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China's Overseas Direct Investment in the UK

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Summary

- Historically, China's overseas direct investment (ODI) into Europe has been very low. However, recent investment trends seem to have shifted the emphasis towards services and this may explain the rapid increase in rates of investment into the UK in particular.

- In terms of type of activity, Chinese companies mainly carry out sales and marketing operations or establish headquarters in the UK, although they mostly operate in the manufacturing sector, followed by financial and business services. This provides further evidence for the perception that China's ODI into mature economies such as the UK focuses on developing knowledge and innovation and expanding market presence.

- London is the strongest magnet for Chinese investment in the UK and indeed Europe. Chinese headquarters are more numerous in London than anywhere else in Europe, underscoring the importance that Chinese and also other foreign investors attach to London and the UK as a gateway to Western markets.

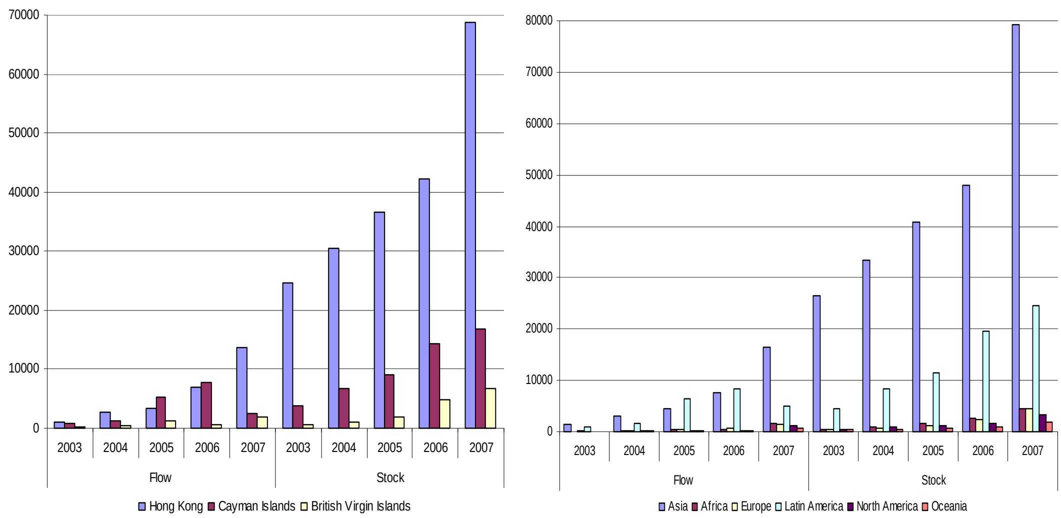
- Regional initiatives aimed at increasing Chinese ODI have also been successfully deployed in London and the North East, the two main destinations for Chinese ODI in the UK.

- The few acquisitions that have been undertaken by Chinese companies in the UK were fairly large. All but one of these investments were in the automobile and auto parts sector. In these cases, Chinese companies were seeking strategic assets, R&D opportunities and client and distribution networks (in the case of Nanjing Automobile taking over ailing MG Rover, the motivation was also opportunistic). But in general, greenfield development and expansion of existing sites are the main modes of entry by Chinese companies.

Introduction

Over the last decade, broadly coinciding with China's entry into the World Trade Organization (WTO), Chinese-owned firms have undergone a significant transformation to being more outward looking. Not only are these emerging giants becoming more competitive domestically, they are also increasingly venturing abroad in the pursuit of new markets, increased profitability and global supply chains, to some extent mimicking the foreign companies that have invested in China and become the prime drivers of export growth. While in the past China's overseas direct investment (ODI) was dwarfed by inbound investment, this trend is beginning to change. Inward foreign direct investment (FDI) to China has been well documented but the emergence of increasing outward FDI flows (ODI) has received less attention so far. Chinese outward flows have risen from about 5% of FDI inflows to 20% in recent years. But in terms of both stock and flow, Chinese direct investments abroad remain modest.

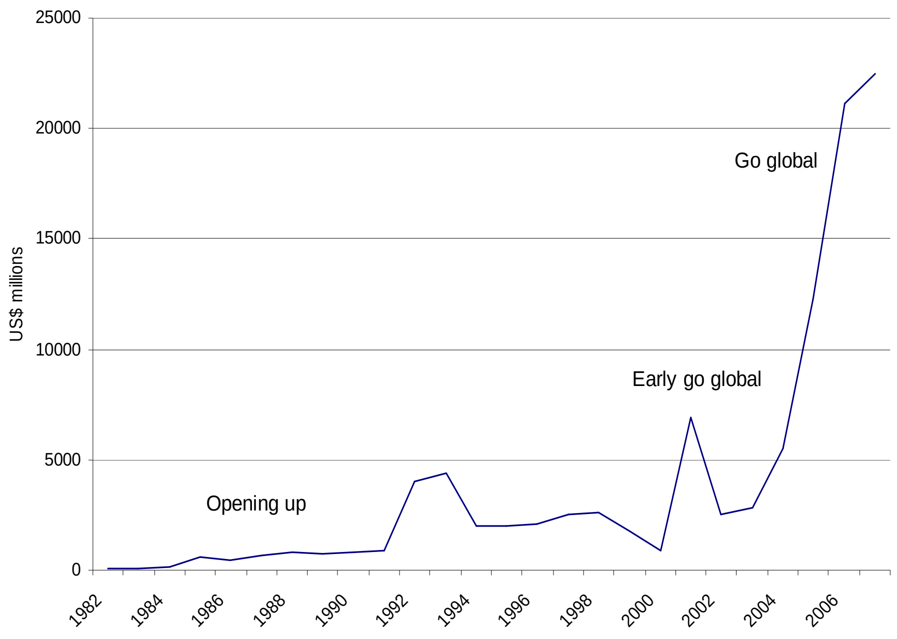
Figure 1: Chinese outward investments (US $m)



Source: MOFCOM

By 2007, the most recent official date for MOFCOM statistics on Chinese ODI, Chinese companies had invested a total stock of US$118 billion abroad, with the annual flow reaching US$26 billion. From Figure 1, it is clear that Chinese investments abroad have rapidly increased in recent years, up from just over US$12.3 billion in 2005, the first big surge in Chinese ODI. Historically levels were much lower, ranging from around US$0.5 billion per annum in the 1980s to about US$2 billion per annum in the 1990s. China's 'go global' policy clearly had an impact on investment levels after it was introduced in 2000 and the country's accession to the WTO in 2001 furthered integration into the world economic system. Liberalizing its trade and investment regimes has not only greatly supported inward FDI to China but also allowed an increasing number of state-owned enterprises (SOEs) to venture abroad in search of new markets and consumers.

