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China Outbound Direct Investment

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China Outbound Direct Investment

China's ODI Overview

In 2011, China's outward direct investment outflow increased by 8.5% from 2010, reaching 74.65 billion USD dollars. By the end of 2011, there were more than 13,500 Chinese investors investing 18,000 overseas enterprises from 177 countries around the world, with the

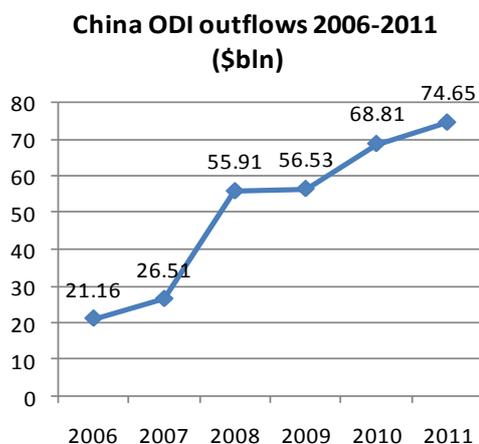
stock of China's ODI standing at \$424.78 billion.

China's Financial ODI outflow was \$6.07 billion in 2011. 56% of the financial ODI came from banking industry with a total volume of \$3.4 billion. The non-financial ODI flows reached 68.58 USD dollars in 2011, marking an increase of 14% compared to the last year.

2011 China's outward FDI flows and stock Structure

(Billions of dollars)

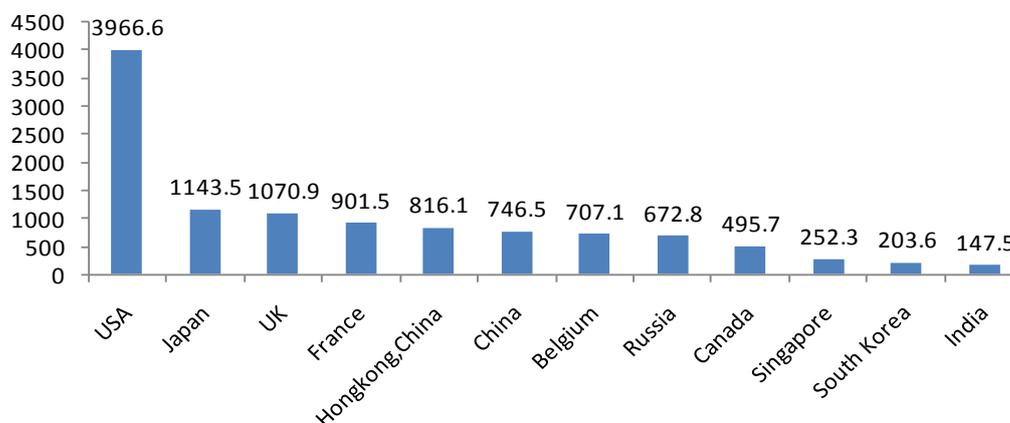
Indicator/Category	Flows			Stock	
	Sum	Change(%)	Share(%)	Sum	Share(%)
Total	74.65	8.5	100	428.78	100
Financial Outward	6.07	-29.7	8.1	67.39	15.9
Non-financial Outward	68.58	14.0	91.9	357.39	84.1



According to World Investment Report 2012 released by UNCTAD (United Nations Conference on Trade and Development), by the end of 2011, the world FDI outflow was \$1,690 billion and the FDI stock was \$21,170 billion. Based on that, China's outward FDI flows and stock in 2011 accounted for 4.4% and 2% respectively. In 2011, China ODI outflows ranked 6th in the world, while China ODI stock ranked 13th.

Resource: Ministry of Commerce of China

2011 ODI In Main Global Countries (100m USD)



Resource: 2011 Statistical Bulletin of China's Outward Foreign Direct Investment

China's National Reserve Investment

In 2011, China's official reserve rose to \$3181 billion, maintaining the largest in the world. US dollar assets, euro assets, English pound assets and Japanese assets respectively accounted for 65%, 26%, 5% and 3% approximately. Part of the US dollar assets includes bank deposits and Treasury bonds to maintain security and liquidity. The rest of US dollar assets are financial investment which features a high risk and high profit. China is the largest shareholder of US Treasury bonds, amounting to \$1100.7 billion in 2011.

China has been trying to adjust its official reserve structure in recent years and pays an increasing

attention to income-seeking management. In 2007, China Investment Corporation, the country's sovereign wealth fund, was founded aiming to broaden the usage channels of official reserve and obtain profits.

China Investment Corporation (CIC) is an investment institution established as a wholly state-owned company, whose mission is to make long-term investments that maximize risk adjusted financial returns for the benefit of its shareholder. It was established in September 2007 with \$200 billion by the Ministry of Finance. CIC is strictly commercial-oriented and is driven by purely economic and financial interests. It has received a further \$50 billion in capital from the government in April

2012. By the end of 2011, the assets of CIC had increased to \$484.2 billion, up by 17.72% year on year.

In May 2012, CIC established a small fund to help Chinese companies invest in European groups in partnership with the Belgian Federal Holding Company and A Capital, a private equity group.

CIC eyes on long-term assets which account for 31% of the global investment portfolio in 2011 and tends to make half of its investment portfolio long-term. The investment cycle was decided to be raised from 5 years to 10 years in 2011. Those long-term investment will be put in infrastructure, commodity, real estate, direct investment and private equity sectors.

