Global* policy to private firms (Luo et al., 2010) whose internationalization strategy is largely undertaken by means of wholly owned subsidiaries rather than M&As.

Table 1 presents the geographic distribution of Chinese investments. The main destination is Asia with 1,166 deals, corresponding to almost 40% of all deals, followed closely by Europe. This is different from the distribution suggested by official data, which shows Asia accounting for 71% of the total stock of Chinese FDI, and North America and Europe together receiving slightly over 10%. It is interesting that according to MOFCOM statistics Latin America accounts for over 15% of total stock of Chinese FDI (MOFCOM, 2012), a much higher figure than suggested by EMENDATA. This can be explained by the reduced role played by fiscal havens located in the region (i.e. the Cayman Islands and the Virgin islands) in EMENDATA. If we differentiate by types of deals, Asia is the main destination for M&A, followed by North America, and Europe is the first destination for greenfield investments, closely followed by Asia.

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<sup>10</sup> A very careful manual cleaning of the deals in EMENDATA was undertaken in collaboration with Chinese partners in order to exclude deals undertaken by investors other than companies, such as sovereign funds, individual investors, and investors who could not be identified.

<sup>11</sup> The source of information on M&A and minority investments is *SDC Platinum*, which includes 928 deals from China (in *Zephyr* there are 816 deals). For the sub-sample of Chinese FDIs in the EU27 (see Table 5), both *SDC Platinum* and *Zephyr* are considered and the two sources are complementary. We plan to extend the integration of these two sources to include all the deals in EMENDATA.

Table 2 lists the top ten recipient countries based on EMENDATA and compares them with the top recipients according to the official statistics (MOFCOM, 2012), recalling that the units of analysis are different: total number of deals in EMENDATA and value of the FDI stock in MOFCOM.. As already emphasized, the geographical distribution of Chinese FDI based on MOFCOM data is strongly biased in favor of financial centers and fiscal havens, the top three destinations being Hong Kong (61.6% of the total), Virgin Islands (6.9%) and Cayman Islands (5.1%). Hong Kong is also the main recipient in EMENDATA, but measured as number of deals it represents only 11% of the total, a much lower share compared with the 61.6% according to MOFCOM. Among the other countries listed, there are some common destinations such as Australia, USA, Singapore, Canada, and Russia. EMENDATA also identifies other key recipient countries such as Germany, UK, India and Japan. It is interesting that Germany does not appear in MOFCOM as a major recipient of Chinese investments, but is ranked first for greenfield investments in EMENDATA. In fact, Germany receives the largest number of Chinese greenfield investments in Europe, made by family-owned private companies, which often are not recorded by MOFCOM, and in many cases are small scale measured by their value (Giuliani et al., 2013; Hanemann and Rosen, 2012).

Based on sector disaggregation,<sup>12</sup> services represents 30% of the total number of investments followed by investments in mining (5%) (Table 3). If we consider modes of entry, manufacturing is the main specialization for greenfield investment (71%), and services attracts 55% of M&A deals, followed by manufacturing with 35%.

Table 4 combines a geographical and sector breakdown for each type of deal. Europe, and especially EU27, is a top destination for greenfield FDI in manufacturing with 42.2% of the total number of greenfield investments, followed by Asia with 30.4%. Asia is the favorite destination for greenfield FDI in services with 48%. In relation to M&A, the majority of deals in services and manufacturing are in Asia. In services, 57.6% of M&A are in Asia with a very high share in Hong Kong, followed by the USA.

From this descriptive analysis, it is clear that an empirical investigation of FDI based on a comprehensive database such as EMENDATA provides a fairly comprehensive picture of China's internationalization strategy since the early 2000s, and offers some new insights compared to the picture provided by the official statistics. In the next section we suggest some avenues for future research based on EMENDATA.

#### **4. From firm-level to group-level analysis**

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<sup>12</sup> In the rest of this section we focus only on greenfield and M&A, which represent the two main modes of entry of Chinese companies in foreign markets.

