China's OFDI in the EU as a Latecomer

LI Jinshan; ZHANG Mohan[1]

Abstract: As China has been rapidly becoming an emerging power of the world's outward foreign direct investment, the performance of Chinese enterprises have raised serious debates among leaders and public opinions in the EU. The forerunner standpoints, such as Dunning's eclectic paradigm, towards foreign direct investment argue that multinational enterprises will operate overseas on the basis of competitive advantages that secure enough reciprocation to cover the operation costs and additional risks. Compared with forerunner viewpoints, the possibility that Chinese enterprises will develop an international presence seems irrational thanks to their ownership and competitive disadvantages. The fact is that Chinese enterprises, which are present in the EU, aim at addressing relative disadvantages rather than gaining profit margins by using their competitive advantages. This paper seeks to address the China's OFDI policy evolution and OFDI overview in the EU. It argues that when investing in advanced economies such as the EU, Chinese enterprises mainly play as market seekers and strategic asset seekers, and their investment business faces some internal and external obstacles and pressures. It takes time for them to really integrate into the EU market; meanwhile, mutual understandings between the EU and China to foster a bilateral reciprocity environment for investment are imperative.
Keywords: Outward Foreign Direct Investment; China; the European Union

1. Introduction and literature review

Outward foreign direct investment (OFDI) is a long-term cross-border investment aiming at controlling the invested business entity. Usually, control is gained unless the investors hold at least 10% of the equity. Coupled with its opening the economy and attracting inward foreign direct investment (IFDI), China has quickly become a potential power of OFDI in recent years.[2] A country will initially experience increasing FDI inflows and then generate enlarged OFDI as its economy grows and its income increases (Dunning, 1981, 1982; Dunning and Narula, 1996). In response to the trend towards economic globalization and regionalization, along with the development of overseas markets, the rate of China's ODFI began to increase. Starting from virtually no OFDI in 1979, China gained ground as an important source of OFDI: it ranked 13th in the world and 3rd among all developing and transition economies in 2008 (World Investment Report Overview, 2009). The topic on China's OFDI has aroused an increasing concern by academics and policymakers, and the research can be divided into three aspects.

The first research aspect pays attention to China's OFDI in developing economies. Although China's OFDI reaches almost every country in the world, it's mostly concentrated in Asia (Cheng and Stough, 2007). Chinese multinational enterprises' (MNEs) engagement in Africa has the potential to benefit both African countries and Chinese commercial interests. Africa will benefit by receiving cheaper goods and services than it would from traditional market players, as well as from the possibility of technology transfer. The advantage for Chinese enterprise is that they can

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realize their global aspirations in Africa (Corkin, 2007). China's OFDI has been flowing into developing countries at a higher rate than developed countries with about 95% of outward flows directed to the developing world from 2003 to 2006. China's OFDI in Africa is highly diversified, reaching 48 countries in the continent, and the top five hosting countries are all resource-rich countries, including, Algeria, Nigeria, South Africa, Sudan and Zambia (OECD, 2008).

The second research aspect concentrates on China's OFDI in developed economies. Chinese investments in Italy appear to reflect a "Marco Polo" effect, but in the opposite direction. Like the Venetian merchant discovered, learned and returned with the scientific and technological discoveries of China, today Chinese enterprises are seeking the original skills and knowledge available in Italian enterprises and localities, especially in design-intensive, high-quality productions (Pietrobelli et al., 2007). Chinese enterprises perceive Canada as one of the most open economies in the world and a gateway for tapping into the NAFTA market. Energy and natural resources, agri-food, biotech and ICT are considered the most promising sectors (Asia Pacific Foundation of Canada, 2009). China's OFDI in the United States is more likely to take the form of Acquisitions than Greenfield investments for the foreseeable future. Most of the alleged costs to the US economy from China's FDI are either unlikely to occur or are already anticipated by existing US laws and regulations, thus necessitating no additional, specific legislation (Globerman and Shapiro, 2009). China's OFDI in Europe is growing but remains relatively insignificant. It is biased towards service activities; in manufacturing, it is heavily concentrated in information technology and the automobile sector. The current economic crisis may provide new investment opportunities but it is also a major challenge for Chinese firms which invested in ailing European firms (Nicolas, 2009).

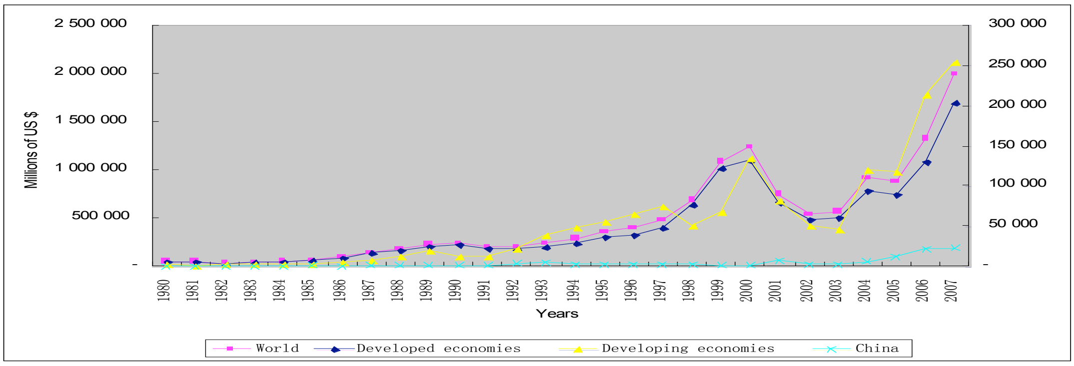
The third research aspect refers to China's OFDI overview. Chinese government has realized the crucial importance of multinational operations in a global era, and has been actively promoting OFDI; the strategy of going overseas via direct investment has long enjoyed official support when directed toward genuine capability enhancement (Wong and Chan, 2003). The Chinese companies have been fairly successful in the developing world but are struggling to turn around their sometimes loss-making assets or second-tier brands in Western markets. The hardest challenge is to integrate the management of acquired business into acquiring companies; the keys to success include successfully hiring of chief executives from the local market of the acquired companies and actively managing the difference between Chinese and Western business cultures and practice (Hirt and Orr, 2006). The bulk of current Chinese OFDI is driven either by the country's increasing need to secure overseas energy and raw material resources or as a countermeasure to intensified competition and overcapacity in a number of key sectors of the domestic economy. The acquisition of advanced technology, brands and managerial know-how also figures prominently as a driver for Chinese OFDI (Lunding, 2006). Chinese companies are going global for new markets, energy, resources, and strategic assets in technology, management, and human resources. Such global expansion by various Chinese companies with multiple strategies is ignited by China's WTO entry and is supported by a strong Chinese economy, an open-minded Chinese government, Chinese banks and appreciating Chinese currency (Gao, 2008). The motives and targets of China's OFDI are changing rapidly, driven more by a readjustment in China's economic growth model than by political considerations. China's firms have been relatively late to globalize, compared with their OECD-country peers, and China has more to gain than any other country from sustaining cross-border investment openness and more to lose if these flows are choked off (Rosen and Hanemann, 2009).

Since FDI is probably one of the increasing driving forces contributing to the EU-China relations, with the continuing rapid growth of China's OFDI, the Chinese transitional economy is set to have more interrelation irreversibly with the EU economy. This paper will attempt to find the profiles of China's OFDI in the EU. The following parts of the paper will provide an analysis of its OFDI policy evolution; then it will try to answer the question of who invests, with what kinds of motivations and obstacles in the EU market.

2. China's OFDI policy evolution

China's OFDI policy has experienced three decades of reform, which has been aimed at changing and increasing the degree of integration of its economy and businesses into the global economy. As a result, China has evolved from a position of marginal relevance in terms of its OFDI to becoming an emerging source country among developing economies; however, its OFDI flow and stock are both at very low levels compared with the developed countries (See graph 1 and graph 2).