2011 Global Investment Portfolio Distribution of CIC



Source: CIC 2011 Annual Report

ODI of State-owned and Private Enterprises

In recent years, China's ODI is developing at a remarkable speed. Most of the investments were conducted by state-owned enterprises under the administration of central government. Till the end of 2011, State-Owned enterprises took up 66.2% of the country's ODI stock, decreased by 3 percent points than 2010. In non-financial sectors, ODI stock from state-owned enterprises was \$60.17 billion, accounting for 77%. The structure of investors is being optimized. The proportion that state-owned enterprises take of the ODI stock has been declining in recent years, while the proportion of private enterprises has been growing year by year.

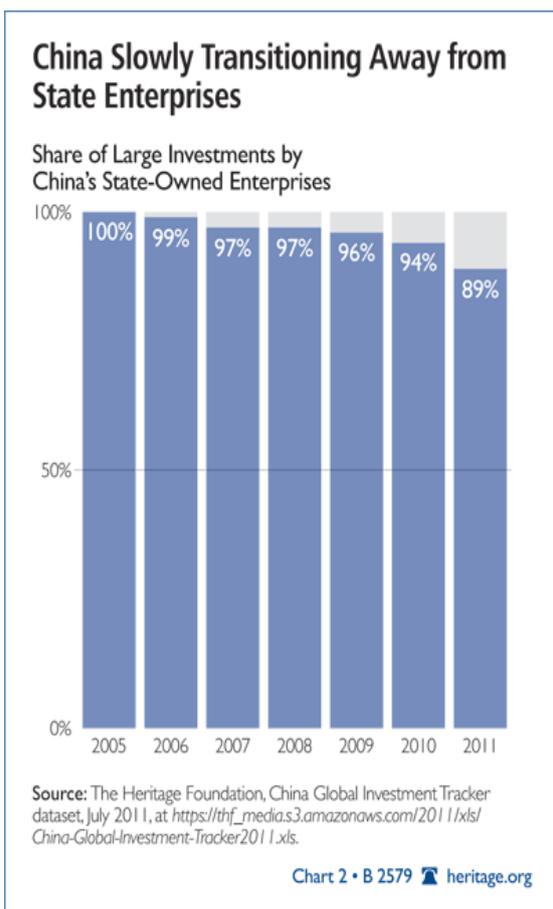
In 2011, outward direct investment from local areas registered US\$20.3 billion, taking up 33.4% of the total

outward investment in the same period, up by 24.4% year on year. The share of large investments by China's State-Owned Enterprises below shows China's investment is slowly transitioning away from State-Owned to private enterprises.