Figure 2: The impact of China's 'go global' policy on ODI flows



Source: UNCTAD

More recently, China has further loosened its grip on overseas investment and, as a result, a wave of privately owned companies is now also becoming part of China's rising pool of multinationals. In terms of global rankings, and excluding Hong Kong (given the effect of the complex web of FDI flows between China and the SAR), mainland China now ranks third among developing countries (after Brazil, and Russia) for ODI flows and fifth (after Russia, the British Virgin Islands, Singapore, and Taiwan) in terms of ODI stock. However, measured by the sheer size of China's economy, investments by Chinese companies abroad are still underdeveloped relative to other developing countries. An even greater surge in Chinese ODI is likely to appear once the global economy starts to recover from recession and international business returns to growth. Chinese ODI is also extremely low when compared to overall world ODI flows. The OECD reports that Chinese investments represent only about one per cent of global FDI (OECD 2008).

Chinese ODI is also interesting in another way – its geographical distribution appears to contradict what might be expected given China's trade relations with other countries. Direct investments by Chinese companies abroad are heavily skewed towards developing countries, leaving Europe and North America way behind the rest of the world. The biggest regional destination of Chinese ODI is Asia, more specifically Hong Kong, which represents over 50 per cent of all Chinese investments. However, this flow is known to be distorted by the impact of the substantial Chinese investments that are 'round-tripped' through Hong Kong and invested either back into China or into other overseas markets. Moreover, a second difficulty in analysing the top destinations of Chinese ODI is the over-representation of tax havens in China's total outward flows. In 2007, the Cayman and British Virgin Islands received 9.8 per cent and 7.1 per cent of Chinese ODI flows respectively. Clearly, these investments are not ultimately destined for these markets and will eventually make their way to other countries around the world, not least to the 'under-represented' developed world.

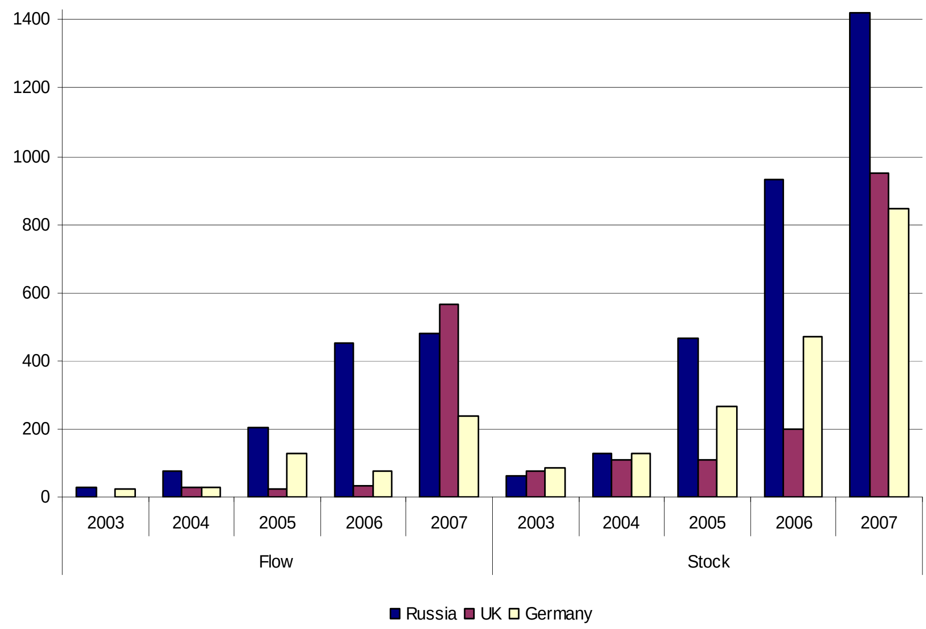
Table 1: Chinese ODI flows by region (2007)

Region	**2007**	
	Amount (US $m)	**% of total**
Total	26506.09	100
Asia	16593.15	62.6
Latin America	4902.41	18.5
Africa	1574.31	5.9
Europe	1540.43	5.8
North America	1125.71	4.3
Oceania	770.08	2.9

Source: MOFCOM

Europe, although ahead of North America in terms of its share of China's total investment outflows in 2007, is only slowly increasing its share. In 2003 Europe received about 5 per cent of total Chinese ODI flows, whereas North America received 2 per cent of all Chinese investments abroad. Breaking down recent Chinese investment statistics by individual countries reveals that Chinese companies have heavily targeted three destinations in Europe: Russia, the UK and to a lesser extent Germany.

Figure 3: Top European recipients of Chinese ODI (US $m)



Source: MOFCOM

Chinese investments in the UK: much ado about nothing?

The UK overtook both Russia and Germany in 2007 in terms of Chinese ODI flows and is catching up rapidly in terms of stock. According to the most recent statistics released by MOFCOM, this surge for the UK was due to the substantial increase in Chinese ODI flows – from about US$35 million in 2006 to over US$500 million in 2007.

Data from the Ernst and Young European Investment Monitor show that the UK leads with about 41% of all Chinese investment into Europe. Germany and France were the only other significant recipients of Chinese investment during 1997–2007 (15% and 10% respectively), with Germany pulling significantly ahead in terms of recent flows.