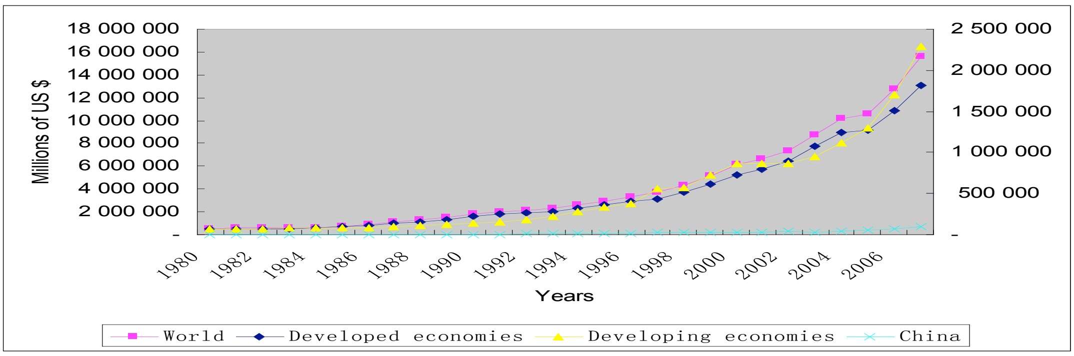
Graph 1 China's OFDI Flow (Millions of US $)



Notes: The left axis represents OFDI flow of the world total and the developed economies; the right axis represents OFDI flow of China and the developing economies

Sources: UNCTAD, World Investment Reports

Graph 2 China's OFDI Stock (Millions of US $)



Notes: The left axis represents OFDI stock of the world total and the developed economies; the right axis represents OFDI stock of China and the developing economies

Sources: UNCTAD, World Investment Reports

2.1 Rigid control and policy skepticism phase: 1980s

Before 1978, China's ideological opposition and political denunciation were emphatic primarily due to the fundamental viewpoint that multinational enterprises were imperialist tools for economic exploitation and were an expression of neo-colonialism in the unjustifiable international economic order (Cheng and Stough, 2007). The tenet of "Reform and Open Door" strategy was to develop foreign economic and technological cooperation; absorbing and utilizing of foreign capital and advanced technology; developing the productive forces; and accelerating the process of China's socialist modernization. Following the "Open Door" strategy applied in 1978, the strong ideological antipathy and prejudice toward Chinese enterprises operating overseas were gradually eased, some of the shackles of ideology were broken, but the government's attitude towards overseas investment was still skeptical and cautious, mainly due to the lack of adequate experiences of domestic enterprises. The policy gravity was to attract IFDI in order to acquire foreign exchanges, technologies and management skills. Overseas investment projects were discouraged except where they were considered absolutely necessary. OFDI was not prohibited, but was only approved by the central government on a case-by-case basis.

The State Council authorised selected state owned trading companies under the auspices of the Ministry of Foreign Economic Relations and Trade (MOFERT was the predecessor of MOFCOM) and sub-national economic and technology cooperation enterprises to establish foreign affiliates (Zhang, 2003). At this period, the Chinese government had tried to restrict OFDI through a lot of tight regulatory and policy controls. Although there were some policies with regard to OFDI in the 1980s, it was not a priority. There were only fragmentary regulations, and it was seriously lacking in a consistent and coherent policy frameworks, which could be used to regulate China's OFDI. One of the most important encouragement policy documents was released by MOFERT in 1985, namely, "Provisions Governing Control and Approval Procedures for Opening Non-Trade Enterprises Overseas". This document set the tone for the policy motivations and project categories toward China's OFDI during the 1980s (See box 1).

Box 1 Policy Motivations and Project Categories of China's OFDI during 1980s

OFDI Policy Motivations	OFDI Project Categories
• import advanced technology and equipment • provide a long-term reliable supply of raw materials • generate foreign currency income • conductive to export China's machinery and materials and to the expansion of China's engineering and labour service overseas • help serve China's domestic market and make foreign currency earnings	• secure access to domestically scarce natural resources • access and transfer technology to China • enhance export possibilities for Chinese companies • augment managerial skills through 'on-the-job training'

Source: Guo, 1984; Cheng and Stough, 2007; Provisions Governing Control and Approval Procedures for Opening Non-Trade Enterprises Overseas, 1985, MOFERT

During the 1980s, China's priority was to develop its policies to attract IFDI in order to acquire foreign exchange, technology and management know-how. Due to the tight control of the State Council, it is believed that OFDI during this period were closely linked to the government's political considerations rather than the enterprise's commercial motivation. According to UNCTAD FDI Statistic Database, by the end of 1989, China's cumulative OFDI stock had reached 3.625 billion U.S. dollars, accounting for 0.25% of the world's total stock and 2.8% of developing countries' total stock. In 1989, China's OFDI flow was 780 million U.S. dollars, accounting for 0.34% of the world's total flow and 3.95% of developing countries' total flow, which was at very low level compared with the other developing economies.

2.2 Flexible adjustment and policy acceptance phase: 1990s

In early 1992, Deng Xiaoping, de facto leader of China from the late 1970s to early 1990s, travelled to Southern China in an effort to express his support to economic reforms and market opening (Naughton, 2007). Thanks to Deng's journey to the South, the domestic liberalization and decentralization process was on the schedule. This landmark journey strengthened the liberal politicians in China's Communist Party (CCP) along with bureaucrats in government agencies (Buckley, 2007). At the same time, Deng's journey strengthened the centrality of coastal-oriented, export-led development strategy. The consciousness of nurturing the competitiveness of Chinese enterprises-while circumventing discriminatory measures imposed by export recipient countries by penetrating to overseas markets-began to emerge.

As for the national and provincial level, policy-making circumstances towards China's OFDI have been changed. At the national level, former Secretary Jiang Zemin stated that "we should encourage enterprises to expand their investment abroad and their transactional operation" at the 14th National Congress of the Chinese Communist Party in 1992; at the 15th National Congress of the Chinese Communist Party in 1997, Jiang restated that "China will establish highly competitive large enterprise-groups with transnational operations, but the state-owned sectors must be in a dominant position in major industries" (Defraigne, 2009); then the former Prime Minister Zhu Rongji (1998-2002) carried out the "to seize the big and free the small" strategy, i.e., to maintain close oversight on large state-owned enterprises while subjecting smaller ones to market competition. 120 state-owned enterprises (most of them were national champions of different strategic sectors, including automotive, electronics, energy, metallurgy, mining, machinery, chemicals, construction, transport, aerospace, and pharmaceuticals) were chosen by the State Council for the purpose of creating global champions (Defraigne, 2009). At the sub-national level, some provincial and municipal governments were encouraged to promote positive overseas business operations, which led to a huge surge in local level enterprises investing outside due to the relaxed requirements, especially in Hong Kong.[3]

Two of the most important policy documents were released by the State Planning Commission (the State Planning Commission was the predecessor of National Development and Reform Commission) in 1991, these documents were the core China's OFDI documents throughout the 1990s. They set OFDI approval procedures and fund limitations (See box 2).

Box 2 Approval Procedure and Authorization of China's ODFI Projects during 1990s

• Before the project proposal application: ask for advices from the embassies and consulates in the target countries • During submitting the project proposal: draft project proposals • After the project proposal approval: draft feasibility reports
• ODFI Projects＜US$ 1 million: verification and approval by sub-national level departments • 1 million≤ODFI Projects＜30 million : verification and approval by the SPC • ODFI Projects≥US$ 30 million: verification and approval by the SPC; report to the State Council

Source: "Opinion of the State Planning Commission on the strengthening of the administration of overseas investment projects"; "Regulations on examination and approval of project proposal and feasibility report on FDI projects", the State Planning Commission

[3] Due to the Asian financial crisis in 1997, many of the overseas business experienced heavy losses and the approval procedures again became increasingly strict, along with the screening and monitoring process of each OFDI project at both national and sub-national levels.

During the 1990s, regulations concerning foreign exchange were relaxed. With the liberalization of 1995, the Chinese government moved from an "earn-to-use" to a "buy-to-use" foreign exchange policy. Thus, foreign exchange could be purchased from State Administration of Foreign Exchange to finance OFDI projects regardless of whether the applicant enterprise had earned any foreign exchange. According to UNCTAD FDI Statistic Database, by the end of 1999, China's cumulative OFDI stock had reached 26.853 billion U.S. dollars, accounting for 0.52% of the world's total stock and 3.7% of developing countries total stock; in 1999, China's OFDI flow was 1.774 billion U.S. dollars, accounting for 0.16% of the world's total flow and 2.59% of developing countries total flow, which was still at very low level.

2.3 Going global and policy enthusiasm phase: 2000s

As a result of China's accession to the World Trade Organization in 2001, the business environment for Chinese enterprises has changed.[4] Meanwhile, the gradual formation of a consumption society indicated that it was necessary for the economy to utilize both domestic and foreign resources and markets. The concept of "Going Global" was first officially initiated by former Premier Minister Zhu Rongji in his 2000 report to the National People's Congress on the work of the government. It thus became an important part of the 10th National Economic and Social Development Five Year Plan (2001-2005). The "Going Global" strategy was stressed again in the current 11th Five-Year Plan in 2006 by Premier Minister Wen Jiabao (OECD, 2008). At this period, the OFDI Policy framework and guideline have been generally designed (See box 3).