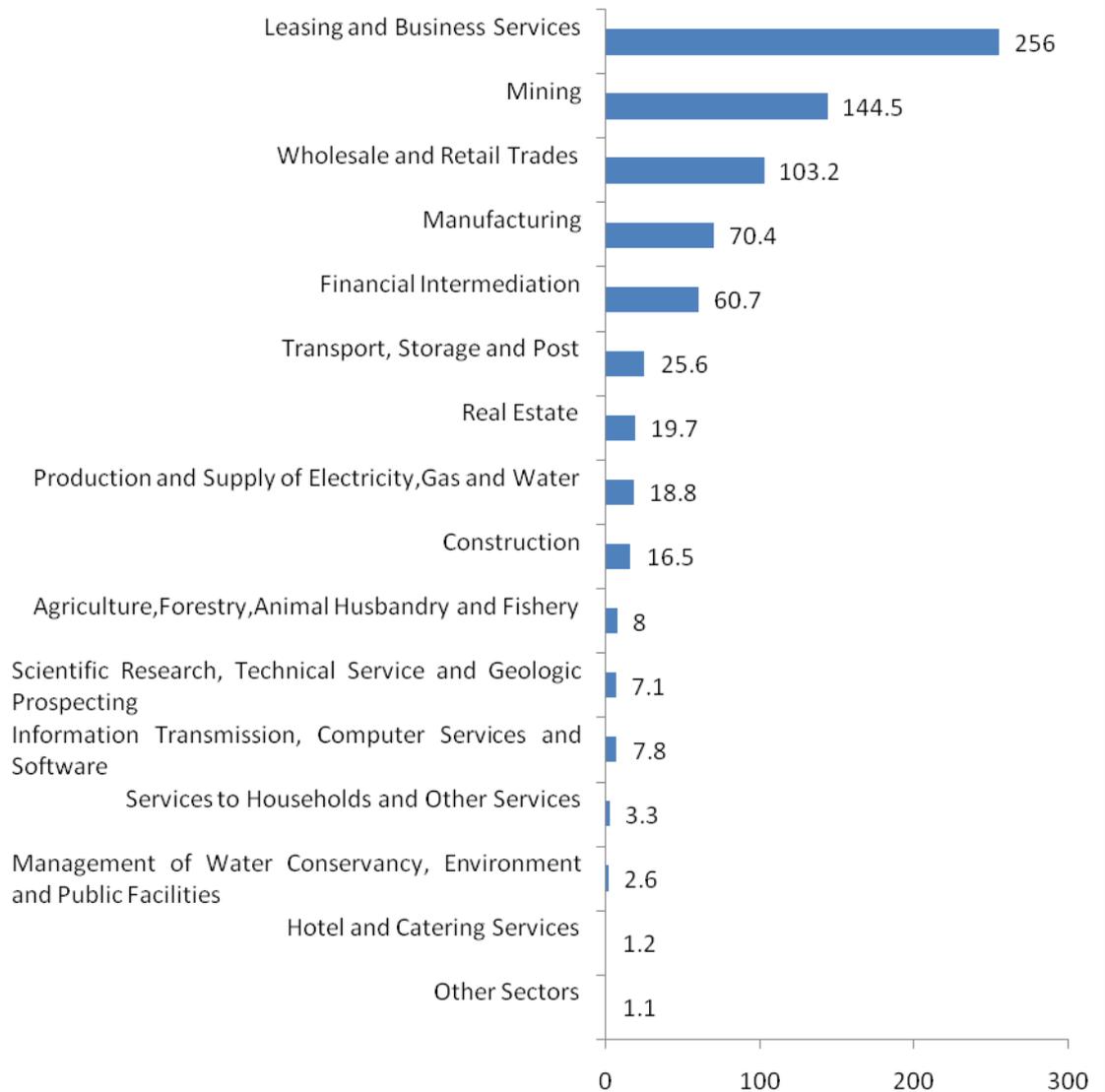
China's ODI by Sectors

With Chinese enterprises' going abroad speeding up year by year, the scale of China ODI is enlarging and the scope of field is expanding. The sectors that Chinese enterprises invest in are transferring from traditional sectors like mining, manufacturing to sectors in service industry, covering all the sectors in economy by the end of 2011. Business services, finance, mining, wholesale, manufacturing and transport are main sectors of China's ODI, adding up to 89% of the whole ODI stock.

However, China's ODI still mainly focused on sectors that belong to low levels of industry structure, especially energy resource sectors and labor intensive sectors that have already grown mature in their domestic market. High-tech industry saw a relatively small amount of ODI, and investment in capital intensive industries has just begun to grow.

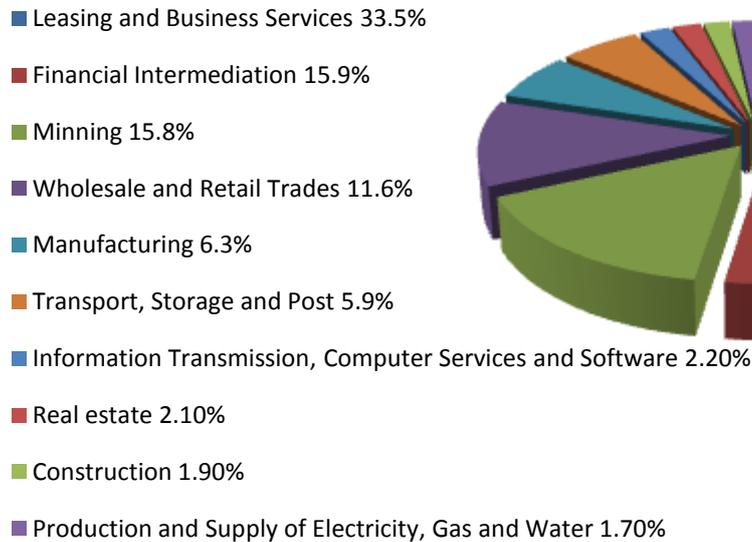


Industrial sector distribution of ODI 2011(100m USD)



Resource: 2011 Statistical Bulletin of China's Outward Foreign Direct Investment

2011 Sectorial China ODI Stock



China's ODI Entry Mode to Foreign Countries

The traditional entry mode of green-field investment and cross-border mergers and acquisition increased steadily, while new entry modes like equity investment, stock exchange and investment fund have started to develop.

In 2011, direct investment by M&A reached US\$27.2 billion, accounting for 36.4% of total ODI outflows in the whole year. M&A investment concentrated mainly in the fields such as mining, manufacturing, electricity generation and supply.

Mining and energy witness the most operations.

In the top 10 China's overseas M&A in 2011, according to Dealogic, eight cases were related to energy sector, including six oil and gas cases, one coal case and one power case. all together the amount of the top 10 reached \$27.74 billion, accounting for 64.66 % of the total.

From 2012, the pace of Chinese enterprises' going overseas becomes faster than before. For example, Sany Heavy Industry buys 90 percent of Germany's Putzmeister; LiuGong Machinery acquires Poland's Huta Stalowa Wola (HSW) and its distribution subsidiary Dressta; Shandong Heavy Industry buys 75 percent stock rights of Italy's Yachts giant Ferretti; State Grid International of China buys 25 percent of Portuguese Redes Energeticas

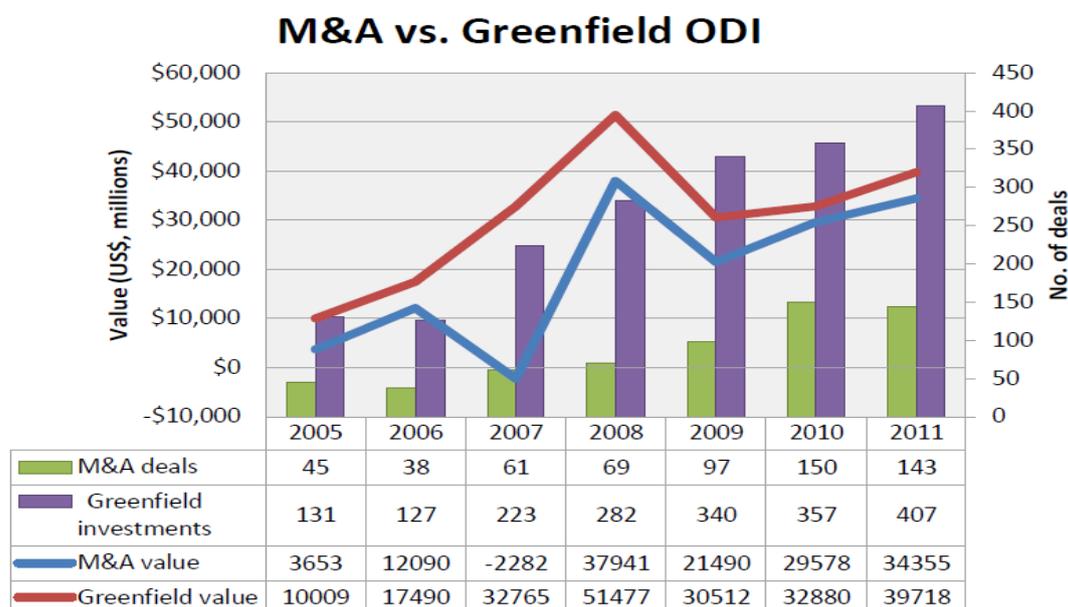
Nacionais. It can be predicted that China's ODI is surely to surge, among which energy and mining will continue to be the main sectors