Table 2: Top EU destinations for Chinese FDI (1997–2007)

European target country	Number of Chinese investments
UK	101
Germany	40
France	24
Sweden	15
Belgium	14
Netherlands	10
Hungary	10
Italy	8
Russia	7
Denmark	4
Spain	4
Poland	3
Czech Republic	3
Bulgaria	2
Romania	2
Bosnia & Herzegovina	1
Greece	1
Ukraine	1
Slovakia	1
Switzerland	1

Source: E&Y European Investment Monitor

Ernst and Young recorded a total of 252 investments by Chinese companies in Europe between 1997 and 2007 with a hike in Chinese investment projects in most European countries since 2004, including the UK. However, although investments from China to the UK are rising rapidly, these investments remain extremely small in terms of overall inward investment to the UK as well as in terms of relative project size.

Chinese companies started to enter the British and other overseas markets in the run up to WTO accession – Chinese investments were extremely limited before 2000. The 'go global' policy provided the necessary supportive policy environment to enable companies to expand internationally. Before 2000, only a few large SOEs, such as Bank of China, had established representative offices, mainly in London, but it was only when China committed itself to greater global integration that foreign investment took off. After 2000, a wave of Chinese investments reached Britain, with a mix of SOEs and large privately owned firms investing.

Table 3: Biggest inward investors in the UK by projects

Investing country	No of projects	Jobs created
USA	621	12,888
India	108	4,139
France	101	2,765
Germany	86	2,304
Canada	83	754
Japan	81	1,405
Australia	65	943
China	**59**	**607**
Ireland	57	2,056
Switzerland	50	723
Italy	48	752
Sweden	47	578
Rest of EU	155	2,987
Rest of World	183	2,210
TOTAL	**1,744**	**35,111**

Source: UKTI Inward Investment Report 2008/2009

China has maintained the number of projects in the UK from 2007/08 to 2008/09, with 59 new projects recorded in both periods. This represents only about 3 per cent of all new projects created in the UK. But Chinese projects in the UK have shrunk in terms of the number of employees created by new projects. Whereas in the earlier period new Chinese investments created a reported 898 new jobs in the UK, the most recent data show that the same number of projects only created 607 new jobs (just 1.7 per cent of all new jobs created in the UK by inward investment projects).

Data collection and problems encountered

In this paper we primarily use data provided by Ernst & Young's European Investment Monitor, some information provided by the UK Trade and Investment Database and Investment Report 2007/2008 and 2008/2009, the UNCTAD World Investment Report 2006, the OECD Chinese ODI report 2008, the Cowen Latitude Group's M&A database for Chinese companies as well as press releases and articles from the leading business press.

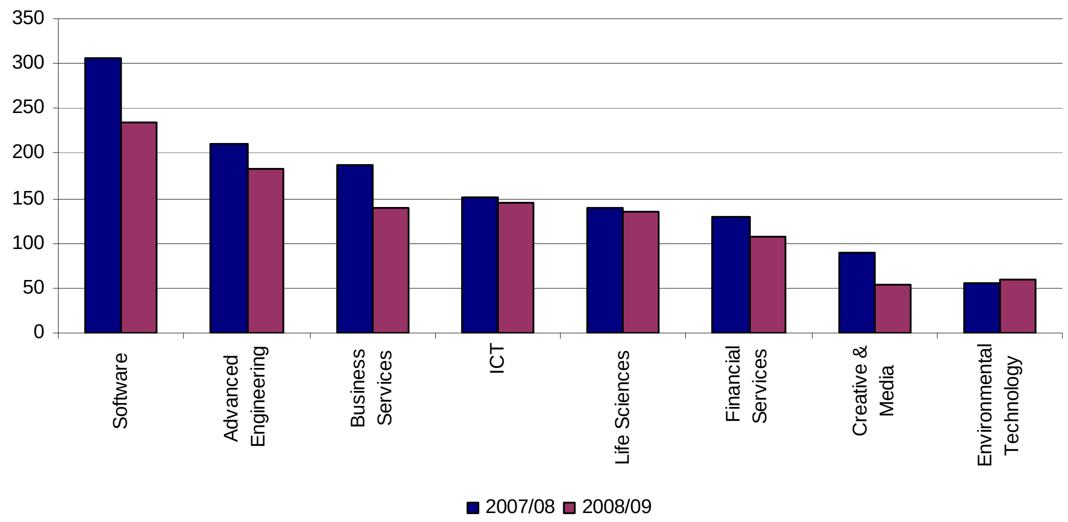
The European Investment Monitor presents detail about investments made in the UK by Chinese companies between 1997 and 2007 that resulted in a physical and Chinese-owned investment and that resulted in a press announcement. Smaller investments are therefore not included and neither are investments by Chinese funds or acquisitions. The European Investment Monitor registered a total of 252 Chinese investments in Europe during this period, of which 101 were made in the UK. The dataset records the date of the investment, the name and origin of the investing company, the target location, the number of jobs created, the sector of operation, the activity that the Chinese investors carries out in the UK and whether the investment is an expansion of an existing operation in the UK or a entirely new investment. This dataset can help to identify industry and job and activity patterns of Chinese companies in the UK but it falls short of providing a complete picture of this phenomenon as joint ventures, mergers and acquisitions and smaller investments are excluded from the dataset. Moreover, the data lack completeness, especially with regard to recordings of capital expenditure and employment. In this paper the data provided by the European Investment Monitor have been complemented with information from the UK Trade and Investment Database that includes mergers and acquisitions as well as investments without press announcements. Unfortunately, the UKTI Database is not accessible to external users and we are therefore only able to comment on summarized results published by UKTI. In addition, earlier studies (Young et al. 1998, Cross and Voss 2008, Voss et al. 2008) on Chinese investment in the UK have been consulted and complemented by information from investment promotion agencies and relevant news articles from leading business papers such as the *Financial Times* and *The Economist*.

Owing to the small scale of Chinese outward FDI to the UK in general, and the limited access to some of the data, this study cannot provide a complete picture of Chinese investments in the UK. Any conclusions drawn in it are tentative and may simply suggest a trend or pattern of Chinese investments in the UK.

Characteristics of Chinese ODI in the UK

The UK is a leading global centre for innovation, research and services (UKTI Inward Investment reports). R&D-related inward investments into the UK rose by 83% in the year to 2008 and sectors such as IT, financial services and sciences all performed extremely well.