Box 3(a) China's OFDI Guidelines in the 10th Five Year Plan (2001-2005)

- Strive to achieve new breakthroughs using domestic and foreign resources and markets
- Encourage outward investment that can bring into play China's comparative advantage, widen the areas, channels and methods of economic and technical cooperation
- Support the transnational operations of competitive enterprises to go abroad to develop processing trade and develop resources
- Provide help in the areas of loans, insurance, etc.
- Grasp firmly the formulation and regulation of the system of supervision for domestic enterprises going abroad to invest
- Strengthen the administration of Chinese companies abroad and the coordination of investment services

Box 3 (b) China's OFDI Guidelines in the 11th Five Year Plan (2006-2010)

The encouraging OFDI include:

- those that can obtain resources or raw materials that are lacking within China and which the development of the national economy urgently requires
- those that can stimulate the export of products, equipment or technology in which China has a comparative advantage and labour service exports
- those that can raise China's technological R&D capability, and which can make use of internationally advanced technology, advanced management experience and specialist human resources

The prohibiting OFDI include:

- those that threaten China's national security or damage the public interest of society
- those that use proprietary techniques or technology the export of which has been prohibited
- those that can in sectors in which Chinese law prohibits business operations
- those that in industries in which the law of the recipient country prohibits investment, and those in industries in which investment is prohibited by the provisions of international treaties which China has signed

Apart from the encouraged and prohibited sectors all others are "permitted"

Source: Freeman, 2008

[4] WTO membership necessitates that China gradually open once protected domestic markets to comply with her accession protocols and the WTO's 'most favored nation' rule. Chinese enterprises thus face increasing competition from domestic and foreign invested enterprises, as well as from foreign importers

One of the core policy documents was released by National Development and Reform Commission (NDRC) in October 2004, namely, "The Verification and Approval of Overseas Investment Projects Tentative Administrative Procedures". The bottom-line of the document was that the government's role was mainly guidance, provision of services and support; enterprises were henceforth asked to make their own decisions. Verification and approval were needed where large amounts of foreign exchange were involved. The official thresholds for verification and approval of investment are as follows (See box 4).

Box 4 Thresholds for Verification and Approval of China's OFDI during 2000s

Overseas investment for exploration and development of natural resources: ⩾ US$ 30 million: verification and approval by the NDRC ⩾ US $ 200 million: verification and approval by the NDRC; report to the State Council < US$ 30 million: verification and approval by Development and Reform Dept. on provincial level
Overseas investment non-resources sector: ⩾ US $ 10 million: verification and approval by the NDRC ⩾ US $ 50 million: verification and approval by the NDRC; report to the State Council < US$ 10 million: verification and approval by Development and Reform Dept. on provincial level
Regulation for overseas investment for SOEs < US$ 30 million, resource development: independent decision by enterprises < US$ 10 million, other investment: independent decision by enterprises

Source: The Verification and Approval of Overseas Investment Projects Tentative Administrative Procedures, NDRC

Another core policy document we should pay attentions to was released by the Ministry of Commerce (MOFCOM) on 16 March 2009 (coming into force on 1 May 2009), namely, "The Administration Measures on Outbound Investment". It reflected the continued policy trend of encouraging overseas investment, whilst at the same time increasing governmental control over larger investments. Under the Measures, MOFCOM must now take into account the size and type of investments. In considering approval for one of the above categories of investments, the national MOFCOM was required to consult with the relevant Chinese consulates in the country targeted for investment. The time limit (excluding the consular consultation) for national MOFCOM approval was 30 business days. If an investment project involved the energy or mineral sector, MOFCOM must also consult with, and take the advice of, the relevant Chinese industrial association or chamber of commerce. This requirement also applied to energy and mineral investments requiring provincial MOFCOM approval. Provincial MOFCOM was not required to consult with the relevant overseas Chinese consulate except where the provincial MOFCOM thought it appropriate to do so or where the investment was in the energy or mineral sector. The time limit (excluding consular consultation, if applicable) for provincial MOFCOM approval was 20 business days (See box 5).

Box 5 National and Provincial level MOFCOM Approval Requirements during 2000s

National level MOFCOM approval requirement: • in countries with no diplomatic relations with China. • in certain countries or regions (MOFCOM guidance on which particular countries or regions come within this category is due to be issued in the future). • any investments of over US$100 million. • investments spread over multiple countries. • investments involving the establishment of offshore special purposes vehicles.

Provincial level MOFCOM approval requirement: • amounts of more than US$10 million but below US$100 million. • investments in the energy or mineral sector. • investments that also need to attract other domestic investors.

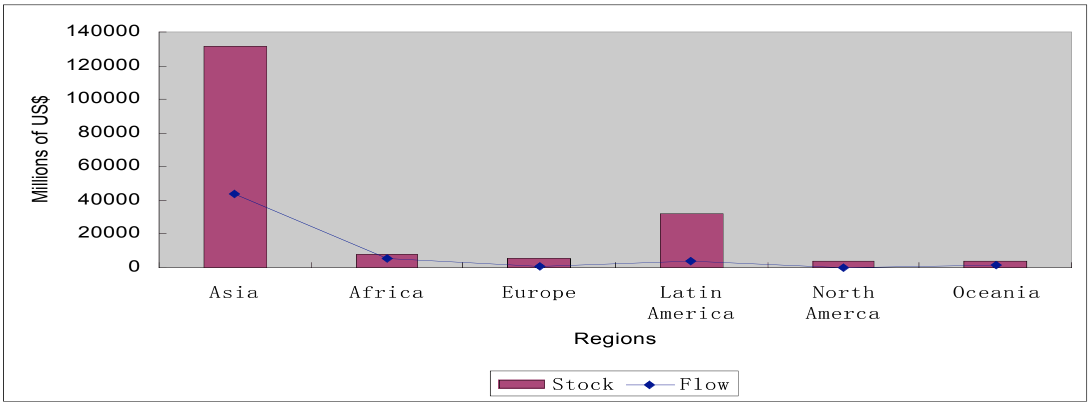
Source: The Administration Measures on Outbound Investment, MOFCOM

During the 2000s, with the motivations of finding new resources and markets, many State Owned Enterprises carried out their own oversea operations. At the same time, growing domestic competition after entering the WTO was likely to force many Chinese companies, especially private-owned enterprises which lack domestic political protection, to find new markets abroad, and this was likely to provide fresh stimulus to Chinese OFDI flows (Von Keller and Zhou, 2003; Taylor, 2002). According to 2008 Statistical Bulletin of China's OFDI, by the end of 2008, nearly 8,500 domestic investing entities had established about 12,000 overseas enterprises, spreading in 174 countries (regions) globally. China's cumulative OFDI stock had reached 183.97 billion U.S. dollars; China's OFDI flow in 2008 was 55.91 billion U.S. dollar, which has been at very high speed level compared with the other developing countries. At the end of 2009, the accumulation ODFI has reached to 220 billion US dollars.

3. China's OFDI in the EU

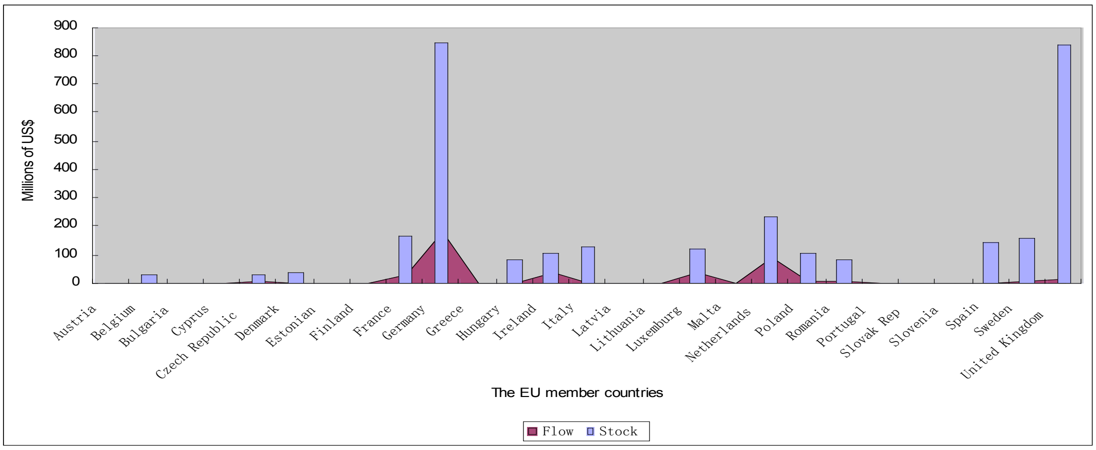
China's OFDI in the Europe is still relatively insignificant; there is only 5.13 billion US dollars OFDI stock to Europe countries at the end of 2008 (See graph 3). According to the Statistical Bulletin of China's OFDI, the top destinations of China's OFDI to the EU member countries include Germany, UK, Netherland and France (See graph 4). In term of industry distributions, China's OFDI in the EU mainly focus on the area of business service, manufacturing, finance, retailing and wholesaling (See graph 5, graph 6).

