

Risky Business?
**A Firm Level Analysis of Chinese
Outward Direct Investments**

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Are Chinese Investors Drawn to Risks?

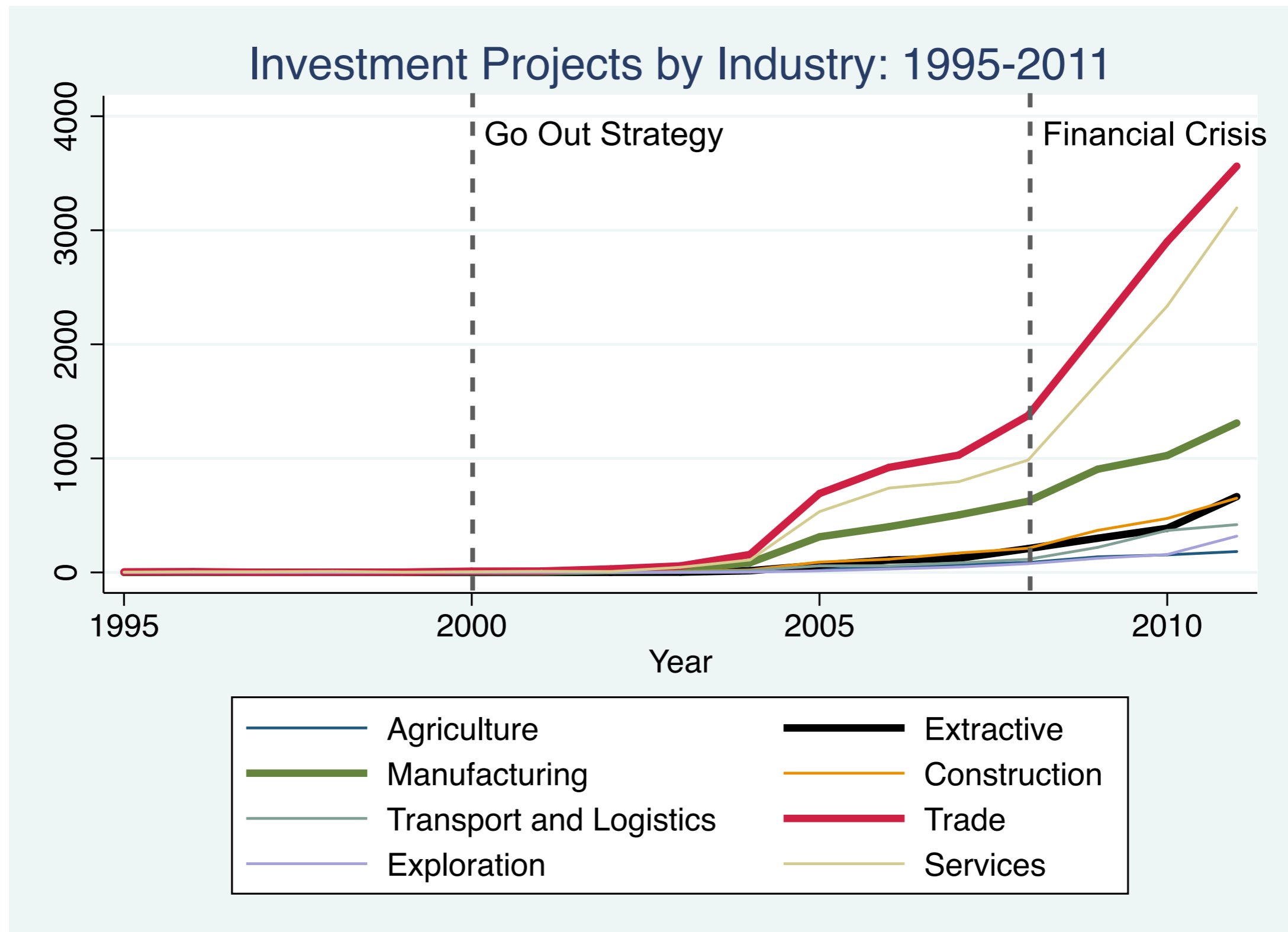
- Preliminary evidence suggests that Chinese companies tend to invest in riskier destinations (Li and Liang 2012, Buckley et al 2007).

