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# Not looking for trouble: Understanding large-scale Chinese overseas investment by sector and ownership[☆]

Limin Luo[a], Zhen Qi[b,*], Paul Hubbard[c]

[a] School of Marxism, Shantou University, China
[b] Business School, Shantou University, China
[c] Crawford School of Public Policy, Australian National University, Australia

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ABSTRACT

This paper contributes to the systematic understanding of Chinese investment abroad, and particularly the role of state-owned enterprise (SOE) investors, in two ways. Firstly, we identify major problems in the literature stemming from wide-spread data deficiencies in data. Specifically, the reliability of previous research results has been limited by data sets that do not identify the final destination for Chinese investment, nor suitably differentiate between different ownership types. By augmenting the project-level data from the China Global Investment Tracker with detailed ownership information for each firm, this study reveals that large-scale investment in natural resource investment, which surged after 2008, is dominated by state-owned enterprises controlled by China's central government. But it also reveals a newer wave of non-resource investment after 2009 in which non-state enterprise plays the leading role.

Further, we investigate the destination selection of large-scale Chinese investment to 192 countries from 2005 to 2015 – to test the extent to which SOEs might be attracted to poorer institutional host environments. We find that Chinese SOE investment in resources, regardless of ownership type is attracted to countries with political stability, but is negatively related to the rule of law measure. For non-resource investment, we find no strong institutional preferences. We therefore suggest that previous findings of different investment motivations between state- and non-state investors likely reflects the dominance of state-ownership in resource sectors, rather than different investment behaviour based on ownership.

## 1. Introduction

The recent surge of Chinese overseas investment was led by state-owned enterprises (SOEs) from a country that is still rapidly developing. Given that earlier large scale investment flows have come tended to be private investment from developed market economies, this has provoked three major questions about Chinese overseas investment.

To what extent is Chinese overseas investment seeking natural resources for China's continued urbanisation and industrialisation, compared to other market-seeking and technology seeking motivations?

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* Corresponding author.
*E-mail addresses:* lmluo@stu.edu.cn (L. Luo), zhenqi@stu.edu.cn (Z. Qi), paul.hubbard@anu.edu.au (P. Hubbard).

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Compared to overseas investment from developed countries that flows to host countries with good economic governance, do Chinese investors prefer, or at least better tolerate, hosts with poor economic governance?

And finally, are there any significant differences in Chinese overseas investment behaviour on account of its SOEs?

The final question is relevant to policy makers considering whether a country's foreign investment regime requires special provisions for SOEs.[1] Some previous studies have argued differences in formal property rights and corresponding political connections between SOEs and the governments can cause their investment behaviour to diverge from private profit-seeking companies (Deng, Morck, Wu, & Yeung, 2015; Yeung & Liu, 2008), and therefore fall outside mainstream theories of overseas investment (Child & Rodrigues, 2005). However, if SOEs behave like 'ordinary' investors, then the case for special policy treatment is less clear.

Leading studies of the drivers and motivations of Chinese overseas investment, including Buckley, Clegg, and Cross (2007, 2009), Cheung and Qian (2009), Pradhan (2009), Cheng and Ma (2010), Sanfilippo (2010), Bhaumik and Co (2011), Hurst (2011), Kolstad and Wiig (2012), and Wang, Du, and Wang (2015) fail to reach a consensus.[2] The major problems with the literature stem from inadequate data that does not properly identify the destination for Chinese investment, nor suitably differentiate between different ownership types.

Attempts to compare overseas investment behaviour have been hampered by limited data as we will discuss in detail in the next section. For example, Ramasamy, Yeung, and Laforet (2012) use data for only 63 publicly-listed companies from 2006–2008 to compare the overseas investment motivations for SOEs and non-SOEs, and found that listed SOEs sought host countries that had poor institutions but rich natural resource endowments. Duanmu (2012) using investment to 47 countries from 189 companies (SOEs and non-SOE are distinguished) in Jiangsu province between 1999 and 2008 discovered the opposite – that countries with abundant natural resources were not especially attractive for Chinese overseas investment, to the point of being negative. Obviously, the small samples used in these two papers are not representative.