Although it is widely acknowledged that a large part of world economic activity and trade is accounted for by business groups (BGs), i.e. groups of legally separated firms linked through ownership relationships (see e.g. BEA, 2012; Altomonte et al., 2012), most studies look at the international expansion of emerging market firms taking the individual investing firms as the unit of analysis. Multinationals can be considered a particular type of BG and their internationalization strategies should be analyzed taking into account that individual firms are embedded in networks of ownership relationships with other firms within complex organizational forms.

So far the lack of a comprehensive database at the deal level has limited in depth research on the multinational strategies of Chinese companies. In EMENDATA, Chinese firms that are involved in more than one deal undertake 46% of total Chinese investments.<sup>13</sup> Therefore, group-level analysis based on EMENDATA allows for “*comparative institutional analysis at the level of the economic transaction, incorporating variation both in the content of that transaction and in the structure of the institutional environment*” (Henisz, 2000: 361). Assuming as a working hypothesis that different degrees of decision-making power apply to different layers of ownership, then each single investment cannot be analyzed separately from deals undertaken by other firms in the same BG.

Table 5 lists the top ten BGs ranked according to the number of deals undertaken between 2003 and 2011 exemplifying FDI activity among the main Chinese BGs based on EMENDATA information. We observe that the most common mode of entry, regardless of the sector of specialization is by the establishment of new activities (greenfield). Only one group, *ChemChina*, has also been involved in a significant number of acquisitions.

In relation to the top five groups<sup>14</sup> for number of deals, Table 6 shows the main destinations of their investments in the EU27. The UK attracts the highest number of investments from the top five Chinese BGs and also most of their acquisitions. Although the internationalization strategies of all the BGs are quite diverse with regard to their geographical distribution, *Huawei*, *Suntech*, and *ZTE* have a broader geographical scope than *SAIC* which main investment destination is the UK, plus one investment each in Italy and Germany, both countries with a strong tradition in the automotive sector. The main destination for *ChemChina* is France where there are 11 investments, including 3 acquisitions; besides important target countries are the UK and Spain.

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<sup>13</sup> This is an underestimation of multiple-deal companies because it includes only those undertaking more than 1 investment in a EU27 country. Besides although beyond the scope of this paper, EMENDATA also includes information on domestic deals and according to our database, Chinese groups appear quite active in the domestic market accounting for 87.5% of total M&A and 91% of the minority investments.

<sup>14</sup> From the top 5 group, we exclude *ICBC*, a commercial bank which is involved only in financial services, and include *Suntech Power*, a manufacturing company specialized in alternative energies.

Since BG activities are often characterized by diversification, we have examined the spread of foreign affiliates in Europe according to their sector and business activity (Table 7). There is generally no significant diversification effect related to sector distribution with the exception of SAIC (which has investments in both the automotive and the financial services sectors). Moreover, well established telecommunication companies such as *Huawei* and *ZTE* have approached Europe with a variety of motivations, especially related to the development of skills in high value added activities such as R&D, design, and training, and the intention to serve local markets through dedicated sales and technical support centers. Penetration in local markets seems to be a major motivation for *Suntech* in the decision to entry into Europe.

In addition to describing the deals undertaken by Chinese groups according to their geographical target and spread of activities, the group level coding in EMENDATA allows other research directions. Matching data at deal, subsidiary, and group level provides insights into the multiple internationalization strategies of Chinese groups. This involves exploiting deal characteristics and analyzing them jointly with the information on parent companies and subsidiaries (e.g. indicators from unconsolidated balances), as well as data on BGs (e.g. indicators from consolidated balances). The literature includes some recent works adopting a BG perspective to analyze issues such as the relationships between the organizational structure and intra-firm production decisions (e.g. Altomonte and Rungi, 2013 for a large sample of BGs including a few Chinese groups).

There are three main areas for future research linking work on emerging market multinationals with BG analysis. The first deals with measuring the degree of complexity of BGs as hierarchical structures and integrating this information with the spread of different business activities by foreign affiliates (see Table 7) and the motivations for each investment within the same BG. The second and related avenue of research introduces global value chain analysis (see Crescenzi et al., 2013) in order to understand how much and which of the key activities along the chain are internalized within the group. The third is related to investigating how intra-group strategies affect group performance and productivity, to provide empirical evidence on reverse spillovers from investments.