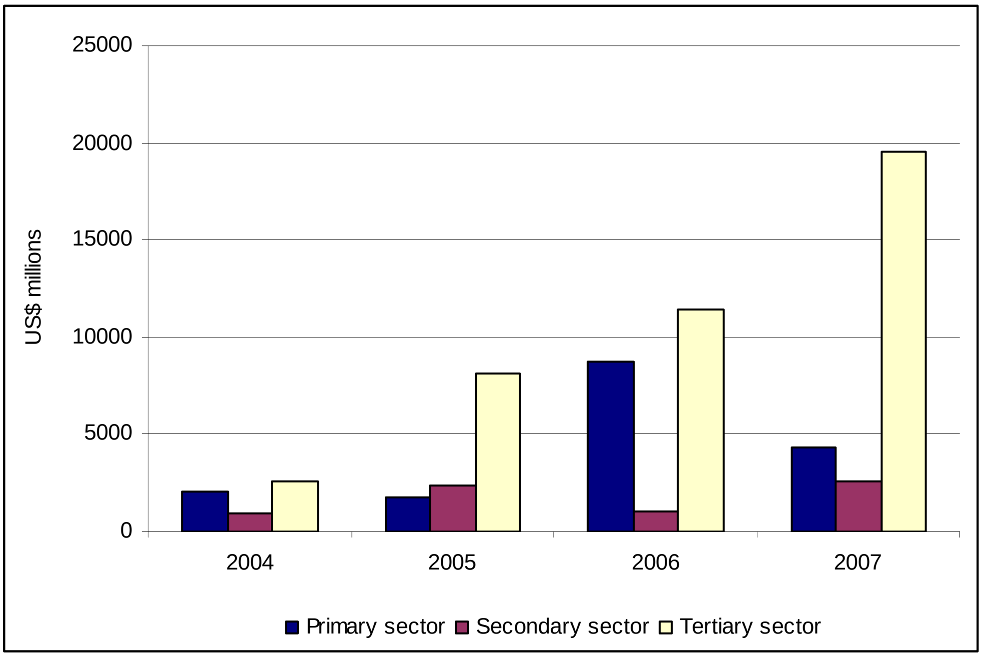
Figure 4: Inward investment projects into the UK by sector (2007/08 and 2008/09)



Source: UKTI Inward Investment 2007/08 and 2008/09 reports

Until recently China has concentrated its investments particularly on natural resource extraction to keep 'the workshop of the world' fuelled. But most of Europe does not possess significant extractive industries. This explains to some extent why China neglected Europe as a destination for outward FDI during the earlier stages of its economic development. However, as China's emphasis is shifting away from securing its supply chain for resources to expanding services operations, developed countries in Europe and North America are seeing some increase in their still low shares in China's ODI.

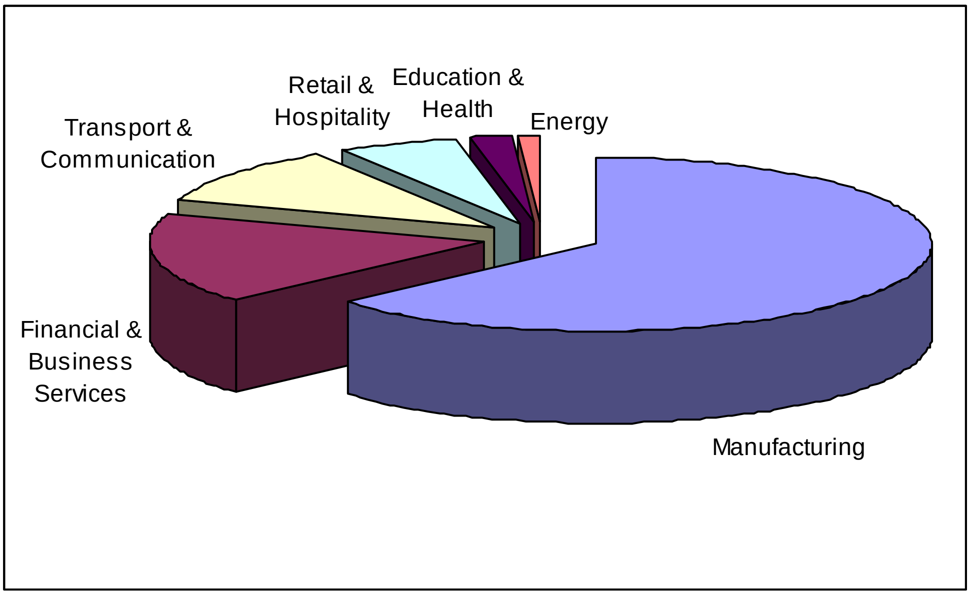
Figure 5: Chinese ODI flows by sector (2007)



Source: MOFCOM

The UK is well positioned to take advantage of this new surge in Chinese investments aimed at expanding market share and seeking technology and know-how. Service industries are a relative strength of the UK economy, and investments by Chinese enterprises in finance, IT and other business services will most certainly benefit the UK as a recipient of Chinese ODI in the future. However, Chinese investments in the UK's service sectors remain relatively small at present. It is worth noting that China started to invest heavily in the financial sector in 2006, making this the third most important sector for Chinese ODI. Financial and business services represented roughly 17% of all Chinese ODI into the UK between 1997 and 2007 and the percentage was rising steadily. However, given the change in the business climate, which has sapped confidence in crisis-stricken financial institutions, especially in the US and Europe, it is hardly surprising that Chinese investment in this sector has dropped sharply since 2007.

Figure 6: Chinese FDI projects in the UK by sector (1997-2007)



Source: E&Y European Investment Monitor

According to the European Investment Monitor, the majority of Chinese investment in the UK between 1997 and 2007 was undertaken by companies in the manufacturing sector (63%), followed by the financial and business services sector. In the manufacturing sector electronics was the biggest sub-sector (17%), followed by investments in textiles (12%) and the automotive industry (6%). This picture is confirmed to some extent by data from the 2006/2007 UK Trade and Investment Database. Although there seems to be less of a concentration in any particular industry, the manufacturing sectors again dominate.