while high-tech, clean-tech as well as well-known companies may also be China's M&A targets.

Top 10 China's Overseas Mergers and Acquisitions in 2011

Announcing Date	Acquiring	Acquired	Amount (\$ billions)	Statement
Nov 11, 2011	China Petrochemical Corporation	30% of Portugal's Galp's Brazilian unit	4.80	undone
Nov 22, 2011	China Three Gorges Group	21.35% of Portugal's EDP	3.52	undone
Aug 10, 2011	China Investment Corporation	30% of GDF Suez's exploration and production business	3.27	done
Oct 17, 2011	China chemical industry group	60% of Makhteshim Agan Industries	2.40	done
Jan 11, 2011	Sinochem Corporation	Norwegian silicon manufacturer, Elkem	2.17	done
Dec 23, 2011	Yankuang Group	Australia's Gloucester Coal Ltd	2.09	undone
April 14, 2011	China National Bluestar	100% of Elkem AS	2.00	done
Sep 2, 2011	CITIC Group / Shougang Group / Taiyuan Iron & Steel Group / Bao Steel Group/ Anshan Iron and Steel Group	15% of Companhia Brasileira de Metalurgia e Mineracao	1.95	done
Jul 20, 2011	China National Offshore Oil Corporation	Canada's oil sand developer Opti	1.84	done
Feb 25, 2011	China Petrochemical Corporation	15% of Australia Pacific LNG	1.76	done

Value and number of deals, cross-border M&A and Greenfield from China to rest of world, 2005-2011



UNCTAD, 2012, *World Investment Report 2012*

ODI by China's Regions

In 2011, local non-financial ODI outflow was 23.56 billion dollars, increased by 32.7% year by year. It made up of 31.6% of the whole non-financial of the country in 2011. From the big picture, the Eastern China saw the most ODI in 2011. But the investment from central region soared by 110% year on year; followed by western region, up by 28.6% year on year. In Middle area, Hunan, Hubei and Anhui listed top 3 in ODI and in Western area, Gansu, Sichuan and Shannxi took the lead. Guangdong, Shandong and Jiangsu, which are located in the coastal area

of China and maintained a large GDP growth in 2011, listed top 3 of provincial non-financial ODI outflows.

2011 China non-financial ODI by areas		
Regions	ODI outflow (\$bn)	Growth (%)
Western area	30.55	28.6
Central area	30.70	110.0
Other area	174.35	25.4
Total	235.60	32.7

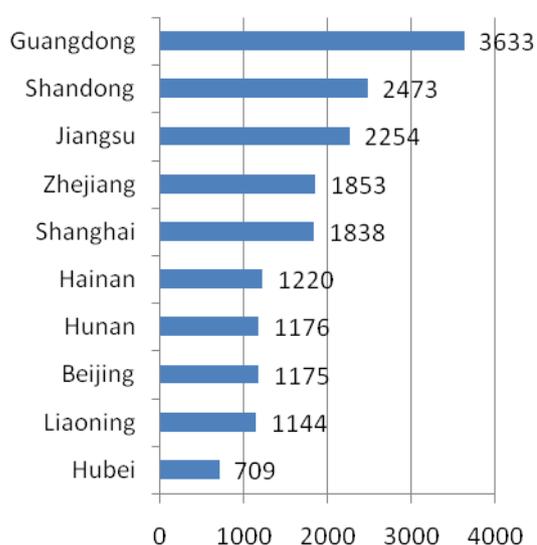
Central area includes six provinces: Shanxi, Anhui, Jiangxi, Henan, Hebei, Hunan.

Western area includes the Inner Mongolia Autonomous Region, Guangxi, Sichuan, Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Tibet.

America and Europe in a distant second and third position sharing \$11.94 billion and \$8.25 billion respectively. North America occupied the minimum ODI of \$2.48 billion from China, close to Africa and Oceania, whose figures were \$3.17 billion and \$3.32 billion. As to the stock of China's ODI, Asia also has a leading advantage, leaving another five regions far behind.

80% of China ODI outflows were in developing countries. There are two main reasons. Firstly, developing countries embrace China's investment warmly while developed country always set obstacles and restrictions to China owing to protectionism and political suspicion. Secondly, it is much easier for Chinese enterprises to invest in countries that have similar national situations.

