Europe China Research and Advice Network

CHINESE INVESTMENT IN THE GREATER EUROPE ZONE

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Abbreviations and Acronyms

ADB	Asian Development Bank
BIT	Bilateral investment treaty
CIC	China Investment Corporation
CIS	Commonwealth of Independent States
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COFM	ChinaObs FdiMonitor database
EU	European Union
FDI	Foreign direct investment
GEZ	Greater Europe Zone
GWM	Great Wall Motors
ICSID	International Centre for Settlement of Investment Disputes
IPO	Initial public offering
M&A	Mergers & acquisitions
MOFCOM	Ministry of Commerce of China
MoU	Memorandum of understanding
NORINCO	China North Industries Group
ODI/OFDI	Outward direct investment
SAFE	State Administration of Foreign Exchange
TAC	Thierry Apoteker Consulting s.a.s.
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Foreword

As the People's Republic of China has grown economically over the last decade, it has dramatically increased its investments abroad. This study, by Thierry Apoteker, looks at the important but understudied issue of Chinese direct investment into the area defined (at least for the purpose of this report) as the Greater Europe Zone (GEZ). Chinese investments entering the EU have been analysed by Professor Jeremy Clegg and Dr Hinrich Voss elsewhere in this ECRAN series.

One of the challenges in dealing with investments in the GEZ lies in the variety of sources available, which often convey conflicting information and data. This paper presents a framework through which we can try to understand the trends shown by these various kinds of data, and offers comparative analysis. This is one of the first attempts to come to terms with the type of Chinese actor engaging in these areas, which sectors they are engaging in, and exactly how much they are investing.

It is perhaps unsurprising that Chinese investment interest in Russia, and to some extent Turkey, is driven by the country's burgeoning energy needs. China's hunger for resources is being felt globally, and it would be odd if it did not look to its huge neighbours with their vast resources for some of their supply. Perhaps more surprising is how modest these investments currently are. This paper sets out some of the challenges that China faces as it tries to operate in the difficult regulatory and commercial environment of countries where issues of rule of law and security are often challenging.

Russia is complex even for the most experienced outward investors in resources. As such, China's cautiousness as a relative newcomer is unsurprising, despite its large and increasing needs. There is also the issue of just how welcoming the legal and investment framework is, particularly in Russia. As with their political relationship, these two neighbouring countries do not have a straightforward relationship in terms of their flows of investment. The data in this innovative report and its concise analysis, will help, both within the EU and elsewhere, in trying to understand China's relationship with these important new investment partners, and how they fit into the pattern of China's activity globally.

Kerry Brown
Team Leader, ECRAN
January 2012

Executive Summary

- Within the framework of the Go Global policy implemented during the past decade in China, the Chinese government has provided support schemes for Chinese enterprises for their outward direct investment.
- Large Chinese enterprises, mainly state-owned companies, have focused their expansion strategy in the Greater Europe Zone (GEZ), primarily on the energy sector to fulfil China's quest for energy. The main strategic purpose behind these foreign direct investments (FDIs) is to seek access to commodity resources. For this purpose, the Chinese authorities have taken several strategic initiatives.
- China's total FDI in the GEZ was €12.9 billion between 2005 and 2010, but the pace of investment was irregular.
- Russia is the major destination of Chinese direct investment in the GEZ (€7 billion between 2005 and 2010, 54% of FDI in the GEZ), followed by Kazakhstan (€3.1 billion) and Turkmenistan (€1.7 billion).
- These investments are most highly concentrated in energy (67%), followed by cars and transport (9%) and commodities and materials (8%).
- The policy of the GEZ countries towards Chinese direct investment is driven by economic considerations. The GEZ countries registered fast economic growth rates in the mid-2000s, in line with energy sector development. This has created big opportunities for Chinese enterprises in energy-related infrastructure development.

- The regulatory frameworks in the GEZ countries for direct investment are at different stages of development. However, bilateral investment treaties between China and individual GEZ members ensure full protection, security and fair and equitable treatment of Chinese direct investments.