Factors Contributing to Risk Profiles

- A focus on natural resources and the latecomer effect
- State subsidies and policy support
- Bilateral relations and connection with aid
- Perceived hostility from western developed countries
- Competitive advantage in poorly governed countries, cultural and institutional distance

- Research has been hampered by a lack of firm-level data
- This study uses two unexplored sources:
- MOFCOM's OFDI registry
- 2013 China Outward Direct Investment Survey

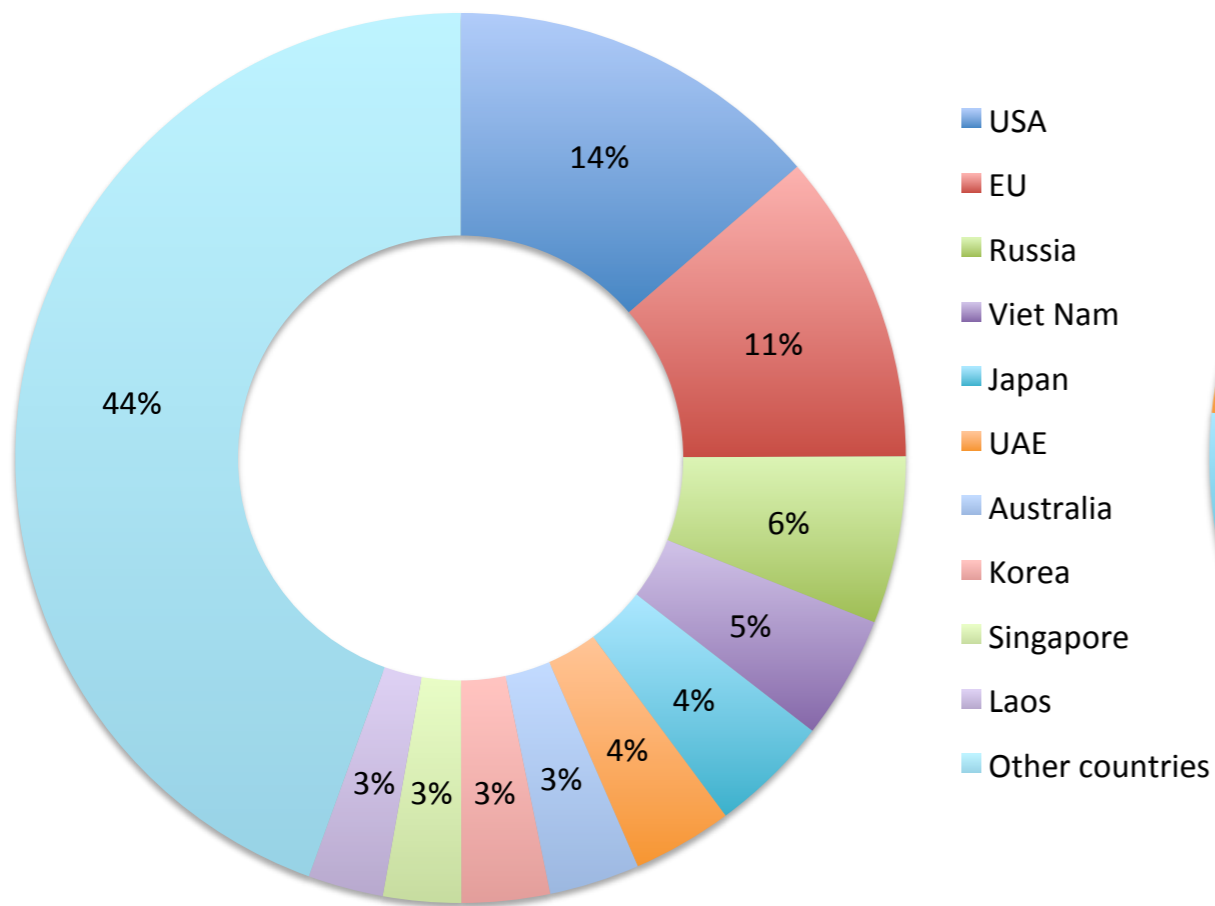
Chinese Investments Are Diverse



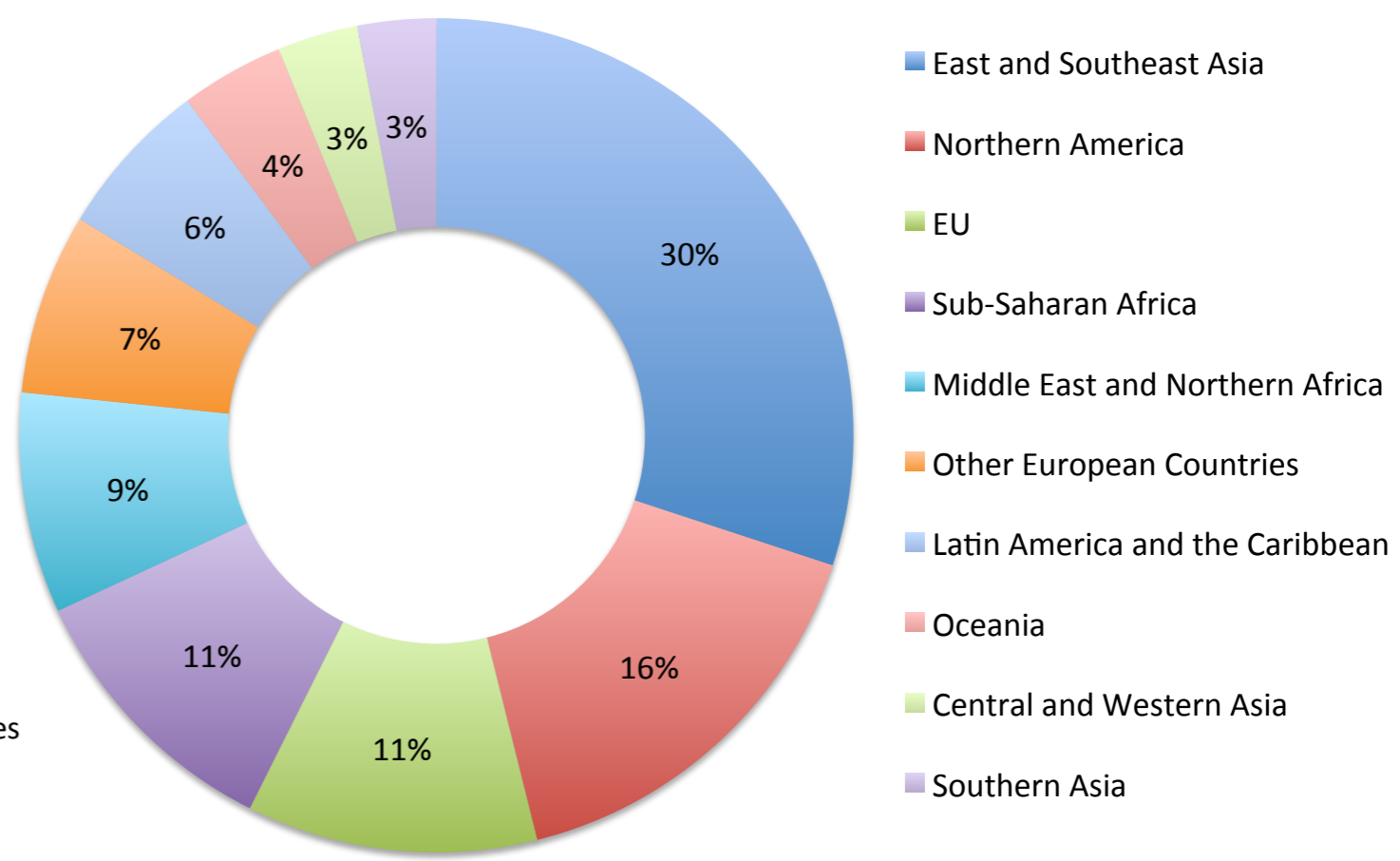
Source: MOFCOM Registry.