TOP 10 non-financial ODI outflow provinces in 2011 (\$ mln)

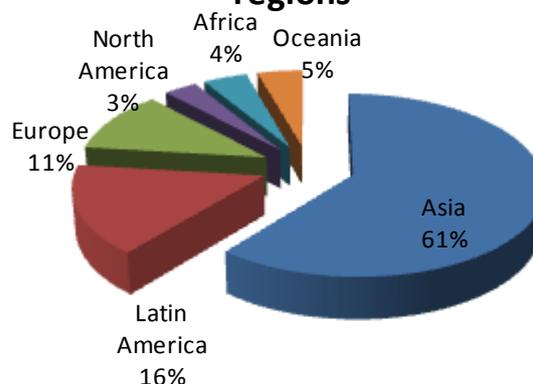


ODI in Global Regions

In 2011, China ODI outflows into Europe, Africa and Oceania developed rapidly. ODI outflows to Europe Oceania and Africa were US\$8.25 billion, US\$3.32 and US\$3.17 billion, up by 22.1%, 75.6% and 50.4% year on year respectively.

Asia still took the leading position which shared the largest amount of China's net ODI in 2011, hitting a record of \$45.49 billion, with Latin

2011 China ODI outflows by regions



Top 10 destinations of China's ODI in 2011

Country or Region	China's ODI by countries in 2011(\$mln)
Hong Kong, China	35655
Virgin Is. (E)	6208
Cayman Islands	4936
France	3482
Singapore	3269
Australia	3165
United States	1811
United Kingdom	1420
Luxemburg	1265
Sudan	912

Resource: Ministry of Commerce of China

China's ODI in ASEAN countries has increased dramatically over the past few years. Although the investment flow and stock in the region remain relatively small, the growth rate is remarkable. According to statistics issued by Ministry of Commerce of China and National Bureau of People's Republic of China, including a noticeable increase of investment in USA, China's FDI have mainly gone to East Asia, Southeast Asia and Latin America, with a 30% growth in the former two regions and a 14% growth in the latter. According to *2011 Statistical*

Bulletin of China's Outward Foreign Direct Investment, China's ODI flow to ASEAN countries reached about 4.40 billion dollars in 2010, an increase of 63.2% from a year earlier, with a total investment stock of 14.35 billion dollars. In 2011, the investment flow was 5.90 billion dollars, an increase of 34.1%, with the total investment stock of 21.46 billion dollars.

Except for the economic crisis in America and the European debt crises, which forced a large amount of China's investment flow from these two regions to Southeast Asia,

there are still other advantages in ASEAN countries that attract China's capital. First, a similar language and cultural background, a long history of friendship and a large group of overseas Chinese living and working there will definitely facilitate the access of Chinese enterprises to invest there. Second, after decades of social and economic development, the market capacity and investment environment in Southeast Asian countries has been greatly improved. The governments are encouraging FDI and have launched several preferential policies. Third, the relatively low technological level in these countries makes it easy for small-scale and labor-concentrated SMEs to enter the market. Lastly, the establishment of China-ASEAN Free Trade Area has provided a broad platform for the Chinese enterprises. In sum, China's ODI in ASEAN countries will be on a rise in a long term.

How Chinese enterprises target which country to invest in tends to come down to a number of factors:

- a) Access to local market;
- b) Presence of a local business partner;
- c) Availability of certain technologies;
- d) Availability of skilled labour;

e) Tax regime as well as availability of incentives and supportive policies;

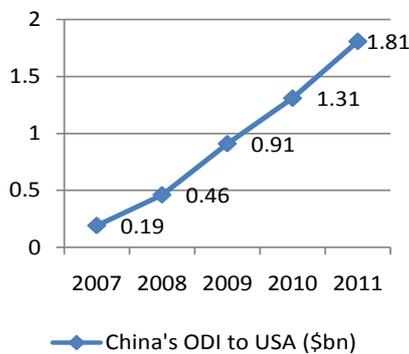
f) Logistical reasons;

g) Cultural and language factors.

ODI in USA

Continuing its upward trend, In 2011, China invested \$1.81 billion in the United States, up by 38.5% than 2010. By the end of 2011, non-financial investment stock from China to the U.S. has reached 8.99 billion. According to the Select the US Agency, a trade and investment promotion body under the US Department of Commerce, China is the fastest growing source of foreign direct investment to the United States. From 2003 to 2011, Chinese firms invested in 172 green-field projects in the US with a total value of more than \$7 billion. These projects from China have created 44,000 jobs in the US. The main investment areas for Chinese enterprises are mining, energy, finance and manufacturing. These sectors accounted for nearly 90 percent of overall investment.

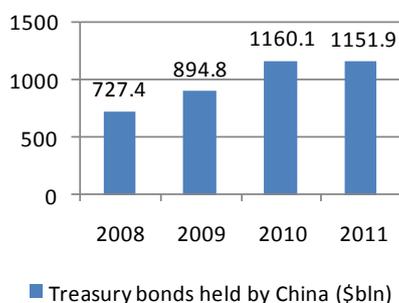
2007-2011 China's ODI outflow to USA (\$bn)



43.1% of China's ODI to the US flowed into Manufacturing, with 13.1% into Finance and 12.2% into wholesale and retail trades.

The US government bonds held by China decreased by \$8.2 billion from \$1160.1 billion in 2010 to \$1151.9 billion in 2011. . This is the first year that China reduced its government bonds since 2001. After that China was still the largest holder of the US bonds, followed by Japan.

USA Government bonds held by China (\$bln)



Although Investment inflows from China to the US increased, the imbalance in the investment relationship between the two countries is still obvious. By the end of 2011, the US investment stock in China has amounted to \$67.6 billion,

In recent years, more and more Chinese enterprises are interested in American market, but China's investment in the US is only in the beginning stage. Except for the lack of knowledge of American investment environment, laws and policies, obstacles set by American government are crucial barriers. American government always tagged political label to China's investment, tending to prohibit Chinese takeovers on national security grounds. For example, investment and merger projects applied by China National Offshore Oil Corporation, Anshan Iron and Steel Group Corporation and Huawei were rejected by American government repeatedly. Affected industries includes information, energy, mining and smelting.