Policy implications

- Chinese investments in the GEZ clearly focus on energy and commodity-related industries. The GEZ is also a major supplier (of energy) to the EU. It is quite clear that GEZ countries, Russia and Kazakhstan in particular, intend to use EU-China competition over access to resources to their advantage. The very large investments made by Chinese companies in relation to explicit policy objectives (and policy-related financial resources) mean that the EU risks being left behind in this long-term competition.
- There is very limited evidence of a Chinese EU market-penetration strategy that uses GEZ countries as a production platform for exporting to the EU. Most of the non-commodity-related investments made by China in the GEZ are in Russia and, to a lesser extent, Turkey, and such operations target primarily domestic markets.

Introduction

Concepts and definitions

Investments are financial flows that purchase financial and productive assets. Foreign investments are investments in enterprises that operate outside the domestic territory of the investor. These can be classified in two ways: 1) foreign portfolio investments are financial flows that enter equity or bond markets, possibly for a short time, and market prices are usually a fundamental driver for the foreign investor; 2) foreign direct investments (FDIs) involve significant foreign ownership (at least 10% of voting stock) of productive assets. Inward FDI is defined as capital entering an economy attracted by favourable economic factors; outward FDI (sometimes noted as outward direct investment or ODI/OFDI) is a flow of capital moving abroad.

There are various motives for FDI, among them the strengthening of an existing market structure or the expansion of a business to new markets (market-seeking FDI), gaining access to resources in host countries (resource-seeking FDI) and the optimisation of competitiveness or economies of scale (efficiency-seeking FDI). The economic literature that covers these determinants is vast. For more on the main motives of FDI in transition or emerging economies, please refer to Bevan and Estrin (2000, 2004), Botric and Skuflic (2005), Campos and Kinoshita (2003), Meyer (2005) and Tondel (2001).

As part of the economic reform movement initiated in the late 1970s, the Chinese government has continued the process of institutional transformation, seeking to attract foreign capital and technology as a critical element of its strategy to catch up with the West. The impressive increase in Chinese FDI inflows throughout the 2000s has contributed to the acceleration of China's GDP growth and made it the top destination for global FDI in developing economies. Outward FDI from China also emerged during this time with the Go Global policy, initiated by the Chinese authorities in 1999. It encourages the globalisation of domestic enterprises and therefore overseas investment by Chinese enterprises (Wu and Chen, 2001).

According to the United Nations Conference on Trade and Development (UNCTAD), China accounted for 3.6% of total outward investment from developing countries in 1995, 10.0% in 2005 and a massive 20.8% in 2010 (€51.4 billion) in the midst of the global economic crisis. This made it the second-largest developing country in terms of outward FDI, beaten only by Hong Kong (ranked fourth globally in 2010), which acts as a key 'transit' point for operations in and out of China – from trade to capital flows, including investments.

In the academic literature, econometric studies such as Kolstad and Wiig (2009), Buckley et al. (2007) and Chou, Chen and Mai (2011) emphasise the different features of Chinese outward FDI and show that large markets, cultural proximity with the host country and countries with abundant natural resources and poor institutions are the main drivers of Chinese FDI. Studies also suggest that Chinese investors have different overseas investment strategies compared with other investors. Those studies argue that good institutions in target countries will reduce the risk and costs of doing business and help to improve productivity, thus increasing Chinese outward FDI flows (Blonigen (2005), Globerman and Shapiro (2002), Asiedu (2006) and Gani (2007)).

Data and statistical difficulties

In reviewing and analysing investment flows, one of the main difficulties is determining how these capital flows are measured. This is certainly true at the global level, but it is even more difficult in the case of China. For example, how should one classify investments below the threshold of 10% of the equity of targeted companies? How do you deal with offshore centres that act as critical intermediaries for FDI in order to avoid taxes and transparency?