Graph 3 Chinese OFDI Flow and Stock by Regions in 2008



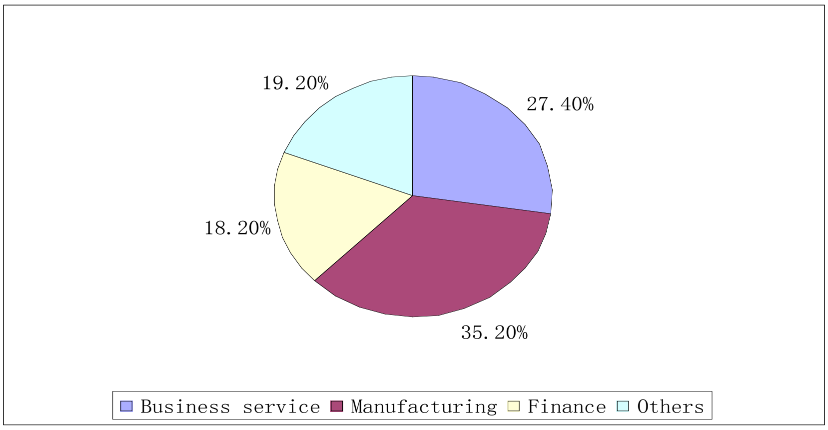
Source: Statistic Bulletin of China's OFDI (2008)

Graph 4 Chinese OFDI Flow and Stock in the EU Member Countries in 2008



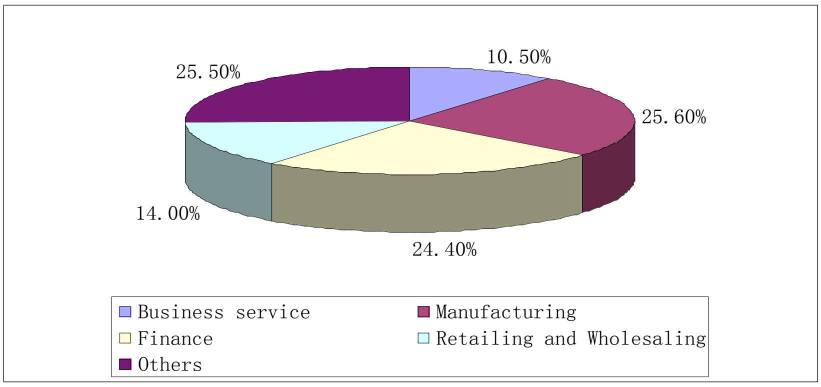
Source: Statistic Bulletin of China's OFDI (2008)

Graph 5 Industrial Distributions of China's OFDI Flow in the EU (2008)



Source: Statistic Bulletin of China's OFDI (2008)

Graph 6 Industrial Distributions of China's OFDI Stock in the EU (2008)

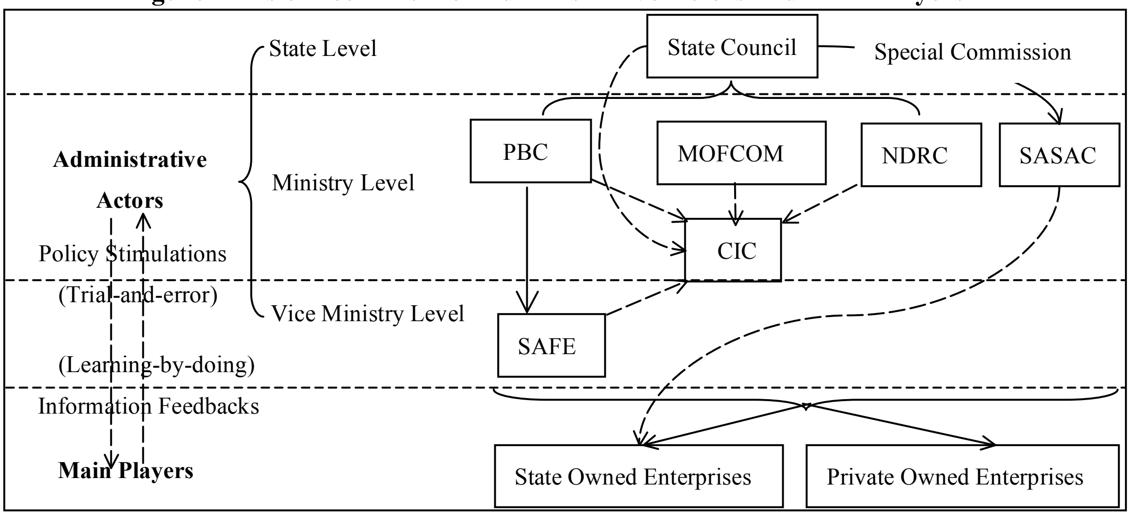


Source: Statistic Bulletin of China's OFDI (2008)

3.1 Administrative actors

Literature has highlighted that enterprises in emerging economies are constrained by gradual institutional transition and substantial roles played by governments (Peng, 2003; Deng, 2004). This is particularly true in China where various institutional constraints are prevalent and government endorsement is essential for OFDI (Deng, 2009). There are a series of administrative actors that can influence upon China's OFDI in the EU by setting different kinds of policies and regulations confronting the oversea MNEs operations and by being actors in the investment approval process. The main administrative actors include the State Council, the People's Bank of China, the Ministry of Commerce, the National Development and Reform Commission, the State Asset Supervision and Administration Commission, the State Administration for Foreign Exchange (Voss, et al., 2008; Luo, et al., 2009). Each OFDI project in the EU member countries has to pass a thorough approval process in which several institutions are involved. China's administrative actors have focused on expecting Chinese MNE's better performance in the EU market, making a lot of policy stimulations. This is most likely the result of the transaction of Chinese OFDI policy following China's typical trial-and-error approach to its OFDI policy evolution. Chinese MNEs, especially the state owned enterprises, often do not undertake their learning-by-doing process on their own. They are buttressed, supported and disciplined by an administrative mechanism that accelerates and guides their learning. At the same time, they are expected to respond to government's policy stimulations, feeding back more useful information to the administrative actors to foster a better policy environment. The basic mechanism of involvement is depicted as follows (See figure 1).

Figure 1 Basic Mechanism of Administrative Actors and Main Players



3.1.1 The State level actor

At the state level, the State Council has played a central leadership role in encouraging OFDI and liberalizing various measures that in turn stimulate overseas investments. It pays more attention to the blueprinting of China's overall OFDI trend in the long term, drafting China's OFDI guidelines in the macroeconomic way. In order to avoid excessive bureaucracy the State Council does not engage in concrete policy initiatives towards China's OFDI. Generally, the State Council decides upon major OFDI liberalization measures and deals with more fundamental issues, major regulatory changes that will have high-impact and long-run repercussions. With the purpose of strengthening EU-China cooperation, in 2009, Prime Minister Wen Jiabao met with the European Commission President Jose Manuel Barroso in Brussels and Nanjing, respectively. Wen said that EU-China relations should be of more strategic, comprehensive and stable meaning. A more strategic relationship meant that both sides should expand bilateral consensus on major issues, promoting the establishment of rational international political and economic order. A more comprehensive relationship denoted that both sides should strengthen pragmatic cooperation in various fields, achieving the win-win condition. A stable relationship was to take care of each other's core interests and major concerns, ensuring that bilateral relations can move forward in a healthy way. In terms of trade and investment, China and the EU reached the following consensus, i.e. enlarging the scale of trade investment; promoting trade and investment facilitation and liberalization; encouraging mutual investment. China will continue to open up the domestic market steadily and increase imports from the EU. The EU's participation in China's economic growth plan is welcomed, at the same time, a more positive attitude of the EU market toward China's trade and investment should be expected.

3.1.2 The ministry level actor

At the ministry level, the State Council decided to have People's Bank of China (PBC) function as a central bank in September 1983. The Law of the People's Republic of China on the People's Bank of China adopted on March 18, 1995 by the 3rd Plenum of the 8th National People's Congress has since legally confirmed PBC's central bank status.[5] In 1992, securities, insurance and banking services were spun off into separate regulatory authorities including the China Banking Regulatory Commission that today approves OFDI projects by Chinese banks (Pearson, 2005). PBC imposed important challenges to China's foreign exchange regime in 1994 and this provided it with tighter foreign exchange control. On December 27, 2003, the Standing Committee of the Tenth National People's Congress approved at its Sixth Meeting the amendment to the Law of the People's Republic of China on the People's Bank of China, which has strengthened the role of PBC in the making and implementation of monetary policy, in safeguarding the overall financial stability and in the provision of financial services. The combined powers over domestic monetary and financial policies and foreign exchange control give PBC the ability to influence China's OFDI level. Moreover, PBC has a close tie and cooperation with the European Central Bank, maintaining a constructively dialogical relationship for a long time. Exchanging information and mutual understanding is a key factor to overcome the economic challenges. In 2002, DAI Xianglong (the former president of PBC) and Wim Duisenberg (the former president of ECU) signed the "Memorandum of Understanding", which built a solid foundation between each other.