However, it is worth noting that recently the United States has been encouraging China to invest in American industry especially in infrastructure sector. And more local American governments expressed their welcome to Chinese investors. On the fourth round of China-U.S.

Strategic and Economic Dialogues kicking off on May 3, 2012, China and the United States reached an agreement on furthering bilateral investment and pledged to provide a convenient and supportive investment environment for both sides.

According to a new report by New York-based Rhodium Group, Chinese companies concluded deals worth \$6.5 billion in 2012. The most attractive sectors in the US to Chinese investors were oil and gas exploration, advanced manufacturing, utilities, real estate and hospitality, according to the report.

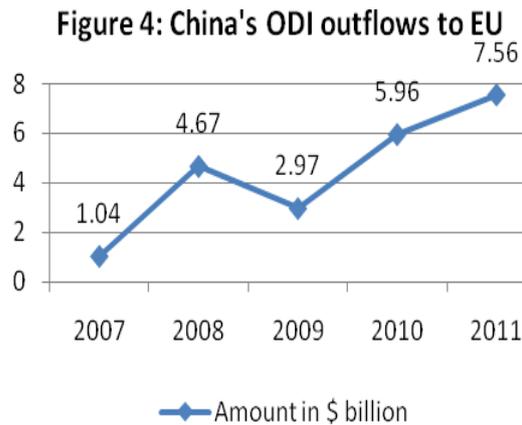
Chinese Major ODI in the US in 2012:

1. Dalian Wanda Group's \$2.6 billion acquisition of AMC Entertainment, the second largest US theater operator.
2. Sinopec Corp's \$2.5 billion investment in a third of Devon Energy's five shale gas assets in the US.
3. Auto parts maker Wanxiang Group's \$420 million investment in GreatPoint Energy, a company based in Cambridge, Massachusetts, that converts coal into cleaner-burning natural gas.

In 2013, Chinese investment in the US will see a continually growth. There a few investments were waiting to the US government to approve. Such as, a group of Chinese investors has agreed to buy an 80.1 percent stake in American International Group's aircraft leasing unit for \$4.2 billion, and Wanxiang has already been announced as the winner of a bid for battery producer A123 Systems, in a bankruptcy auction.

ODI Data in EU

Figures from the Ministry of Commerce shows that in 2011, China direct outward investment outflow to EU reached US\$7.56 billion, up by 26.8% year on year. By the end of 2011, there were more than 1600 subsidiaries launched by Chinese enterprises, with 50,000 foreign employees. China ODI outflows into EU concentrated on mining and leasing and business services, accounting for 44.8% and 30% respectively.



According to the report of *Chinese Out bound Investment in the European Union* by the European Union Chamber of Commerce in China, motivations that attract a Chinese enterprise to invest in the EU are as below: (base on the survey from 75 leading Chinese enterprises)

- 85% indicate that the main reason for investing in EU is to gain market share in Europe and to provide goods and services within the EU market;
- The second most frequently indicated response (47%) was to provide goods and services to the Chinese market;
- One quarter have invested in the EU in order to service markets other than China or Europe;
- More than one third cite the attraction of intellectual and R&D resources as a reason for investing in the EU.

With regards to which sectors are most frequently targeted by Chinese investors in the EU, in *China Invests in Europe 2012* released by Hanemann and Rosen, explains that unofficial sources rank communications equipment and services, industrial machinery, and equipment and alternative/renewable energy as the most frequently invested sectors in terms of deal numbers. In terms of investment amount, chemicals, plastics and rubber, utility and sanitary services, and automotive original equipment manufacturers (OEM) and components are the largest recipient sectors.

Europe could be a driving force for China's ODI growth in 2012. The global economic gloom will push up Chinese investment abroad through mergers and acquisitions. With the nation becoming a leading world manufacturer, many Chinese industries- including machinery and vehicles - have achieved global competitiveness, which provides an opportunity to venture into European market. Since the influence of the financial crisis still holds back the rebound of European economy, with the European debt crisis making it worse, many companies are starved for money. In this case, more and more cash-rich Chinese manufacturers will surge into debt-stricken European countries as the

spreading economic crisis creates buying opportunities. The most recent major deal happened in 2012 in Europe was initiated by the Chinese construction equipment maker Sany Heavy Industry Co Ltd, which paid 324 million Euros (\$ 426 million) to buy 90 percent of Putzmeister, Germany's largest concrete pump maker.

During the past year, as the European debt crisis escalated, more and more governments in Europe, including France and Germany, expressed their welcome to Chinese investments. The general picture becomes comparatively favorable that European nations now welcome China's investments.

EU is China's largest trading partner as well as China's largest export market. The region is also a major source of high-technology transfers to China. During the past two years they have loosened the restrictions to investors, which also pushed up China investment's growth.

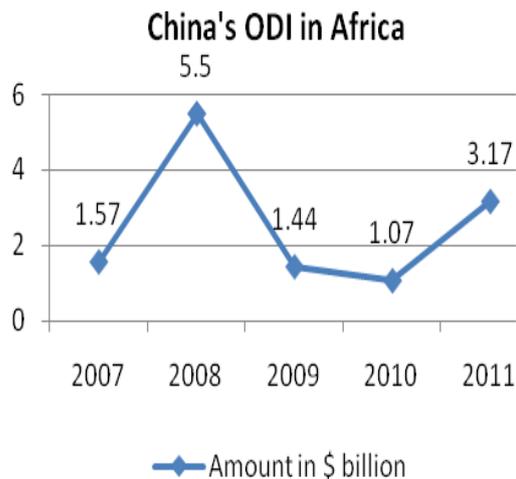
Wealth funds have joined the wave of investment. During Chinese Vice Premier Li Keqiang's Europe visit in May, 2012, China Investment Corporation and Belgium's Federal Holding and Investment Company signed an agreement to launch the China-Belgium Mirror Fund. The fund provides a platform for Chinese

companies to expand in all 27 member countries of the European Union.