Investment Destinations

By Country



By Region



Source: MOFCOM Registry, excluding Hong Kong.

- Chinese investments are diverse.
- North America and the EU are increasingly top destinations for Chinese investors (but EU may surpass North America according to 2013 COFDIS).
- The overall risk profile of Chinese investors could be lower than previously thought.

SOE and Private Investments Look Quite Different

| Primary Industry/Activity | Central SOEs | | Other Companies | | All | |
|------------------------------------|--------------|-------------------------------|-----------------|----------------------------------|------------|---------------|
| | # projects | As % of total by central SOEs | # projects | As % of total by other companies | # projects | As % of total |
| Agriculture, Fishery, and Forestry | 155 | 9.4% | 1,043 | 5.4% | 1,198 | 5.7% |
| Oil, Gas, and Mineral Extraction | 166 | 10.0% | 1,291 | 6.7% | 1,457 | 6.9% |
| Manufacturing | 64 | 3.9% | 2,602 | 13.4% | 2,666 | 12.7% |
| Utilities | 20 | 1.2% | 36 | 0.2% | 56 | 0.3% |
| Construction | 242 | 14.6% | 647 | 3.3% | 889 | 4.2% |
| Transportation and Logistics | 81 | 4.9% | 506 | 2.6% | 587 | 2.8% |
| Telecom and Information Technology | 22 | 1.3% | 346 | 1.8% | 368 | 1.7% |
| Trade | 298 | 18.0% | 7,541 | 38.9% | 7,839 | 37.2% |
| Hospitality | 2 | 0.1% | 97 | 0.5% | 99 | 0.5% |
| Finance | 4 | 0.2% | 11 | 0.1% | 15 | 0.1% |
| Real estate | 11 | 0.7% | 250 | 1.3% | 261 | 1.2% |
| Business services | 510 | 6.8% | 4,514 | 7.0% | 5,024 | 7.0% |
| Research and technical services | 74 | 4.5% | 456 | 2.4% | 530 | 2.5% |
| Entertainment and Culture | 3 | 0.2% | 47 | 0.2% | 50 | 0.2% |
| Business Development | 398 | 24.1% | 3,159 | 16.2% | 3,557 | 16.9% |
| Exploration | 161 | 9.7% | 686 | 3.5% | 847 | 4.0% |
| Total Number of Projects | 1,652 | | 19,402 | | 21,054 | |

Source: MOFCOM Registry.

SOEs are Investing in Riskier Destinations

| VARIABLES | (1) polity2 | (2) polity2 |
|----------------------|----------------------|----------------------|
| Is a Central SOE | -1.846*** (0.209) | -2.052*** (0.211) |
| In Extractive Sector | -1.124*** (0.178) | -1.263*** (0.178) |
| In Agriculture | -2.119*** (0.263) | -2.153*** (0.262) |
| Year fixed effect | No | Yes |
| Constant | 4.768*** (0.0640) | 1.500 (4.702) |
| Observations | 13,853 | 13,853 |
| R-squared | 0.013 | 0.024 |