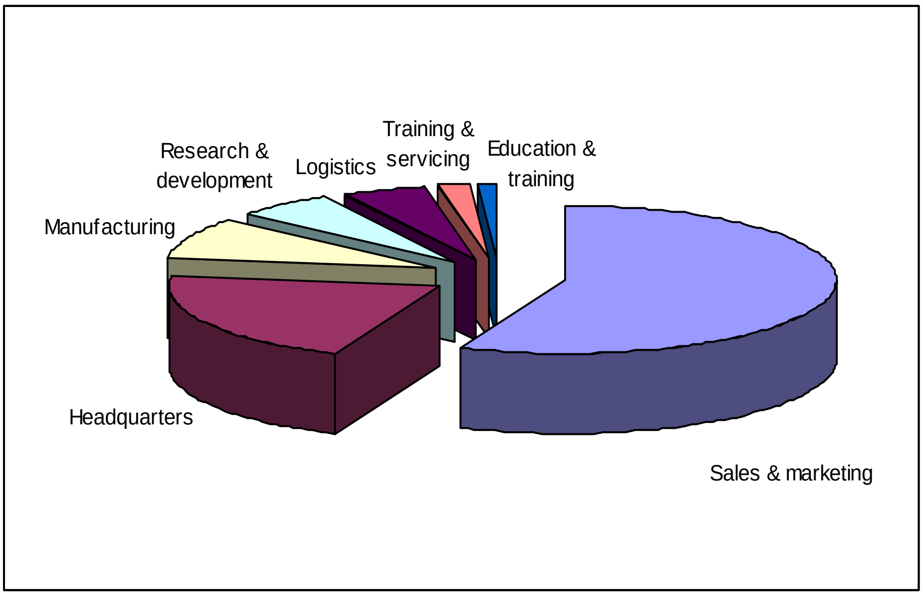
Almost half of all Chinese investment in the manufacturing sector comprises sales and marketing activities in the UK rather than manufacturing. An additional 17% of investment projects in the manufacturing sector set up headquarters in the UK. And only 14% of the investment projects in the manufacturing sector actually engage in manufacturing activities in the UK – this trend holds true across all sectors.

Table 4: Chinese ODI in the UK by sector 2006/2007

Sector	No of projects
Textiles, Interior Textiles and Carpets	8
Electronics and IT Hardware	7
Software and Computer Services Business to Business (B2B)	6
Clothing, Footwear and Fashion	5
Automotive	3
Business (and Consumer) Services	3
Food and Drink	3
Giftware, Jewellery and Tableware	3
Healthcare and Medical	3
Aerospace (Civil)	2
Mechanical Electrical and Process Engineering	2
Metals and Minerals	2
Biotechnology and Pharmaceuticals	1
Chemicals	1
Communications	1
Construction	1
Financial Services	1
Total	**52**

Source: Kharbanda (UKTI) based on UKTI Database

Figure 7: Chinese ODI in the UK by activity (1997-2007)

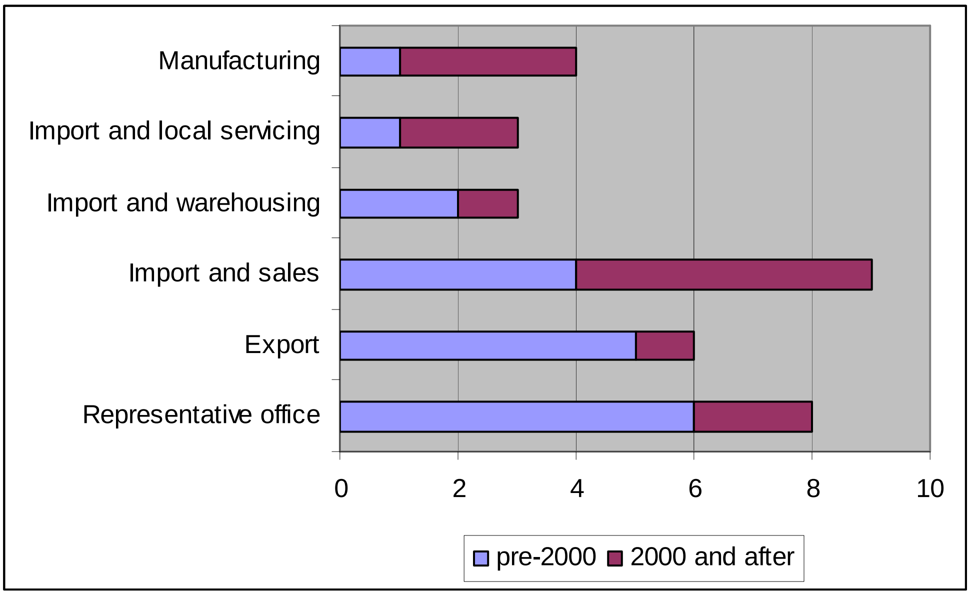


Source: E&Y European Investment Monitor

Almost half of all headquarters set up by Chinese companies in the UK serve as a Europe-wide representation; the other half are UK-only headquarters. This clearly reflects the Chinese firms' desire to expand their presence in the British market as well as using the UK as a convenient base for operations in Europe. Most Chinese headquarters in the UK were set up in London and the Southeast. The North of England attracted only four Chinese headquarters and Wales and Scotland one each. The UK has a unique appeal to Chinese companies looking to internationalize their operations and tap into the UK's leading position as a centre of innovation. The combination of an open and transparent investment context, global financial centre, technology and innovation base and English-language environment makes the UK a prime location for an ever increasing number of Chinese companies in Europe (UKTI Inward Investment reports).

The later Chinese entrants to the UK, in particular focus heavily on import and sales activities according to a study by Voss and Cross (2008). These investments aim to set up sales operations so as to strengthen the local representation and profile of the Chinese company and to more actively tap into the UK (and EU) market.