## 5. Conclusions

Following the rapid international expansion of Chinese firms there has been a surge in the empirical literature exploring their investment patterns and strategies. Understanding the rationale and motivations behind those investments, the characteristics of investing firms, and their impact on both host and home economies is a crucial step towards achieving a sound and comprehensive

understanding of national (i.e. investment attraction policies) and multilateral (i.e. international investment agreements) political decisions.

Data reliability is crucial for analyzing Chinese firms' internationalization strategies. So far, information on Chinese FDI has relied mainly on aggregate data from official statistics which, despite recent commitments to catch up with international standards, still suffer from several shortcomings, which *de facto* undermine more detailed analysis. Moreover, these data are collected to achieve different objectives from those that inspire international business studies and ignore several factors including industry breakdowns, ownership structures and modes of entry.

The contribution of this paper to the debate is twofold. First, it provides a systematic analysis of the main methodological drawbacks of MOFCOM data, and the implications in terms of misinterpretation of the trends they depict, and the partial explanation they provide for the rising role of Chinese FDI. Second, it introduces a novel firm-level database (EMENDATA) compiled by matching different data on various types of cross-border deals, including information on group structures, which allows new empirical analyses and provides new insights on the rapidly increasing presence of Chinese companies abroad. We show that these data provide a more informative and comprehensive assessment of the geographical and specialization patterns of Chinese OFDI. In particular, we show that Chinese companies are geographically more widespread than official statistics would suggest, and that the overemphasis on investments in natural resources is mostly due to their higher relative size compared to other sectors, such as manufacturing, which attracts by far the largest number of Chinese investments representative.

EMENDATA opens up new avenues for empirical research by allowing multilevel analysis of multinational investment patterns and strategies including (parent and subsidiary) firm, industry, and (home and host) country perspectives. In particular, it allows the mapping of investments belonging to the same BG, and the possibility to integrate different research fields such as multinational strategies, BG formation, value chain analysis, the links between ownership structure and organization of international production, and how all those affect group performance and productivity. We plan to exploit the rich information available in EMENDATA in future research.

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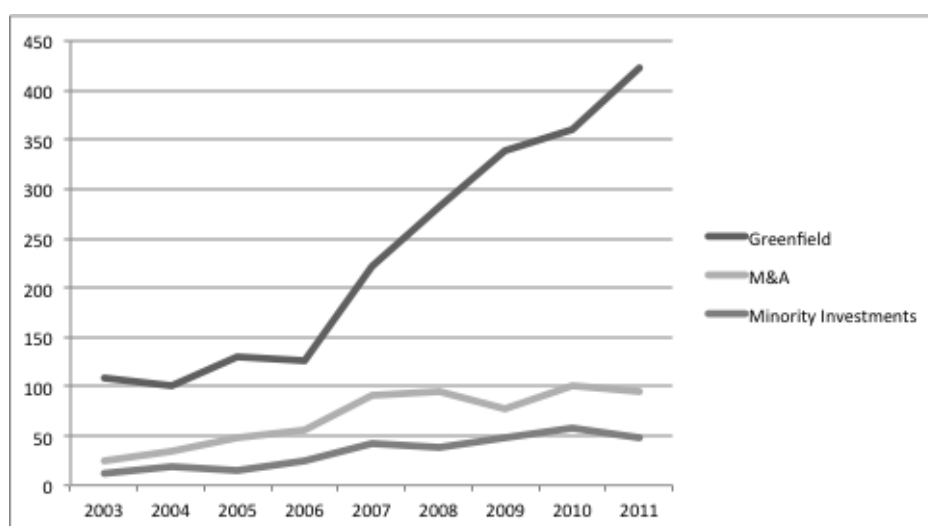
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**Figure 1 - # of Chinese FDI by deal type (2003-2011)**