Another actor at the ministry level is the Ministry of Commerce (MOFCOM), which focus on the domestic and international trade and economic cooperation. MOFCOM is in charge of setting administrative measures and specific policies, guiding China's overseas investment, approving each OFDI proposal, and recording OFDI data (OECD, 2008). The major responsibilities of MOFCOM with regard to China's OFDI relate to: The supervision of Chinese OFDI by drafting and implementing policies and regulations; considering non-financial OFDI projects for approval; bilateral and multilateral negotiations on investment or trade treaties; and representing China at the WTO and other international economic organisations. It thus ensures the alignment of China's economic and trade laws with international treaties and agreements and coordinates China's foreign aid policy and relevant funding and loan schemes (Munro and Yan, 2003; Luo, 2009).

[5] http://www.pbc.gov.cn/english/renhangjianjie/

Within MOFCOM, the Department of European Affairs mainly focus on the following tasks, i.e. formulating and implementing the economic and trade cooperation and development programs and policies with the European countries; establishing bilateral, inter-governmental economic and trade committee and other mechanisms; organizing bilateral or regional trade negotiations; dealing with key issues of economic and trade relations; monitoring performance of the trade agreement, which signed by China and the European governments; assisting Chinese enterprises to satisfy the foreign market access requirement.[6]

The National Development and Reform Commission (NDRC), formerly known as the State Planning Commission, established in 1952. NCDC is one of the strongest functional organizations of the State departments. The main tasks of NDRC include drawing up economic and social development policies and carrying out an overall balance. It is the government body that pays attention to the macroeconomic regulation and control of the economic reform. In term of China's OFDI, NDRC mainly focuses on the investment strategy, quantity and structure; it can arrange the projects that aim at nature resource seeking and those that need large foreign exchanges. The key function of NRDC is to develop policies and regulations to optimise China's OFDI trends and strategies. In a similar vein, NDRC, in cooperation with MOFCOM, has published a host country catalogue that lists the countries for which the Chinese government subsidies FDI projects (Zweig & Bi, 2005). Both national and provincial level NDRC are also involved in the approval process of China's OFDI projects, including the overseas acquisition projects and the competitive bidding projects (Voss, et al., 2008). Within NDRC, the Department of Foreign Capital Utilization is responsible for recommending policies for overseas investment and approving China's OFDI projects requiring large amounts of foreign exchange. The NDRC reviews OFDI proposals to determine whether the projects comply with the laws and regulations of the state and the industrial policies; whether the projects contribute to sustainable development of the economy and society; whether the projects follow the administrative prescriptions of national capital projects and foreign loans; and whether the investors possess adequate capacity to carry out the projects (NDRC, 2004).

The State Asset Supervision and Administration Commission (SASAC) established in 2003, it is an ad hoc institution of the State council. Its supervision scope covers all the state owned enterprises, excluding financial enterprises. SASAC mainly carries out the following tasks, i.e. promoting guidance to the reform and restructuring of SOEs; strengthening the management of state assets; advancing the construction of the modern enterprise systems and improving the corporate governance structure of SOEs; fostering the strategic adjustment of the distribution and structure of the state sector. SASAC has strong powers, it can exercise its power through the appointment of senior managers to the SOEs and through involvement in major decision-making of firms under its control (Naughton, 2007). OFDI projects by SOEs under the supervision of SASAC are unlikely to be decided without the explicit approval of SASAC. The decision to invest overseas, either through a greenfield investment or an acquisition, can be regarded as a major decision that impacts on the company's profitability and the value of the involved assets (Voss, et al., 2008). Any OFDI project in the EU member countries by SOEs should be examined carefully by SASAC, touching upon the key objectives of SASAC.

3.1.3 The vice ministry level actor

[6] http://ozs.mofcom.gov.cn/aarticle/gywm/200808/20080805739328.html?4073259587=1049999310

The State Administration of Foreign Exchange (SAFE) is a vice ministry government body, which is under PBC and concentrating on the administering usage and flow of foreign exchange. It is responsible for the supervision and management of the foreign exchange market of the state, undertaking supervision and management of the settlement and sale of foreign exchange. SAFE is the foreign exchange control authority to China's OFDI, and it is accordingly in charge of regulating the use of foreign exchange in OFDI projects. Before a specific project review can start, each OFDI proposal must be verified by SAFE for the legitimacy of its sources of foreign exchange whether it derives from an enterprise's own holdings, purchases made with renminbi, bank loans, or a combination of these (OECD, 2008). SAFE will inspect the resource of the foreign exchanges. After the overseas investment projects approved from NDRC, MOFCOM or both, the domestic investors should deal with the foreign exchange registration and remittance abroad approval procedures. In more detail, SAFE strengthens its OFDI related mandate in the following ways: reporting the balance of payments (BOP) data to the State Council and the International Monetary Fund; recommending foreign exchange policies to the People's Bank of China; overseeing the transfer of foreign exchange out of and into China under the capital account of the BOP; managing China's foreign exchange reserves (Zhang, 2004; Luo, 2009).

3.2 Main players

3.2.1 Foundation stones: state owned enterprises (SOEs)

After 30 years of reform, the significant adjustment and reorganization of China's state owned enterprises has clearly accelerated, with the number of central enterprises adjusted from 196 in 2003 to 126 at present.[7] Additionally, SOEs are also starting the construction of a modern enterprise system. In particular, since the pilot work to establish a standard "board of directors" was carried out in 24 central enterprises, their corporate management structures have been further improved. SOEs have gradually become market entities open to competition. About 70 percent of these enterprises and their subsidiaries have been reconstructed, and a large number of them have been operating in the overseas markets. Along with the continuing expansion of economic globalization and China's opening-up, SOE's participation in the international competition has also become significantly more extensive and intensive. Central enterprises are actively implementing the overseas operations, becoming the foundation stones of China's going global power. According to statistics, as of the end of 2008, 104 central enterprises had set up 969 overseas branches, including 4,141 subsidiaries and 828 organizations. A number of enterprises engaged in energy, construction, electricity, telecommunications, chemical engineering, commerce and trade are actively exploring international markets, and carrying out a series of strategic mergers and acquisitions. (People's Daily, 2009)

One of the examples is the takeover by Nanjing Automobile (Group) Corporation of MG Rover. The Nanjing Automobile (Group) Corporation is a state-owned enterprise with 16,000 employees.[8] The group has fixed assets amounting to RMB 12 billion and an annual production capacity of 200,000 vehicles and its major products are cars, trucks, and travel buses. NAC bought

[7] So far, China has pushed two groups of SOE reform. The first group (1998-2003) included the reform of small and medium sized SOEs, bankruptcy of SOEs that were in difficulty, re-employment and social security system construction; the second group (2003-) included the reform of state owned assets management system and specific reforms towards large SOEs (Shao, 2010).

[8] The history of Nanjing Automobile (Group) Corporation can date back to 1947. It successfully produced the first light truck of China on March 10th, 1958. The state named the truck Guerin autos and approved the establishment of Nanjing Automobile Works.

the failed British carmaker MG Rover in July 2005 for 97 million U.S. dollars. It was a deal preceded by a huge amount of political negotiating, originally approached by the Shanghai Automobile Company who dropped out after refusing to take over the pension liabilities of the British company. Following this, top-level discussions ensued between the British premier Tony Blair and Chinese premier Wen Jiabao for over three years, until finally the investment by Nanjing Automobile Company was made (Kerry Brown, 2008). NAC has determined to establish production bases of MG project at Nanjing, Birmingham, and Ardmore. “NAC's Longbridge plant in Birmingham will resume production of MG-TF sports cars. Its annual production is expected to reach 50,000 units. The company is considering using the Birmingham plant as the assembly base for exports to elsewhere in Europe”, said by Yu Jianwei, president of NAC. “The acquisition of UK MG Rover Group has put NAC on the shoulder of a giant. We are confident we'll be able to revive the valuable MG Rover brand”, said by Wang Haoliang, NAC's chairman. It is a key point in the global strategic plan of NAC to re-establish a new sales network based on the original one of former MG Rover Group and the acquisition show the ambition of NAC’s global strategy. The production of some high cost products-if produced in the UK, such as engine, transmission and medium and low end vehicle products-will be transferred to China, where a mature supply chain with low cost will be set up step by step. With part of the production facility retained in the UK, the original Longbridge plant will be integrated to resume the production of MG TF sport car and part of high end products. At the same time, by making full use of the prominent R & D capability and human resources in the UK as well as that of China, the Euro IV engines and a new generation of vehicles will be developed and then produced in both China and the UK in the near future. Therefore, the sales network of China established by NAC and the global sales network of the former MG Rover can be used to meet the demand of various markets in China, Britain, Europe and North America.[9]

3.2.2 Active ingredients: private owned enterprises (POEs)

Compared with SOEs, private owned enterprises are often in a disadvantaged position and facing more obstacles in conducting business due to their inherent disadvantages, limited resources and experience. POEs often have more limited financial resources, fewer capabilities and know-how, less formal business education, fewer economies of scale and scope, and less access to cutting-edge technology. They may also experience difficulties in obtaining access to investment and credit facilities. POEs are marginalized by the institutional frameworks of most countries. Existing policies tend to cater to the big firm mindset. They can also face survival threats such as decline in customer base, shrinking of market size, sales and associated profits decrease, or performance downturn in their domestic markets. However, POEs’ flexibility and creativity are their competitive advantages. Evidence illustrates that there is a substantial number of China’s POEs involved in international business despite the persistent problems they face, and many of them take advantage of globalization, and actively participate in foreign countries aiming to reap international opportunities.