Figure 8: Chinese investment projects in the UK by activity

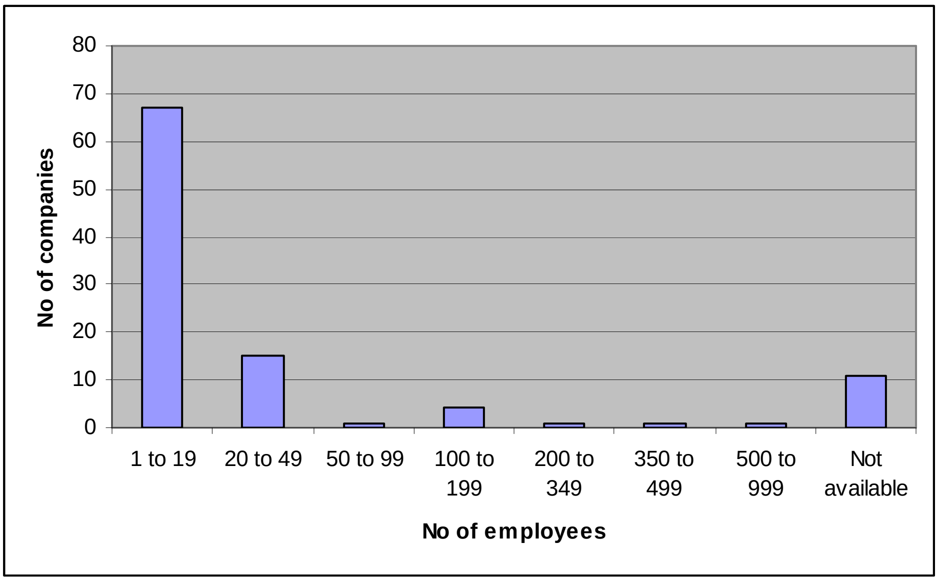


Source: Cross and Voss (2008)

Cross and Voss (2008) find that although many parent companies are large, their projects in the UK are very small, and that the majority of Chinese companies employ fewer than 24 people in the UK. Data from the UKTI confirm that Chinese investments are indeed comparatively small, with the majority of Chinese investments in the UK employing fewer than 20 people. In terms of workforce size, Chinese investment projects are smaller than those of most other investors in the UK as Table 3 clearly shows.

The biggest investment by a Chinese company in the UK in terms of workforce size was by Huawei Technologies (EU). In 2004 Huawei, the largest telecommunications equipment manufacturer in China, opened its European headquarters in Basingstoke, Southeast England. Huawei's (EU) President Xu Wen Wei states that 'Huawei has recognised the importance of the South East of England as a cluster for most of the world's biggest telecommunications companies hence our decision to base our European HQ in the region'. Huawei expanded its site further in 2005 and increased its workforce from 200 to 750. It has since also set up an R&D partnership with BT in Ipswich to develop the optical transmission network in the UK and was awarded the Chinese inward investor of the year award in 2005. But Huawei's investment in the UK remains an exception to the rule.

Figure 9: Number of Chinese investments by employment size (1997–2007)



Source: E&Y European Investment Monitor

As with other ODI inflows to the UK, Chinese companies mainly invest in London and Southeast England. Over a third of all investments recorded in the Ernst & Young database between 1997 and 2007 were in the Greater

London area, followed by Northeast England, especially Tyne & Wear and Humberside. But investments in the Greater London region tend to be smaller than elsewhere, largely owing to the nature of the activities that Chinese firms carry out there and also owing to the higher labour and rental costs. More labour-intensive Chinese investments such as the large Huawei headquarters in Basingstoke mentioned above tend to avoid the higher costs associated with a London-based operation.

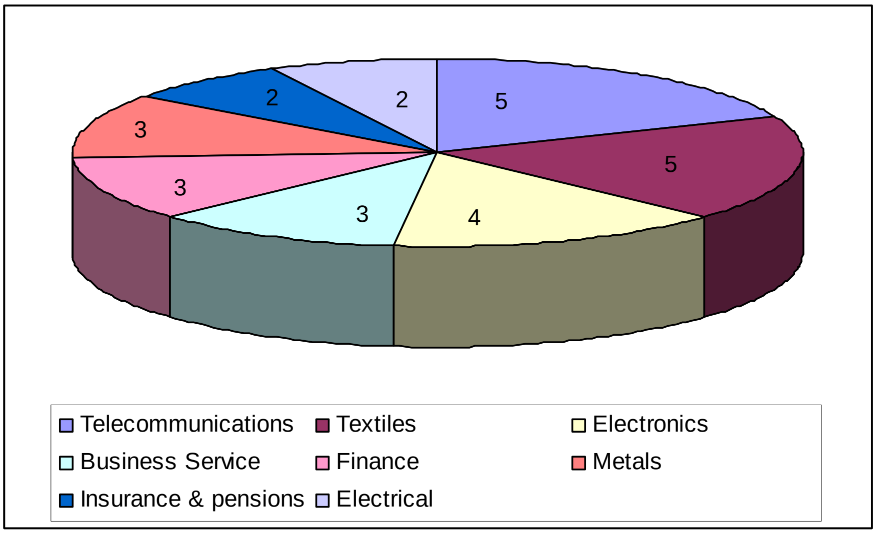
Table 5: Chinese direct investments in the UK are heavily concentrated by region

Breakdown by region	**No of projects**
Greater London	36
Tyne & Wear	23
Humberside	8
Greater Manchester	6
Cambridgeshire	4
Buckinghamshire	3
Staffordshire	2
Hampshire	2
Berkshire	2
Essex	2
Others	13
Total	101

Source: E&Y European Investment Monitor

London is perceived by many Chinese multinationals as a central base from which British and continental European consumers can be accessed quickly. It also benefits from excellent transport links with several airports in the Greater London region. However, Midea, a Chinese white goods manufacturer set up its European headquarters in London largely because the UK is Europe’s largest white goods market. Presence in the UK is part of Midea’s global growth strategy: being within easy reach of international transport links to facilitate imports from China and being at the heart of Europe, in one of the most buoyant consumer markets, makes the UK and particularly London a natural choice for Chinese companies from many sectors. London has a strong position as a hub for services-based companies such as telecommunications, electronics and ICT and business and financial services.