Source: EMENDATA

**Table 1 - Chinese FDI by target regions (# of deals: 2003-2011)**

Area	Greenfield	M&A	Minority investments	Total	% of total
<b>Asia</b>	<b>742</b>	<b>300</b>	<b>124</b>	<b>1.166</b>	<b>38.6</b>
Hong Kong	108	174	65	347	11.5
<b>Europe</b>	<b>797</b>	<b>97</b>	<b>27</b>	<b>921</b>	<b>30.5</b>
EU27	670	84	23	777	25.7
Germany	268	19	4	291	9.6
<b>Northern and Central America</b>	<b>247</b>	<b>165</b>	<b>56</b>	<b>468</b>	<b>15.5</b>
US	186	92	24	302	10.0
<b>Africa</b>	<b>135</b>	<b>10</b>	<b>8</b>	<b>153</b>	<b>5.1</b>
<b>Latin America</b>	<b>112</b>	<b>10</b>	<b>13</b>	<b>135</b>	<b>4.8</b>
<b>Oceania</b>	<b>59</b>	<b>41</b>	<b>77</b>	<b>177</b>	<b>5.9</b>
<b>Total</b>	<b>2092</b>	<b>623</b>	<b>305</b>	<b>3020</b>	<b>100.0</b>

Source: EMENDATA

**Table 2 – The top 10 target countries for Chinese FDI**

EMENDATA						MOFCOM	
Country	% # deals*	Country	% # Greenfield	Country	% # M&A	Country	% total stock**
Hong Kong	11	Germany	13	Hong Kong	28	Hong Kong	61.6
USA	10	USA	9	USA	15	Virgin Isld.	6.9
Germany	10	Hong Kong	5	Australia	6	Cayman Isld.	5.1
Australia	5	UK	5	Canada	5	Australia	2.6
UK	4	Russia	4	Singapore	5	Singapore	2.5
Singapore	3	India	4	Virgin Isld.	5	USA	2.1
India	3	Brazil	3	Japan	4	Luxembourg	1.7
Canada	3	Vietnam	3	Germany	3	South Africa	1.0
Russia	3	Singapore	2	UK	3	Russia	0.9
Japan	3	Taiwan	2	Netherlands	2	Canada	0.9
Total	3020		2092		623	Million \$	74654

\* Total number of Greenfield, M&A and Minority Investments

\*\* Refer to the share over the total stock at 2011

Source: EMENDATA and MOFCOM (2012)

**Table 3 - Chinese FDI by sector (# and %)**

Macrosector	Greenfield	%	M&A	%
Agriculture	0	0	6	1
Construction	43	2	4	1
Extraction	90	4	54	9
Manufacturing	1,488	71	219	35
Services	471	23	340	55
<b>Total</b>	<b>2,092</b>	<b>100</b>	<b>623</b>	<b>100</b>

Source: EMENDATA

**Table 4 - Chinese FDI by destination, sector and deal type (# and %)**

	Greenfield								M&A								
Area	Extraction			Manufacturing			Services			Extraction			Manufacturing			Services	
	#	%		#	%		#	%		#	%		#	%		#	%
Asia	50	55.6		453	30.4		226	48.0		15	27.8		81	37.0		196	57.6
Hong Kong	2	2.2		38	2.6		68	14.4		5	9.3		38	17.4		129	37.9
Europe	8	8.9		628	42.2		142	30.1		8	14.8		63	28.8		26	7.6
EU27	5	5.6		535	36.0		118	25.1		6	11.1		59	26.9		19	5.6
Germany	2	2.2		227	15.3		36	7.6		1	1.9		15	6.8		3	0.9
Northern Central America	6	6.7		185	12.4		56	11.9		11	20.4		61	27.9		91	26.8
USA	2	2.2		143	9.6		41	8.7		5	9.3		35	16.0		52	15.3
Africa	19	21.0		93	6.3		12	2.5		3	5.6		1	0.4		6	1.8
Latin America	5	5.6		91	6.1		16	3.4		5	9.3		5	2.3		0	0.0
Oceania	2	2.2		38	2.6		19	4.1		12	22.1		8	3.6		21	6.2
Total	90	100.0		1,488	100.0		471	100.0		54	100.0		219	100.0		340	100.0