One of the examples of China’s POEs presence in the EU is that SANY Heavy Industry’s Greenfield investment in Germany. SANY Heavy Industry Co., Ltd. was founded in 1994, with the headquarters located at Changsha Economic Technological Development Zone. It is mainly engaging in R&D, manufacture, and distribution of engineering machinery. The products cover 25

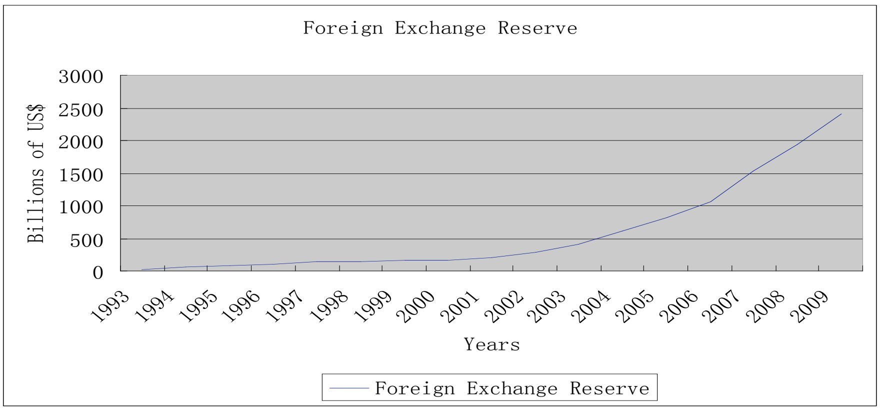
[9] http://en.wikivisual.com/index.php/Nanjing_Automobile_Group

categories, such as construction machinery, road construction machinery, and hoisting machinery.[10] Early in April of 2008, SANY started to prepare for the deal that 100 million Euros will be invested to build European development center and machinery manufacturing bases covering the whole European market. On Jan. 29, 2009, Chinese Premier Wen Jiabao and German Chancellor Angela Merkel presented at a signing ceremony of the investment agreement between SANY Heavy Industry Co., Ltd. and Nordrhein-Westfalen of Germany. According to the agreement, SANY would invest 100 million Euros to build a research and development center and mechanical manufacturing foundation in Koln, Nordrhein-Westfalen of Germany. After the deal being reached, the annual production of construction machinery is expected to be 3000 sets, realizing the sales of 0.35 billion Euros with the investment recovery period being 6.93 years. Before that, SANY purchased most of the main parts such as automobile chassis, oil pump, and engine from Europe. The plan to build manufacturing base and do sales in Europe can save large numbers of transport and production cost, take advantages of internationalized resource allocation, and expand market share in Europe.

3.2.3 New bloods: sovereign wealth fund

Sovereign wealth funds are state-owned investment funds set up for the investment of excess foreign exchange reserves or natural resource export surplus. When a country, by running a current account surplus, accumulates more reserves than it feels it needs for immediate purposes, it can create a sovereign fund to manage those "extra" resources. SWFs are part of the large collection of sovereign investment tools, including state-owned pension funds. Due to a huge amount of the accumulation of the exchange reserves[11] (See graph 5) and the consideration of diversifying its foreign exchange reserves use path. In 2007, China established its own SWF, namely, China Investment Corporation (CIC). With an initial capital fund of 200 billion US dollars, CIC fast became one of the most prominent SWFs in the world.[12] (See Box 6)

Graph 5 China Foreign Exchange Reserve Evolution Process



Source: SAFE.

[10] http://www.sany.com.cn

[11] In 1993, China's foreign exchange reserve only reached to 21.199 billion; by the end of 2009 this number has reached to 2399.152 billion.

[12] From August to December 2007, the Ministry of Finance (MOF) issued eight terms of special government bonds, accounting for RMB1.55bn. Then the MOF undertook asset swap dealing with the PBC to exchange the RMB1.55bn funds for approximately US$200bn in foreign exchange reserve assets. Finally, the MOF injected the US$200bn foreign exchange reserve assets into CIC, which constitutes the initial pool of money that CIC could manage. (Zhang and He, 2009)

Box 6 Top ten SWFs in term of Estimated Size (Billions of US$)

Name	Estimated Size
ADIA (UAE)	625
Government Pension Fund-Global (Norway)	322
GIC (Singapore)	215
Kuwait Investment Authority (Kuwait)	213
CIC (China)	200
Stabilization Fund (Russia)	127.5
Temasek (Singapore)	108
Qatar Investment Authority (Qatar)	60
Permanent Reserve Fund (USA)	40.2
Brunei Investment Authority (Brunei)	30

Source: Gerard Lyons, Standard Chartered Bank, State Capitalism: the Rise of Sovereign Wealth Funds 15, 2007

The establishment of CIC has provided a new path through which China can invest its growing foreign exchange reserves both at home and abroad. [13] CIC is a semi-independent, quasigovernmental investment firm established by the Chinese government, it is a fairly new blood for China's going global powers. CIC is a ministry-level SOE, and it is under the direct management of the State Council, which means that CIC is parallel with PBC, MOFCOM, NDRC and SASAC (See Figure 1). This is a unique circumstance: CIC is the only ministry-level SOE. SAFE is a vice ministry-level authority that belongs to the PBC. All the national large SOEs are under the management of the SASAC. The Chairman of the board of CIC, Lou Jiwei, is the former deputy secretary-general of the State Council. The board of directors is composed of ministry or vice ministry-level officials from the State Council, the National Council for Social Security Fund, the Ministry of Finance, the National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China and the State Asset Supervision and Administration Commission (Zhang and He, 2009). The operation of CIC is in fact a result of compromise and cooperation among various government institutions. Since its establishment, CIC has aroused suspicions from the western society. Although CIC has not carried out big business in the EU market, the investment strategies developed by CIC have exacerbated these concerns in some of the EU member countries.

3.3 Motivations and obstacles

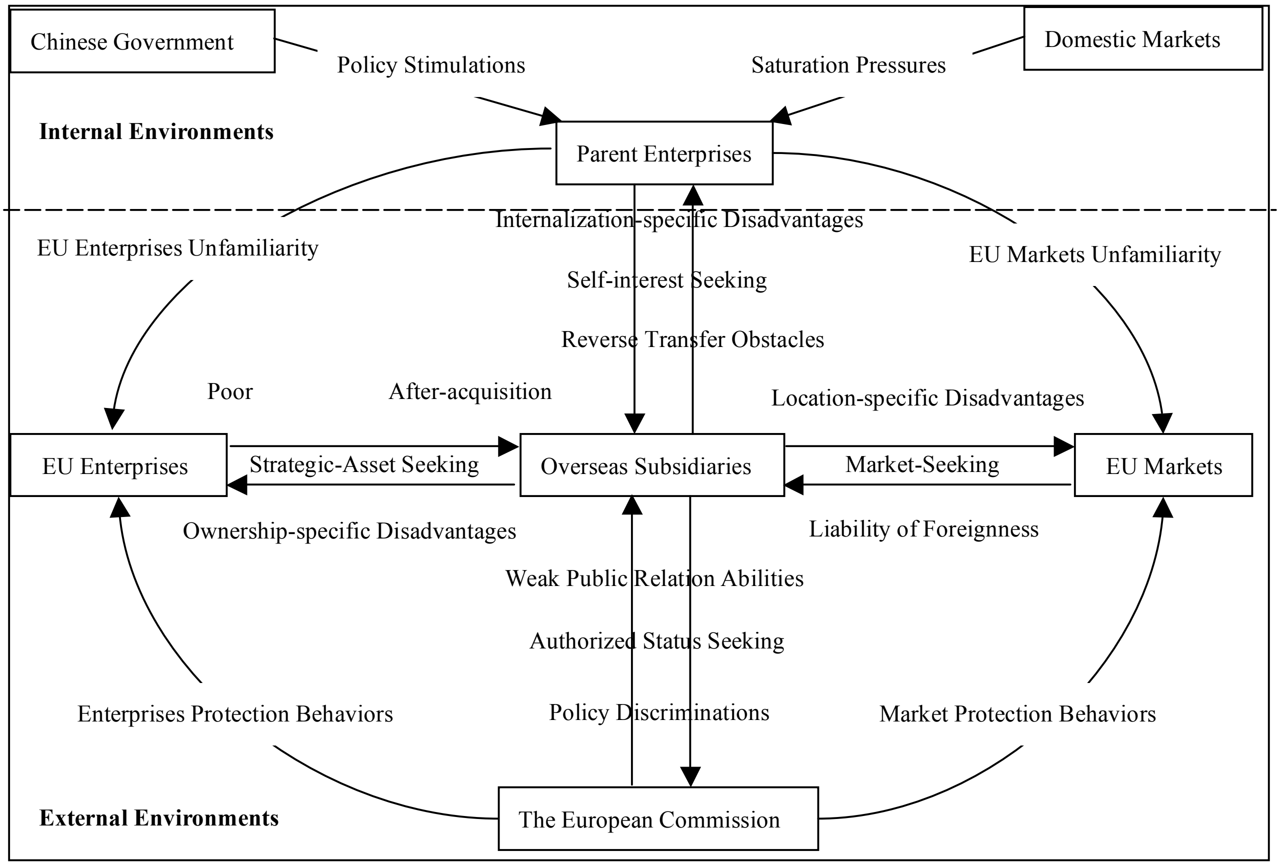
3.3.1 Motivations analysis

Generally speaking, internationalization is perceived as good for both enterprises and for national economic growth. From the individual enterprise point of view, foreign markets provide lucrative opportunities for growth (Mayer and Flynn, 1973). Through internationalization, multinational enterprises can expand their business scope and business opportunities. It is a means for MNEs to achieve their goals of maximizing efficiency, diversifying risk and enhancing their learning capabilities, MNEs can exploit location advantages of different nations by locating each activity where they can achieve cost advantages, achieving economies of scale and scope through