Figure 10: Most important sectors for Chinese investment projects in London (1997-2007)



Source: E&Y European Investment Monitor

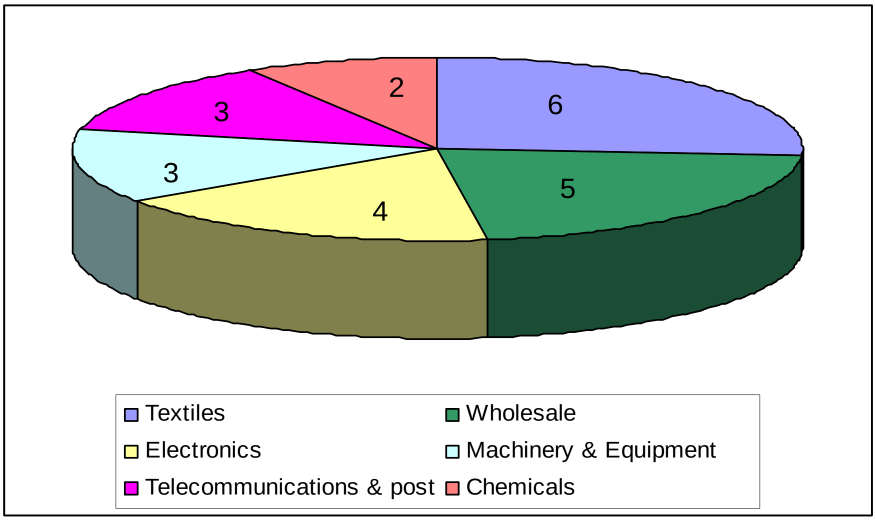
China's ZTE, a large telecommunications equipment firm set up office in London in order to expand its European operations and market share. The UK's South East is a hub for many leading telecommunications and technology companies – many of ZTE's global competitors such as BT, Hutchinson, 3G, Vodafone and T-mobile are already located in the area. London was thus a natural choice for ZTE.

Regional investment promotion also plays a role in London's strategy to attract Chinese ODI to the capital. London is already the main destination for foreign direct investments in the UK and in Europe more generally. Attracting a growing number of Chinese firms to invest in the region is reinforcing London's leading position in Europe, a strategy greatly supported by the Think London regional inward investment agency and the Greater London Development Agency. These agencies have targeted numerous initiatives at Chinese companies and have most recently focused on attracting Chinese multinationals to invest in London ahead of the 2012 Olympics.

While London is a natural choice for emerging multinationals, more surprisingly the North of England also features as a prominent location for

Chinese FDI projects in the UK. Over a third of all Chinese investments in the UK are targeted at Tyne & Wear and Humberside alone. to some extent this reflects the fact that historically the North was the industrial heartland of the country. The main sectors for Chinese ODI in the North East are electronics, telecommunications, wholesale, food, chemicals and finance. These correspond to a large extent to the region's strengths – two-thirds of the North East's total export value to international markets comes from the manufacturing sector. Low operating costs, a good logistics network with several international ports, and an active regional policy to encourage centres of excellence in emerging technologies, process industries and others have had an impact on inward investment patterns.

Figure 11: Most important sectors for Chinese investment projects in the North East (1997-2007)



Source: E&Y European Investment Monitor

Like London, the North East is actively encouraging Chinese investment to the region. Between 1999 and 2000, when the 'go global' initiative was set up, over 60 Chinese company visits were arranged and series of seminars and workshops initiated to encourage greater investments by Chinese companies. The Strategic Investment director of One North East commented in July 2000 that 'China is more than an emerging market (…) we must ensure the North East secures more than its natural share of this market'. By encouraging inward investments from China and facilitating outward investments from the North East to China, One North East hopes to create jobs in the region and benefit directly from China's growth. With this in mind, the China-Britain Business Council set up a regional office in 2000 to support regional initiatives aimed at the Chinese market and Chinese firms and a One North East Shanghai office and several Memoranda of Understanding with the Shanghai Ministry of Science & Technology Commission and Jiangzu province reinforced the relationship between the North East and China. Another initiative that has attracted investments from China to the North East, albeit very small-scale direct investments, is the Shanghai International Business Incubator unit at Gateshead. By providing basic facilities and services to Chinese firms wishing to enter the UK market, the North East tries to achieve its aim to attract 'more than its fair share' of Chinese investments. Clearly, these regional initiatives are having an impact on Chinese investment patterns in the UK, and the North East has benefited as a result.

With a domestic population of over 60 million and convenient access to a wider European population of around 500 million, the UK is the gateway to a vast consumer market and thus offers great potential for Chinese companies looking to internationalize their operations. As mentioned previously, Chinese companies are moving away from resource extraction in their investments abroad and increasingly place emphasis on services. Trade-supporting activities dominate direct investments by Chinese firms in the UK and thus support the view that Chinese companies are entering developed economies primarily for market-seeking reasons.

The size of the British market is crucial in this regard. Being close to British, and European customers more generally, is part of many Chinese multinationals' strategy to enter growth markets overseas. Tianshi, a pharmaceuticals company, entered the UK directly in 2002 and set up a distribution centre in London. The company, which specializes in traditional Chinese medicine, has identified the UK as a growth market, especially with its expanding overseas Chinese community. Similarly, Midea, the white goods company, also entered the UK in 2005 with market-seeking motivations.

An exception to the rule: Chinese investments in the British automotive sector

Asset-seeking motivations are the other important motivation for Chinese firms investing directly in the UK. This motivation is particularly significant in the automotive sector. Chinese companies often invest overseas without having any of the firm-specific advantages that are deemed essential to overcome the disadvantage of foreignness and to compete successfully. Investments by Chinese companies, frequently supported by access to cheap credit from parent companies or the government in China, often seek strategic assets such as management skills, access to specific industry knowledge and brands in order to improve the firm's performance, profile and competitiveness in the future.