Standard errors in parentheses

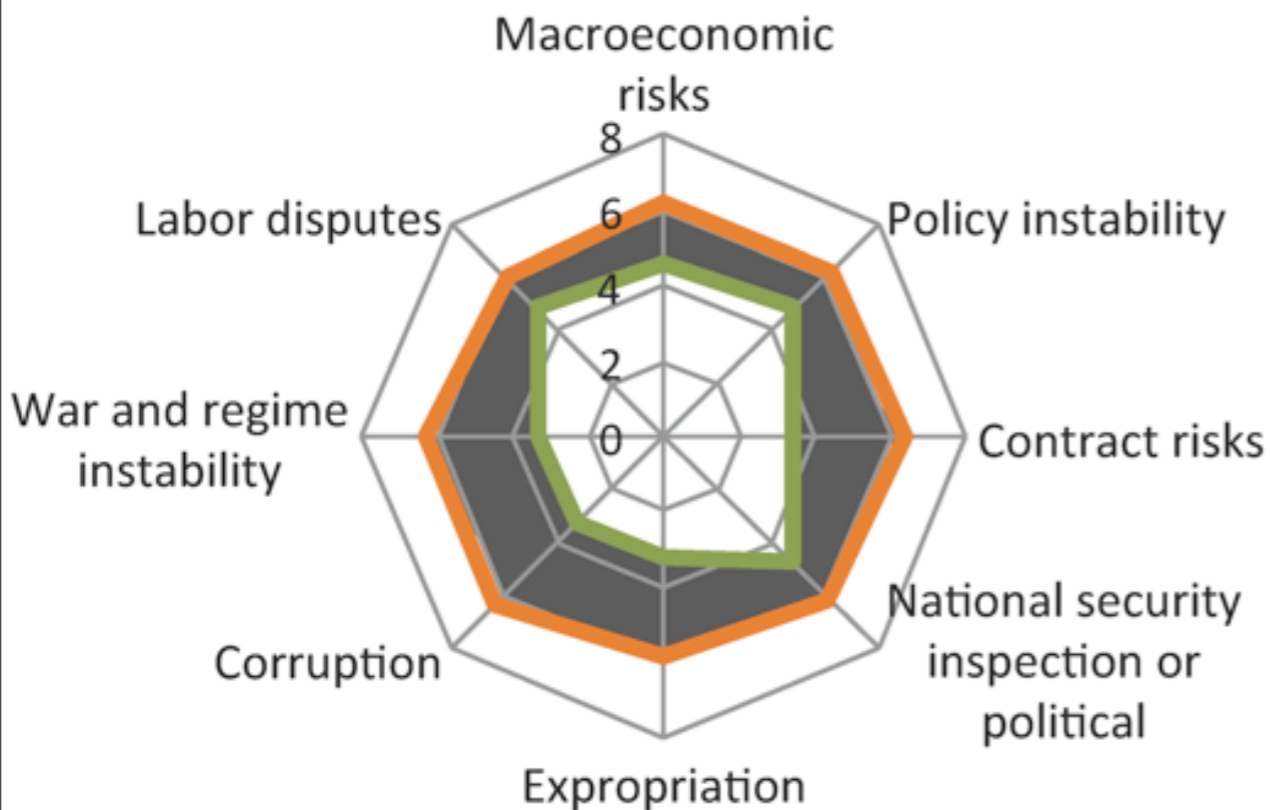
*** p<0.01, ** p<0.05, * p<0.1

SOEs are Investing in Riskier Destinations

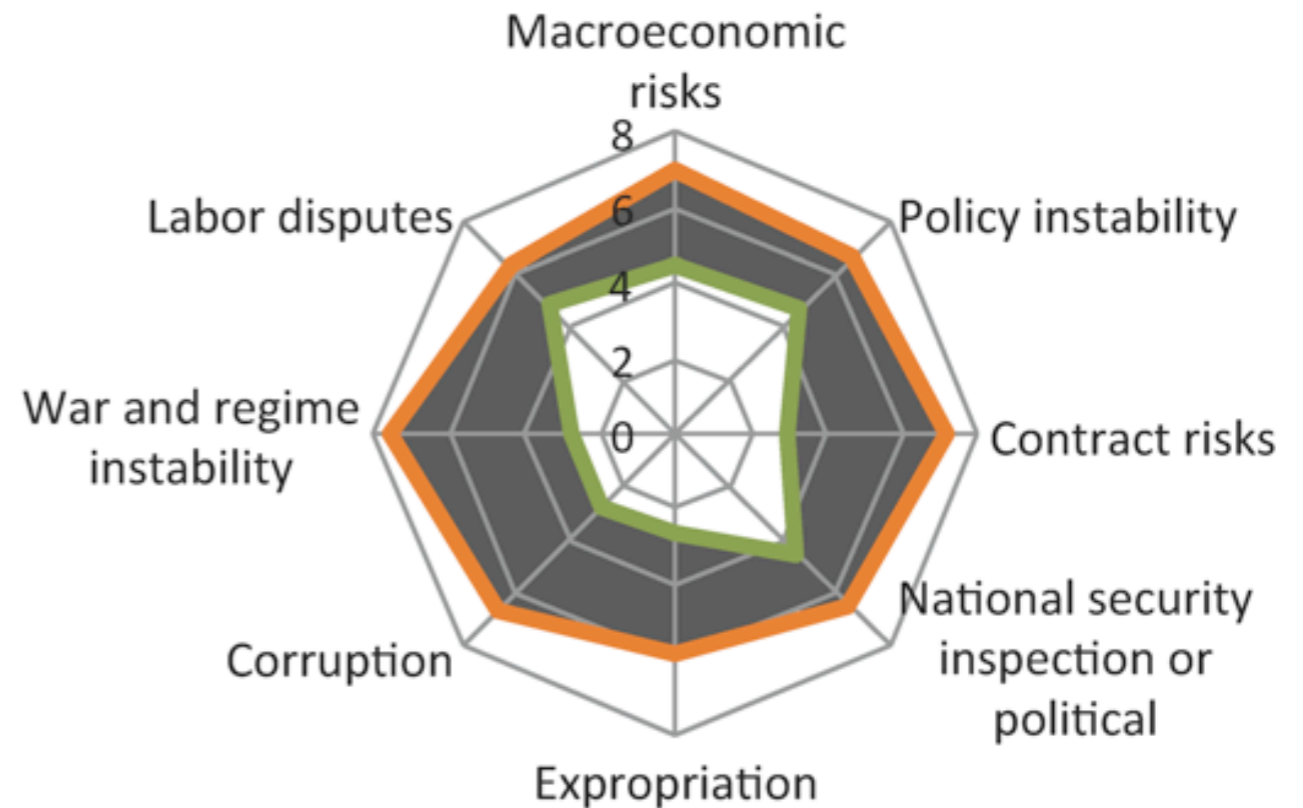
- SOEs are found to invest in riskier destinations even after controlling for sector, suggesting that the focus on natural resources and the latecomer effect are not all there is to their higher risk profiles.