[13] One third of CIC's capital would be used to purchase Central Huijin, which now controls China's major state-owned commercial banks; another third to replenish the capital of the Agricultural Bank of China and China Development Bank; and the remaining third to invest in global financial markets. (Xinhua Agency, 2007)

integrating activities across nations (Ghoshal, 1987). In this section, the motivations and the obstacles of China's MNEs in the EU will be analyzed, and the basic mechanism is depicted as follows (See figure 2).

Figure 2 Basic Mechanisms of Motivations and Obstacles in the EU Member Countries



(1) The forerunner standpoint versus the latecomer standpoint

The forerunner standpoint in transnational business assumes that multinational enterprises will internationalize on the basis of strong competitive advantages that allow them to secure enough return to cover the additional costs and risks associated with operating abroad (Buckley and Ghauri, 1999). The absolute competitive advantage of enterprises in developed countries is the sufficient condition for overseas operations. OFDI is strategy taken by the oligopolistic enterprises, which want to overcome the market imperfection; it is the process that establishes the internal market by using ownership advantages from the enterprises, aiming at the external market replacing the internal market, reducing the transaction cost. It is widely assumed that Western enterprises enjoy strengths in their domestic markets before they internationalize, and they also have competitive advantages in the host markets, which allow them to overcome the liability of foreignness (Dunning, 1988). The eclectic paradigm developed by Dunning draws together elements of previous theories to identify ownership, location and internalization (OLI) advantages that motivate internationalization.

The latecomer standpoint lies in the way it directs attention to international investment as a means of addressing competitive disadvantages. In this way, OFDI may allow enterprises that are not initially competitive in the world market to close the gap that separates them from leading companies through acquiring appropriate assets and resources (Child, 2005). It is significant that latecomer enterprises from China did not start from positions of strength, but rather 'from the resource-meager position of an isolated enterprise seeking some connection with the technological and business mainstream' (Matthews, 2002). To a large extend, many Chinese enterprises will not be moving abroad to exploit competitive advantages that are developed in the domestic markets, but to avoid a number of competitive disadvantages incurred by operating exclusively in the domestic market. Compared to the forerunner standpoint, most Chinese enterprises develop OFDI in order to address a relative disadvantage. Chinese enterprises are facing increased competition and declining profit margins in the home market, as foreign giants continue flooding in to the Chinese market; competition has been even more intensive after China entered the WTO in 2001. In the meantime, most Chinese enterprises are relatively young, so they are being hit with outside competition before they have become settled, especially with the rapidly changing regulatory and policy environment. In the face of increasing domestic and foreign competition in the home market, going overseas to seek global cooperation may be a survival strategy for them (Lin, 2008).

(2) The internal pressures and the external attractions

We can analysis why Chinese enterprises want to invest in the EU member countries from two perspectives. The first perspective is the deteriorating of the domestic investment environment. The prominent characteristic of MNEs is to seek wealth with their global business networks. One of the face is developed countries' MNEs have seized more of China's domestic market share by using their monopoly advantages. In a number of industries, Chinese markets have reached the limits of effective demand. One of the core mechanisms of MNEs from developed countries is the standardized operation, but many MNEs tell the difference between the Chinese market and developed countries markets, implementing of different operating standards. The most typical approach is to produce and sell poor quality and low-tech products into the Chinese market and making different standards of service towards Chinese consumers. Some MNEs even bawl about their production line that has been eliminated in a high price, making the last batch of profit. It takes two to make a quarrel. In order to attract MNEs from the developed countries, some Chinese local governments have introduced a number of policy incentives. An inconvenient truth is that China's domestic enterprise and the developed countries MNEs are not at the same level, the survival and development spaces have been squeezed by these global competitors. Another fact is that some China's enterprises take advantage of the outbound leg of round-tripping.[14] Estimates of the percentage of FDI into China-that is the product of round-tripping arbitrage-range from 25% to 40%, with the bulk of this capital inflow originating in tax-friendly jurisdictions such as Hong Kong, the Cayman Islands and the Virgin Islands; these are the three largest destinations for Chinese ODI (Lunding, 2006).[15] The round-tripping investments also lead to the saturation of the China's domestic market.

The second perspective refers to the attractions from the EU market environments. Much of the work that investigates the motivations for OFDI refer to four categories identified out by Jack N.

[14] Round-tripping involves taking domestic capital out of the country only to then bring it back in as foreign capital, arbitraging the institutional benefits afforded to foreign companies.

[15] Tax heavens are countries or territories where certain taxes are levied at a low rate or not at all. Individuals and/or corporate entities can find it attractive to move themselves to areas with reduced or nil taxation levels. At end of 2007, 58.3% of China's OFDI total stock was in Hong Kong and 19.9% in the tax heavens, MOFCOM.

Behrman and John H. Dunning, i.e., natural resource seeking; defensive (to secure a position into a market) and offensive (to invest into new markets) market seeking; strategic-asset seeking (to acquire technologies, managerial capabilities, brands, distribution channels and other tacit assets); and efficiency seeking (to exploit economies of scale and scope and/or to secure access to cheaper input factors, especially labor) (Behrman, 1972; Dunning, 1995). Generally, market, efficiency and natural resource seeking are the most relevant motives for OFDI from emerging countries to less developed destinations, while market and strategic-asset seeking are the main attractors in developed countries (UNCTAD, 2006). One of the strong drivers of China's MNEs in the EU member countries should be the market seeking motivation, developing the EU consumers' trust and satisfaction with Chinese enterprises; gradually cultivating a sense of intimacy and dependency on Chinese products and services; increasing the market share; enhancing the status on the market; improving the international operation abilities in the EU. The other main attractor of China's OFDI to the EU is access to high quality strategic-assets, such as technology know-how, managerial and marketing skills, established brands and reputation. Strategic-asset seeking occurs among latecomers or firms with few technological capabilities trying to reduce their gap by acquiring innovative firms for needed resources (Wesson, 2004). The strategic-asset has strong knowledge-based characteristics and the market transaction of it is usually subject to certain restrictions. In order to transfer the strategic-asset effectively, direct contacts, interpersonal communications and guiding practices are needed. Therefore, Chinese enterprises should adopt the transnational form-embedding their subsidiaries in the overseas market-to absorb and assimilate the strategic-asset. As newly international players, Chinese firms are generally conducting cross-border M&A with the primary motive of obtaining and controlling strategic assets and that is quite unique among all emerging economies (Deng, 2007; UNCTAD, 2006). Evidence from the UK confirms that the need to acquire new and advanced management skills and to tap into pools of knowledge is key reasons for Chinese internationalization (Cross and Voss, 2008).

3.3.2 Obstacles analysis

With the emergence of regional economic blocs and the anticipation of rising protectionist barriers that are set by the EU, more and more Chinese enterprises will have no choice but to establish foreign subsidiaries to ensure the authorized status and the continued access to the EU markets. At the EU level, firstly, policy discriminations and protection behaviors can be the most serious obstacles. Ad hoc market-economy regime of Chinese economy and strong government involvement behind the China's OFDI are the main reasons that cause these kinds of protection. National security consideration and political interference will arouse if China's MNEs take over enterprises, which are at the key industry areas or strong linked with the political and economical system from the EU member counties. Secondly, trade unions and other employee groups from the EU have great social and political influence; they are sensitive to their workers' interest. China's MNEs will find it hard to deal with the issues aroused by these kinds of interest groups. Weak public relation abilities of them also make it hard to build a well-behaved dialogical relationship with the European commission. At the firm level, the Dunning's eclectic paradigm (or OLI paradigm) has remained the dominant analytical framework for accommodating a variety of operationally testable economic theories of the determinants of FDI and the foreign activities of MNEs. To a large degree, the EU competitors' advantages are the disadvantages of Chinese enterprise, and these disadvantages are the important reasons that will arouse obstacles when Chinese enterprises operate in the EU. Although it is difficult to explain the required conditions of China's OFDI phenomenon in the EU, we can use Dunning's eclectic paradigm to explain what kinds of obstacles Chinese MNEs will meet when they pursuit their overseas operations in the EU.