Source: EMENDATA

**Table 5 - Top ten Chinese groups investing in the EU27, by deal type (2003-2011)**

	<b>Total # of deals</b>	<b>Greenfield</b>	<b>M&amp;A</b>
<b>Huawei Technologies</b>	<b>52</b>	52	0
<b>ZTE</b>	<b>24</b>	24	0
<b>China National Chemical (ChemChina)</b>	<b>22</b>	13	9
<b>Industrial and Commercial Bank of China(ICBC)</b>	<b>15</b>	15	0
<b>Shanghai Automotive Industry Corporation (SAIC)</b>	<b>11</b>	8	3
<b>Suntech Power Holdings</b>	<b>10</b>	9	1
<b>Bank of China</b>	<b>8</b>	8	0
<b>YingKe</b>	<b>8</b>	8	0
<b>Chint Group</b>	<b>7</b>	7	0
<b>LENOVO</b>	<b>6</b>	6	0

Source: EMENDATA

**Table 6 - Total # of deals by the top 5 Chinese groups in the EU27 countries**

	<b>Huawei</b>	<b>ChemChina</b>	<b>ZTE</b>	<b>SAIC</b>	<b>SUNTECH</b>
<b>United Kingdom</b>	5	4 (3)	2	9 (3)	1
<b>France</b>	5	11 (3)	4		1
<b>Germany</b>	6		6	1	2
<b>Spain</b>	4	4 (1)	1		1
<b>Italy</b>	7	1		1	3
<b>Hungary</b>	7				
<b>Romania</b>	4		3		
<b>Netherlands</b>	3		1		
<b>Belgium</b>	2	(2)			
<b>Sweden</b>	3		2		
<b>Other countries</b>	6		5		1

(#) number of acquisitions

Source: EMENDATA

**Table 7 – # of Greenfield investments of the top 5 Chinese groups in the EU27 countries by business activity**

Industry activity	Huawei	ChemChina	ZTE	SAIC	Suntech	ZTE
Customer Contact Center	3					
Design, Development & Testing	14	1	5	3		5
Education & Training	2		1			1
Headquarters	5		5		1	5
ICT & Internet Infrastructure			1			1
Logistics, Distribution & Transportation	2					
Manufacturing	2	12	2	2		2
Research & Development	6		2			2
Retail				3		
Sales, Marketing & Support	14		7		8	7
Shared Services Center	1					
Technical Support Center	3		1			1

Source: EMENDATA

## Appendix

**fDiMarkets** is a crossborder investment monitor database maintained by Financial Times Business, a specialist division of the Financial Times group. fDiMarkets is the only online database tracking crossborder greenfield investments (including joint ventures if they lead to a new physical operation) covering all sectors and countries worldwide, with data collected since 2003. It provides real-time monitoring of investment projects, reporting: name of investing company, parent company, detailed investment locations, industry sectors, type of business activity carried out by the foreign subsidiary, capital investment and number of jobs created.

**Zephyr** is a commercial database by Bureau van Dijk (BvD) containing M&A, joint venture, IPO, private equity, venture capital deals and investment rumors. It is updated hourly. Deal information includes: type of deal (e.g. merger, acquisition); status of the deal (completed or not); value and details of the target, acquirer and vendor (e.g. financial information on the firms involved in the deal), including their country of origin and the other firm activities. Company information is available for the target, the acquirer and the vendor. Company and financial information is predominantly sourced from BvD Orbis.

**SDC Platinum** is a commercial database by Thomson Reuters containing information on M&A, syndicated loans, private equity, project finance. It also provides users with a database for analyzing investment banking and deal trends, identifying comparable deals, monitoring deal activity, and generating industry-leading league tables and market-share analysis.

The types of deals contained in the three databases are defined as follows:

- **Greenfield Investments**: a foreign direct investment where a parent company starts a new venture in a foreign country by constructing new facilities from the ground up;
- **Mergers**: where there is a one-for-one swap of shares in the new company and the deal involves a ‘merging of equals’. If the swap is not on equal terms, the deal is coded an *Acquisition*. In a true *Merger*, the original companies are entered into the deal record as Acquirer and Target;
- **Acquisitions**: any deal where the Acquirer ends up with 50% or more of the equity of the Target is coded as an Acquisition as the Acquirer now has control of the Target;
- **Minority stakes**: when the Acquirer purchases a number of shares in the Target and the resulting stake held is less than 50%.