In Feb 2012, Premier Wen said China encourages companies of all sectors to invest in Europe to enhance cooperation between two economies, but he emphasized that he doesn't mean China wants to "buy Europe". By the end of 2011, China's cumulative ODI had reached \$322 billion, of which 70 percent had gone to the Asia-Pacific region. The growth momentum is robust, but China's ODI is still at a fledgling stage. Chinese companies don't lack money, but their eagerness to enhance their brands, improve their technology and expand their sales networks cannot be accomplished only by spending money. On the path to European market, Chinese enterprises still have a long way ahead.

ODI Data in Africa

China's Direct investment to Africa surged by 50.4 percent in 2011, from a year earlier, to \$3.17 billion, distributed mainly in British Virgin Islands, Cayman Islands, Peru, Argentina and Brazil.



Investment cooperation between China and Africa is developing rapidly, showing great complementarities in resource, market and industry structure and proving that the cooperation is mutually beneficial for both economies. The highlights of the cooperation are as follows:

Firstly, bilateral investment grows fast. In 2006, China issued the Africa Policy Paper aiming at encouraging and supporting Chinese enterprises to invest in Africa. There is \$50 million investment from China to Africa in 2001. By the end of 2011, the number has soared to \$1.7 billion.

Secondly, investments from China spread an extensive geographic coverage. There have been over 2000 enterprises investing in 50 countries in Africa, ranging from

resource-rich countries like Angola to resource-poor countries like Mali.

Thirdly, China conducts cooperation with Africa in a broad area. Investment in Energy and Mining sectors only account for 25%, with the remaining 75% involved in finance, manufacture, business service, agriculture and transport industries.

Finally, investment subject has been diversified. Private enterprises have become fresh troops apart from state-owned enterprises. The share of private enterprises even took half of the overall Chinese enterprises in some countries.

As what was mentioned on the optimistic aspects above, China also faces difficulties in investing in Africa in recent years. Chinese enterprises encounter obstacles from the international community and Africa. From the international perspective, some west and host media claims that China's investment in Africa is hunting for resources and that some behavior of Chinese enterprises are irresponsible such as the low quality of labor and environment and the lack of transparency. Besides, Chinese enterprises are also bothered by the host nation's unstable political and military situation. For example, in February

of 2011, Chinese enterprises suffered steep losses with the outbreak of civil war in Libya. From China's perspective, only 50% of all the enterprises investing abroad have been succeeded, most of which are caused by the lack of knowledge of the host countries.

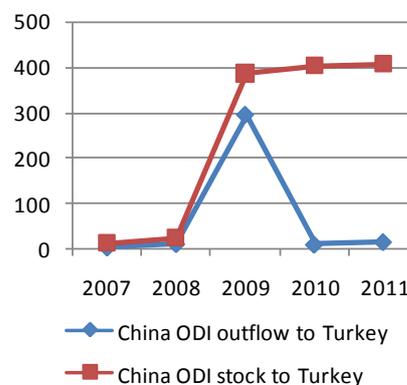
However, as was pointed out by Chinese government, Chinese investors abide by the international practices and market rules, making the investment in Africa a natural international competition and cooperation. At the summit of the Forum on China-Africa Cooperation held in July, 2012, China reiterates its support to the investment in Africa. Both China and Africa have faith in the further investment cooperation between the two regions.

ODI in Turkey

China's ODI outflow and stock to Turkey

FDI stock of China in Turkey amounts to 406.48 million USD from 2003 to 2011. 421 Chinese companies operate in Turkey by the end of 2011 and 41 of them have more than 500,000 USD capital. Chinese companies mainly operate in the fields of mining, telecommunication, high-speed

railway construction, energy and assembling sectors.



China is the number-one country in contracting services with 54 out of 325 contracting companies in the world, and Turkey is second with 21 companies. But Turkish PM Recep Tayyip Erdoğan said Turkey had not sufficiently benefited from Chinese foreign investments.

Recently, Turkey tried great efforts on China's investing in Turkey. Countries could conduct half of their exports to EU member states without customs duties, said Turkish Economy Minister Zafer Çağlayan. He called on Chinese executives to review their decisions and take action, regarding Turkey as an ideal investment place thanks to its sound banking and legal systems.

Turkey and China have complementary economic advantages and enjoy a promising future of cooperation. From a long-term perspective, the two sides will

step up cooperation in the traditional fields of transport, energy and communications, make railway construction the priority area of bilateral infrastructure construction, expand collaboration on nuclear energy, aerospace, energy efficiency and other emerging sectors, make innovations of cooperation model and cultivate new growth points of

cooperation. During PM Tayyip Erdogan's April visit to China, six agreements mainly for energy investments were signed, together, the deals are worth billions of dollars. That is a sign for prospective cooperation and China's ODI in Turkey will surely leap to a higher level.