(1) Ownership-specific disadvantages: the cognitive gap and the poor after-acquisition management

The first sub-paradigm of Dunning's eclectic paradigm is the competitive advantages of the enterprises seeking to engage in OFDI, which are specific to the ownership of the investing enterprises, i.e. their ownership-specific advantages, The greater the competitive advantages of the investing enterprises-relative to those of other enterprises and particularly those domiciled in the country in which they are seeking to make their investments-the more they are likely to be able to engage in, or increase, their foreign production. (Dunning, 2000) Ownership-specific advantages mainly contain property rights or intangible assets, such as patents, trademarks, organizational and marketing expertise, production technology, and management and general organizational abilities, which form the basis for an enterprise's advantage over others. Compared with the local European competitors, Chinese MNEs lack of ownership-specific advantages when they carry out their business in the EU markets. First of all, ownership-specific disadvantages can lead to a cognitive gap between local consumers and the Chinese products when China's MNEs sell their products in the EU. For example, Zhejiang YANKON Group established its overseas subsidiary, namely, Energetic Lighting Europe, in Belgium in Sep., 2008.[16] But the local consumers feel a little bit strange toward this Chinese enterprise due to the unfamiliar brand. "In European market, brand is very important because it guarantees the quality of the products. At this moment, Energetic Lighting Europe wants to establish their brand on the European market. Quality is already achieved but building a brand is a matter of time, requiring a lot of investment. The enterprise is facing strong local competition (brand, goodwill, core competitiveness, quality)", said by the general manager of Energetic Lighting Europe.[17] Secondly, ownership-specific disadvantages can cause the poor after-acquisition management, which is often mentioned as a reason that will lead to obstacles, China's MNEs will find that it is difficult to integrate and absorb the useful strategic-assets of the European local enterprise that has been acquired. For example, The TCL takeover of Thomson face a lot of obstacles, at least in the European market, and production ceased in Europe in 2006. Not only was there a vast difference in management cultures of the two enterprises, but also the acquiring Chinese enterprises cannot stimulate the acquired European one to be more technologically advanced due to the poor after-acquisition management.

(2) Location-specific disadvantages: the liability of foreignness and the psychical distance

The second sub-paradigm is the location attractions of alternative countries or regions, for undertaking the value adding activities of MNEs. It avers that the more the immobile, natural or created endowments-which enterprises need to use jointly with their own competitive advantages, favor a presence in a foreign, rather than a domestic, location-the more enterprises will choose to augment or exploit their ownership-specific advantages by engaging in OFDI (Dunning, 2000).

[16] Zhejiang YANKON Group Co., LTD established in 1975, is the largest base of producing and exporting energy saving lamp in china, and it is a large scaled group as well as a state-level high and new technology enterprise.

[17] Face to face interview with the general manager of Energetic Lighting Europe by Jean-Christophe Defraigne and ZHANG Mohan in 2009

Liability of foreignness has been broadly defined as all the additional costs incurred by MNEs operating in a foreign country which local enterprises don't have to bear (Hymer, 1976). China's MNEs have to overcome a unique liability of foreignness that may hinder their progress in doing business in the EU member countries. It is a natural competitive disadvantage for Chin's MNEs in a host country relative to local companies. The liability of foreignness can be derived from at least two general categories: the spatial distance and the psychical distance. When invest in the EU member countries, China's MNEs should deal with the liability of foreignness, especially to overcome the psychical distance. The spatial distance refers to a direct increase of operation costs in travel, transportation, and coordination; For example, "high transport costs are the main obstacles when SANY operate their business in EU. Sometimes there are obstacles of paper permission and VISA application for the working staff", said by the chief representative of SANY Belgium Holdings SA.[18] The psychical distance reveals the unfamiliarity with the local market culture, and the host country's particular political-economic characteristics. For example, SANY Germany is the main subsidiary of SANY in Europe because of the technique advantages and the good industrial environments in Germany. According to schedule, SANY will establish plants in Belgium etc., but during the investment period, SANY find it is very difficult to obtain enough knowledge of the local law system and local institutions. "Our development is very quick and SANY hires a lot of young people. They cannot master SANY's organization and at the same time fully grasp the local regulations. We have to work closely with lawyers and consultancy agency. There exist language problem and cultural conflict. European staff account for 5%, but only few Chinese people in SANY can communicate very well with them. Additionally, European employees' life culture is more important than the work culture while for Chinese employees, it is the opposite", said by the chief representative of SANY Belgium Holdings SA.[19] Location-specific disadvantages of SANY have led to the liability of foreignness and the psychical distance to the EU market and employees.

(3) Internalization-specific disadvantages: the reverse transfer obstacle and the self-interest behavior

The third sub-paradigm of the OLI tripod offers a framework for evaluating alternative ways in which enterprises may organize the creation and exploitation of their core competencies through a variety of inter-firm non-equity agreements. The eclectic paradigm, like its near relative, internalization theory, avows that the greater the net benefits of internalizing cross-border intermediate product markets, the more likely an enterprise will prefer to engage in foreign production itself, rather than license the right to do so (Dunning, 2000). China's MNEs have several choices of entry mode when investing in the EU member countries, ranking from the market (arm's length transactions) to the hierarchy (wholly owned subsidiary). China's MNEs choose internalization where the market does not exist or functions poorly so that transactions expenses of the external route are high. From the parent enterprises point of view, since the absence themselves of the EU markets; they cannot optimize their resources and powers between the parent companies and the overseas subsidiaries. From the overseas subsidiaries point of view, the self-interest consideration may lead to the obstacles of communications, and the useful market

[18] Face to face interview with the chief representative of SANY Belgium Holdings by Jean-Christophe Defraigne and ZHANG Mohan in 2009

[19] Face to face interview with the chief representative of SANY Belgium Holdings by Jean-Christophe Defraigne and ZHANG Mohan in 2009

information cannot feed back to the parent enterprises, bringing about the reverse transfer obstacles. For example, there exist coordination and communication problems between the Hainan Airline parent company and its subsidiary in Belgium.[20] "As far as the parent enterprise is concerned, it is not familiar with the European market and the strong local cultural forces; from the subsidiary's perspective, its local management structure, operating radius and depth are still at the primary stage, lack of market seeking experience and ability to fulfill useful market information feedbacks to the parent companies", said by the general manager of Hainan Airline Subsidiary in Brussels.[21]

4. Conclusion

China and the EU should keep close high-level contacts and make full use of the multi-level political and economical dialogues. This is achieved by establishing consultation mechanisms to strengthen communication and coordination on major international or regional issues as well as other key issues concerning their long-run interests, expanding pragmatic cooperation and realizing mutual development. Both China and the EU should actively look for new opportunities for cooperation, further enhancing bilateral exchanges and collaborating in all areas, China and the EU should jointly face up to global challenges. China's emerging OFDI trend is driven by the its increasing needs to secure overseas energy, raw material, good market resources and strategic assets; intensified domestic competition and overcapacity in a number of key sectors; continuingly rising foreign exchange reserves, associated currency appreciation, and increasing government support arising around the "Going Global" strategy. With respect to China's OFDI in the EU member countries, China and the EU should, in the spirit of mutual respect and negotiation on an equal footing, properly handle new circumstances and problems emerging from the development of Chinese MNEs' presence to the EU market. This should hopefully create much better internal and external environments for EU-China strategic investment partnership.

In summary, this paper agues China's OFDI in the EU is still relatively insignificant; it introduce China's OFDI policy evolution and evaluates the performance of the China's MNEs in the EU member countries. Compared with the global competitors, most China's MNEs develop OFDI in the EU member countries to address a relative disadvantage rather than using their competitive advantages. They are facing increased competition and declining profit margins in the home market, as foreign giants continue flooding in the Chinese market and the existing round-tripping phenomenon. It also finds that when investing in the EU, China's MNEs mainly play as market seekers and strategic asset seekers, and their investment business faces some internal and external obstacles and pressures. It takes time for them to really integrate into the EU market. Mutual understandings between the EU and China to foster a bilateral reciprocity environment for investments are imperative.

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[20] In 2004, Hainan Airlines opened a Beijing-Budapest route as the first presence to the EU market. On July 20, 2006, Hainan Airlines opened a Beijing-Brussels route. There are four flights each week in the peak season; three flights each week in the dead season. In 2008, Hainan Airlines opened a Beijing-Berlin route.

[21] Face to face interview with the general manager of Hainan Airline Subsidiary in Brussels by ZHANG Mohan in 2009

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