Amighini, Rabellotti, and Sanfilippo (2013) extended this earlier analysis by separating the number of green field investments for each country-sector-year for SOEs and non-SOEs from 2003 to 2008. They discovered that Chinese private companies preferred large markets and strategic resources (high technology), and avoided countries with poor institutions. The investment behaviour of SOEs accorded more with the demands of China's domestic economy, flowing to resource rich areas, and largely insensitive to political risk. However, their dataset (fdiMarkets) does not consistently report project size, and so the authors had to rely solely on the count of investments. This effectively treats a $15 billion project equally to a $100 million project. Where studies do distinguish between SOEs and non-SOEs, they do not distinguish between central SOEs, administered by the State-Owned Assets Supervision and Administration Commission (SASAC) and those administered by provincial and county-level authorities or outside the SASAC system. This is a further limitation, given that the investment behaviours and motivations of central and local SOEs may be quite different. For example, central SOEs might be expected to fulfil a 'national champion' role that leans more closely to national political and development priorities, compared to local SOEs which might fulfil more profit-oriented development objectives of their local owners (Li, Cui, & Lu, 2014).

To investigate this, we augment a database of large-scale overseas investment projects with detailed information on company ownership, including distinguishing central SASAC SOEs from others. We do find differences in the motivations of central SOEs compared to local SOEs and private investors. However, we explain this on the basis of sectoral distribution between resource and non-resource sectors, rather than fundamentally different drivers on the basis of ownership. The rest of this paper is presented in three sections. Section 2 briefly describes the limitation of the data that were applied in the existing literature and discusses our data's representativeness and reliability. Section 3 investigates the drive of China's ODI in different sectors and with different ownerships. Section 4 discusses the implications of this study and concludes.

## 2. Chinese overseas investment data

### 2.1. Data limitations

Official data on Chinese overseas direct investment (ODI) is reported by China's Ministry of Commerce.[3] This is also the basis of foreign direct investment statistics reported for China by the United Nations Conference on Trade and Development. The Ministry of Commerce provides aggregate data on the value of the flow and stock of Chinese outbound investment categorised by industry, by destination country, and by registered ownership type. For a subset destination country, industry-specific breakdowns of aggregate investment flows are also reported.

[1] For example, while Australia's Foreign Investment Review Board (FIRB) generally reviews only very large foreign proposals, it reviews all investments foreign-government entities regardless of project value.

[2] A large proportion of the empirical literature supports the hypothesis for market seeking behaviour. The market-seeking hypothesis has garnered the most supports within OECD economies (Buckley et al., 2007; Cheung & Qian, 2009; Hurst, 2011; Kolstad & Wiig, 2012). The resource-seeking hypothesis for Chinese overseas investment has also gained some support, particularly within non-OECD countries (Buckley et al., 2007; Hurst, 2011; Kolstad & Wiig, 2012; Pradhan, 2009; Sanfilippo, 2010; Wang et al., 2015). But there is also research that does not support the resource seeking hypothesis (Bhaumik & Co, 2011). There is a much larger controversy surrounding the question of whether Chinese overseas investment is attracted to countries with relatively weak institutional environments, specifically a preference for Chinese overseas investment into countries with comparatively weak institutions (Amighini et al., 2013; Buckley et al., 2007; Kolstad & Wiig, 2012; Quer, Claver, & Rienda, 2012; Sanfilippo, 2010; Wang et al., 2015). Of these, one strand of the literature supposes that the structure of Chinese overseas investment might be more suitable for countries which reflect China's own domestic institution (Buckley et al., 2007; Cheng & Ma, 2010; Hurst, 2011), while others draw the opposite conclusion (Cheung & Qian, 2009; Bhaumik & Co, 2011; Li & Liang, 2012), detecting no strong preference for Chinese overseas investment to weak institutional environments.

[3] An authoritative source from the Ministry of Commerce is the Chinese Overseas Direct Investment Statistical Report (2002–2014) (中国对外直接投资统计公报).