Most Chinese investments in the UK are small, greenfield operations that carry out sales and marketing activities. However, one sector that does not conform to this general pattern is the automotive industry. The UK possesses a relatively strong automotive sector worth around $88 billion in output every year including $52 billion in consumer vehicles, $22.5 billion of components, and $9 billion in commercial vehicles. Moreover, 17 out of the top 20 EU component manufactures are based in the UK. Investing in this market is thus a strategic choice for Chinese companies that hope to enhance their technology and engineering capabilities, improve their distribution network in the European market and access key customers in the UK and the rest of the EU. Moreover, the Chinese government actively encourages the consolidation of the domestic automotive parts sector, which is still extremely fragmented and therefore vulnerable to volatile market conditions. Strategic asset-seeking behaviour is therefore the main motivation in this sector. Asimco Technology, a Chinese auto parts manufacturer, set up a sales and marketing office in the Midlands in 2005 in order to be close to leading competitors and automotive manufacturers in Europe. Similarly, Lifan Auto, part of the Chongqing Lifan Group, set up a research and development facility in Oxford in 2007.

Table 6: Major acquisitions by Chinese companies in the UK

Acquiring company	UK target	Industry	Value of acquisition	Year	Motivation
Greencool Technology Holding Ltd	Leyland Product Developments	Automobile	n/a	2004	Strategic asset-seeking: vehicle design expertise
Shanghai Automobile Industry Corp	MG Rover blueprints	Automobile	US$ 67.5 million	2004	Strategic asset-seeking: technology, R&D
China Zhenhua Oil Ltd	Amlon Trading Ltd	Oil and Gas	n/a	2005	Strategic asset-seeking: oil fields in Kazakhstan
Nanjing Automobile	MG Rover	Automobile	US$ 50 million	2005	Strategic asset-seeking: R&D, technology, brand Opportunistic: ailing firm
Huaxiang Group	Lawrence Automotive Interiors	Automobile	US$ 6.7 million	2006	Strategic asset-seeking: customer network (Cadillac, Saab, PSA Peugeot Citroen)

Source: Cross and Voss (2008) and various newspaper articles

Recently, acquisitions of Chinese companies in the UK have intensified. All but one of these investments were in the automotive sector. The takeover of first the MG Rover blueprints by Shanghai Automotive Industry Corporation in 2004 and subsequently the acquisition of MG Rover by Nanjing Automobile a year later, stand out as exceptionally large investments by Chinese firms. Chinese companies in the UK usually operate at a very small scale, although some exceptions have been recorded in the last few years. The initial acquisition by SAIC was valued at about US$67.5 million and Nanjing Automobile subsequently invested US$50 million in its acquisition of the troubled car producer. Another significant acquisition by a Chinese company in the UK was the takeover of the luxury interior supplier Lawrence Automotive Interiors by the Huaxiang Group in 2006. The investment value was about US$6.7 million (£3.4 million) and again involved a business in the automotive sector. Lawrence Automotive Interior's impressive client network is likely to have been the main motivation for the investment. The company supplies customers such as Cadillac, Saab and PSA Peugeot Citroen.

Portfolio investments by Chinese companies in the UK, although not included in the analysis presented in this paper, have also intensified. China Development Bank together with Temasek of Singapore acquired 3.1% of Barclays in 2007 for over $3 billion. The first outright takeover of an overseas listed company by a Chinese firm was that of British Monterrico Metals Plc by

Zijin Mining Group Co. Ltd in 2007 for US$186 million. Zijin (45%) acquired the British company with a consortium of other Chinese companies including the Chinese copper mining company Tongling Non-ferrous Metals (Group) Inc (35%) and Xiamen Corp (20%), according to Cowen Latitude Group.

Acquisitions undertaken by Chinese companies in the UK are clearly strategic-asset seeking, or opportunistic in the case of Nanjing Automobile taking over troubled MG Rover. Chinese companies in the UK that choose M&A as the mode of entry seek access to technology, R&D, industry clusters and distribution networks, whereas greenfield investments concentrate on trade-supporting activities for market-seeking reasons.

Conclusions

Despite the UK being the top destination for Chinese ODI into Europe, investments by Chinese companies remain low and, on average, are notably smaller than investments made by other countries in the UK. This is largely explained by the fact that ODI by Chinese companies has only recently been encouraged. China's capital account is only gradually being opened up, with incoming FDI being the key feature of the account since the 1990s. In addition, early outflows have focused heavily on Asia and developing countries, in part identifying opportunities for investment in the energy sector and raw materials – the aim being to secure inputs for Chinese manufacturing industries rather than to expand operations abroad, raise export sales and acquire technology and skills.

However, China has recently appeared to shift its emphasis to include more services-oriented investment. This has led to increased flows into the UK and other services led economies. In line with other ODI in the UK, Chinese investments have been predominantly market-seeking and to a lesser extent strategic asset-seeking. Chinese companies in the UK are chiefly aiming to increase their market presence and improve their global competitiveness.

Most Chinese companies that invest in the UK come from the manufacturing sector, followed by the financial and business services. However, in terms of type of activity in the UK itself, these companies mainly carry out sales and marketing operations or establish headquarters. This provides further evidence that China's ODI in the UK focuses on developing knowledge and innovation, expanding market presence and establishing a base abroad.

London is the strongest magnet for Chinese investment in the UK and indeed Europe. Chinese headquarters are more numerous in London than anywhere else in Europe, underscoring the importance that Chinese and all foreign investors attach to London and the UK as a gateway to Western markets. Regional initiatives aimed at increasing Chinese ODI have also been successfully employed in London and the North East, the two main destinations for Chinese ODI in the UK.

The few acquisitions by Chinese companies in the UK that have been recorded were fairly large. All but one of these investments were in the automobile and auto parts sector. In these cases Chinese companies were seeking strategic assets, R&D opportunities and client and distribution networks. In the case of Nanjing Automobile taking over ailing MG Rover the motivation was also opportunistic. However, activity such as M&A is by its very nature erratic and uneven from year to year; therefore no firm pattern can be attributed to this so far. On the whole, greenfield development and expansion of existing sites remain the main modes of entry by Chinese companies.

In all, the evidence suggests a still embryonic but rapidly growing interest on the part of Chinese companies in opening up small marketing and HQ style operations in London and other parts of the UK, with the main aims being acquiring market information and providing services for sales into the rest of the European market.

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