Perception of Risks

Private



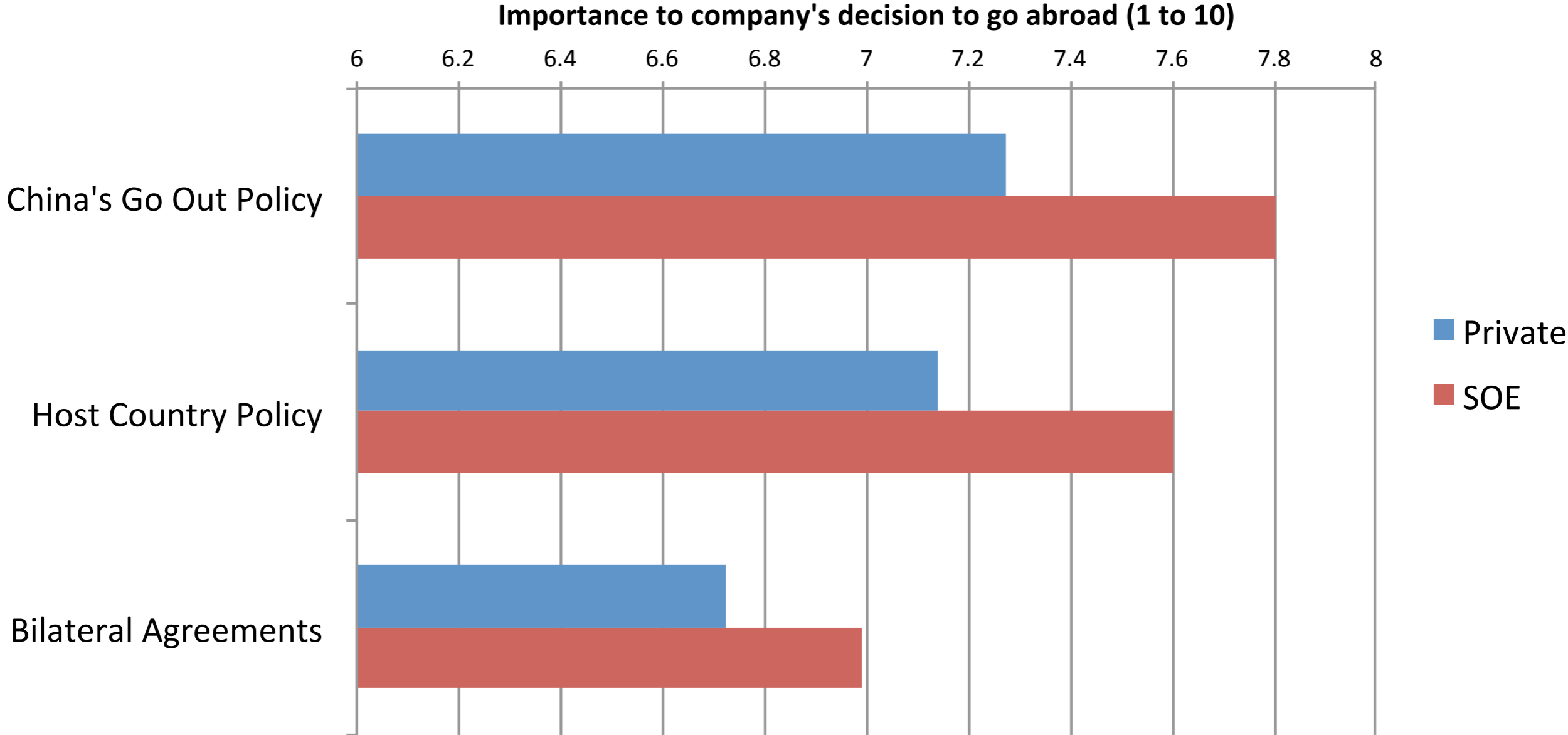
SOE



— Rating of Mature Democracies — Rating of Weakly Governed States

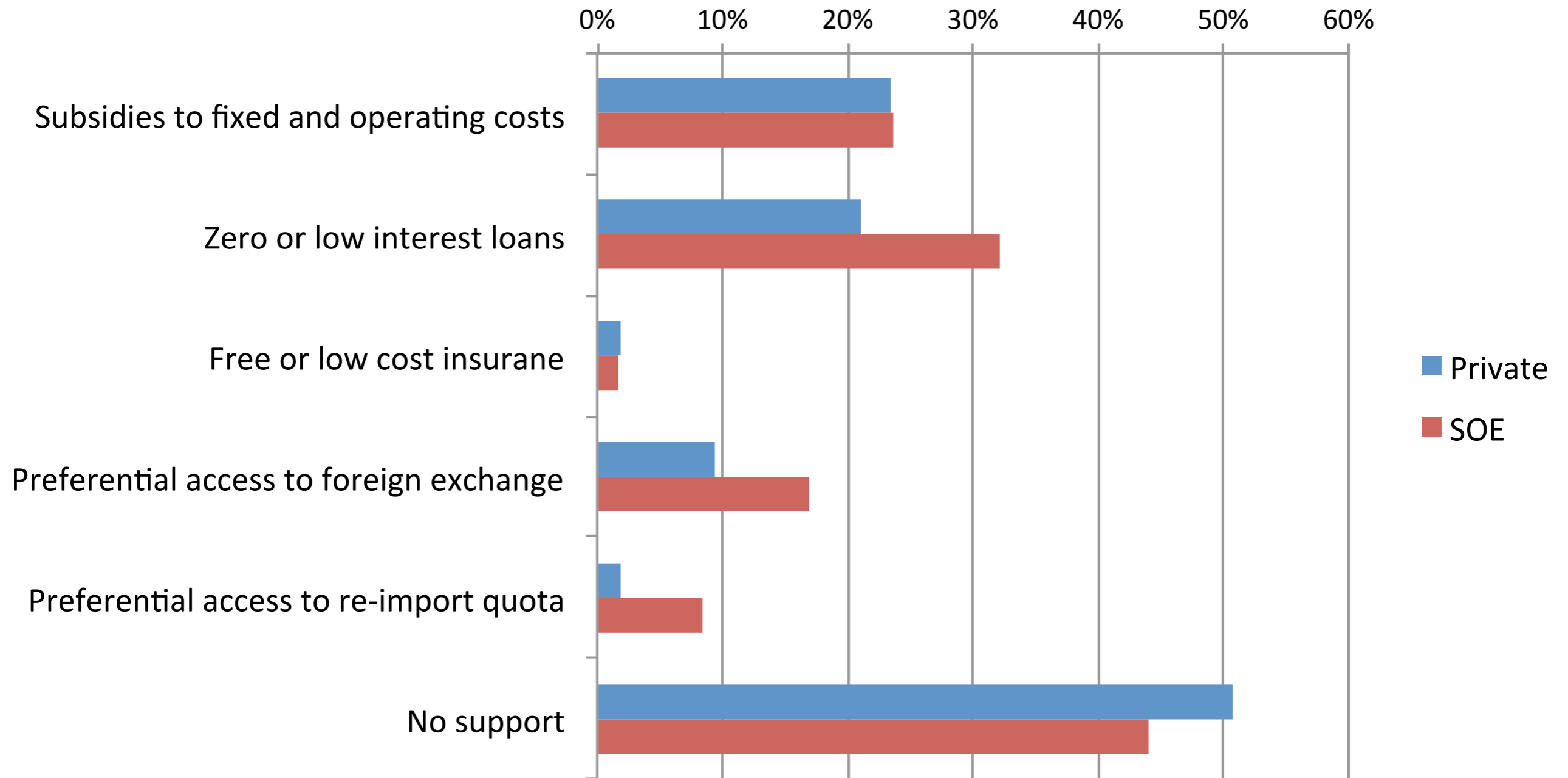
- SOEs do not consider “high-risk” countries any less risky than their private counterparts, so perception of risks or perceived hostility also cannot fully account for their behaviors.

SOEs Are More Motivated By Policies and Bilateral Agreements



Source: 2013 COFDIS.

SOEs Have Greater State Support



Source: 2013 COFDIS.

What Have We Learned?

- Chinese OFDI is diverse.
- Chinese SOEs are going to riskier destinations, but this tendency cannot be fully explained by China's resource strategy or the latecomer effect. Risk perception and perceived hostility don't quite explain it, either.
- SOEs' connection with the Chinese state (especially policy support) may explain in large part their greater tendency to invest in risky destinations.