2011 Major Projects in Turkey

Project	Company	Statement
Ferrochrome Exploitation Project	Taiyuan Iron & Steel Group; Jinzhong Wanbang Industrial & Trading Co. Ltd; Turkey CVK Group	under construction
Electromechanical Equipment Contract for BAGISTAS Hydropower Station	Dongfang Electric Corporation	Signed in Jul. 2011
Blast Furnace Axial Blower Sets in ISDEMIR Steel Plant	Sino steel Equipment and Engineering Co. Ltd	7# Blower Sets Completed in Jul. 2011
AKFEL Sun Energy Components Plant 50MW	China Electric Equipment Group	Start in Sep. 2011
Cement Kiln Cogeneration Project in Akcansa Cement Company	Sinoma Energy Conservation Ltd	Completed in Sep. 2011
Phase Two of High-speed Railway from Ankara to Istanbul	China Railway Construction Corporation	Start in Nov. 2011
Underground Gas Reservoir Project for 1 billion cubic meters working gas	China Tianchen Engineering Corporation; Turkey Petroleum Pipeline company	Start in Nov. 2011
Wind Turbines Contract of YALOVA WPP 54MW and USAK WPP 54MW	Sinovel Wind Group Co., Ltd; Breket Group	Signed in Nov. and Dec. 2011
600MW Supercritical Sets for BEKIRLI Project 1#	Heilongjiang No.3 Thermal Power Construction Corp	Completed in Dec. 2011

External Effects for China's ODI Development

In 2011, the world is making efforts to drive economic revival. Many countries carried out easing and encouraging policies to promote foreign investment. The global FDI flows increased to \$1.5 trillion, higher than the average level before the financial crisis. But it is still 23% below the FDI peak in 2007.

As China's overall strength has been markedly improved, many countries saw advantages in cooperating with China. Therefore more countries enhanced their connection and cooperation with China.

However, investment protectionism was on a rise. A few countries implemented control measures and took more strict review on FDI. Based on the increase of interest and culture conflicts, Chinese enterprises were faced with more obstacles from host countries when investing abroad. Especially when China's state-owned companies invest abroad, they are more likely to get snagged by government censors.

Additionally, the international security situation has become more complicated in 2011 which brought more security risks for China's businesses in foreign countries.

China's ODI Policy

The 'Going Out' policy of encouraging Chinese enterprises to invest overseas was first unveiled in 1999 and by the mid-2000s ODI had started to notably increase. This encouragement of ODI has now become a key policy of the Chinese Government as they look to reform the domestic economy.

➤ 12th Five-Year Plan

The Chinese Government has released in place a number of targets relating to ODI for the period of the 12th Five-Year Plan (2011-2015):

- ODI will increase at an annual rate of 17% and will total USD 150 billion in 2015;
- By the end of 2015, China's ODI stock will reach \$500 billion;
- The amount of China's overseas contracted projects will reach USD 180 billion and turnover will be USD 120 billion by 2015, with an annual growth rate of 6%;
- 550,000 Chinese nationals will go to work overseas during 2012, with the total number being over one million by the end of 2015.

On purpose to focus outbound investment in a manner that fosters the growth and development of strategic Chinese industries,

however, the support of the government is highly selective.

According to the 12th Five-Year Plan and the officially issued ODI catalogue, priority should be given to the following industry sectors:

- Energy
- Energy conservation
- Raw materials
- Biotechnology
- Agriculture
- Services
- High-end manufacturing
- Innovative technologies

The ODI development plan for the 12th Five-Year Plan encourages China enterprises in heavy chemical sectors including chemical, metallurgy and building materials to transfer abroad. And deep-processing industries like refining and steel are also encouraged to enter foreign countries with rich energy and resources.

➤ **Simplify government approval**

The guideline plan highlights the construction of laws system of outward investment.

As the present departmental regulations caused low efficiency, The approval by NDRC (National

Development and Reform Commission), SASAC (State-owned Assets Supervision and Administration Commission of the State Council) and SAFE (State Administration of Foreign Exchange) will be simplified to make the procedures explicit and practical for the enterprises.

According to the 12th Five-year Plan, a new regulation on outward investment will be enacted by the State Council of China to, which will give more powerful support to enterprises investing abroad and eliminate overlapping operations.

➤ **Improving Security of Outward Investment**

The core of the new plan of the ODI development plan is to improve security of outward investment. While China enterprises are enlarging their single outward investment scale and many of them have achieved success, there are still a few enterprises which have encountered failure. In 2010, China Railway Construction Corporation lost 4.15 billion RMB on the contract project of Saudi light railway.

Therefore the 12th Five-year Plan points out the importance of improving investment environment. Financial departments will launch stricter regulation on foreign lending and strengthen risk evaluation work.

Meantime, China is going to take an active involvement in negotiation for constructing bilateral and Multi-lateral Frame on Investment (MFI).

➤ **Implementing Opinions on Encouraging ODI of Private Enterprises**

On July 3, 2012, the National Development and Reform Commission (NDRC), together with 12 government departments under the State Council including the Ministry of Foreign Affairs, Ministry of Industry and Information Technology, jointly issued “The Implementing Opinions on Encouraging and Guiding Private Enterprises to Actively Develop Overseas Investment”. The “Opinions” came up with 18 major

measures with focus being placed on five aspects including the strengthening of macro-guidance and the perfection of policy support.

According to the “Opinions”, China private enterprises investing abroad will get tax privilege and financial support, while key sectors like energy, resource, hi-tech and advanced manufacture industries are highlighted. Moreover, approval procedures for outbound investment activities by private companies will also be simplified. For resource investment projects involving less than \$300 million or non-resource ones of below \$100 million, private companies will only required to fill in certain forms instead of submitting application reports.

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