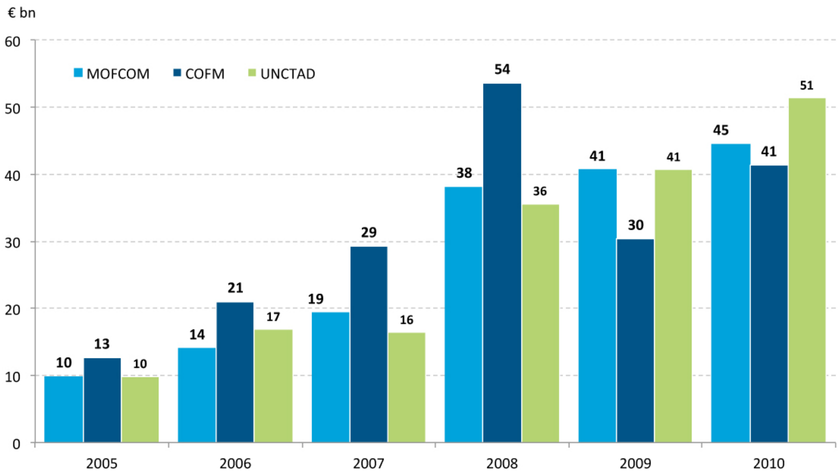
The official Chinese source of data for foreign direct investments into and out of China comes from the Ministry of Commerce (MOFCOM). MOFCOM provides free information detailing the breakdown of Chinese FDI outflows abroad by country and by industry. However, they do not provide any details for a country or industry analysis. The second official and recognised data source for FDI, at the international level, is UNCTAD. Unfortunately, they report only global historical figures and do not give information about bilateral FDIs or a detailed industry breakdown.

In order to improve the analysis of inward as well as outward FDI related to China, the ChinaObs/FDImonitor (COFM) database was established by the research group TAC (through the 'China Economic Observatory' quarterly report, supported by the European Commission). COFM aggregates industry- and country-level information on all operations and deals related to foreign investment into and out of China (mergers and acquisitions (M&A) and greenfield investments) since 2005. It allows detailed analysis country by country of investment and industries, as well as the type of investment made (equity participation, full acquisition, greenfield etc.)

COFM is constructed using two major private databases, which provide information at the project/deal level: the Thomson One database from the Thomson Reuters group, for mergers and acquisitions, and the fDi Markets database and the Financial Times group, for greenfield investments. The availability of information at the operations level allows parent companies to be distinguished from 'ultimate parent' companies for both the acquirer and the target company involved in FDI. Therefore, these measures incorporate all operations in which the *ultimate parent* acquirer is *China* and the *parent* target *is different from China*. They specifically exclude Chinese M&A abroad by the intermediary of its subsidiaries in Hong Kong when the ultimate parent target is China.

Looking at the aggregate data for total outward FDI from China in MOFCOM, UNCTAD and COFM sources in Figure 1, we see that increasing Chinese FDI flows are clearly represented in all three sources (apart from differences in 2008, but still broadly comparable). However, COFM figures are frequently higher than those reported by MOFCOM while UNCTAD's figures are the lowest among the three sources (except in 2009).

Figure 1: China's outward FDI flows, 2005–2010 (€ billion)



Sources: ChinaObs/FDImonitor, MOFCOM, UNCTAD

A detailed analysis of these discrepancies (see the TAC 'EU-China Economic Observatory' (2005–2010) or Mlachila and Takebe (2011)) identifies the following differences and/or uncertainties:

- The under-reporting of FDI outflows in MOFCOM figures. In principle, investments abroad need to be pre-approved by MOFCOM, but in practice, small-scale investments do not necessarily go through this process. The recent administrative reforms that allow such authorisation processes to be decentralised for smaller outward investment operations are likely to increase the degree of under-reporting.

- Chinese investment abroad by intermediaries or their subsidiaries or affiliates operating outside China (Hong Kong, Macao and offshore destinations such as the Cayman Islands) appears not to be properly included in MOFCOM data.

- MOFCOM normally registers reinvested earnings of Chinese affiliates abroad as new outward FDI. COFM is limited only to new operations and investments.

- Complex financial structures designed for large infrastructure- or commodity-related investments appear not to be included in MOFCOM data, probably because they could be classed as 'project finance' investments rather than as direct investment. COFM includes these operations when the provider of funding for any special-purpose vehicle is ultimately a Chinese entity. A similar observation is valid for outward FDI related to official bilateral aid flows from China (the 'Angola Mode',[a] whereby it is virtually impossible to disentangle genuine FDI from bilateral aid and suppliers/construction contracts).

The absence of detailed information and data discrepancies have become more of an issue as the amount of Chinese outward FDI has increased. The issue of how to become an attractive destination for Chinese ODI has taken on new importance everywhere, including the EU, but the absence of detailed information feeds into worries about China's acquisition of sensitive or large assets in foreign countries.

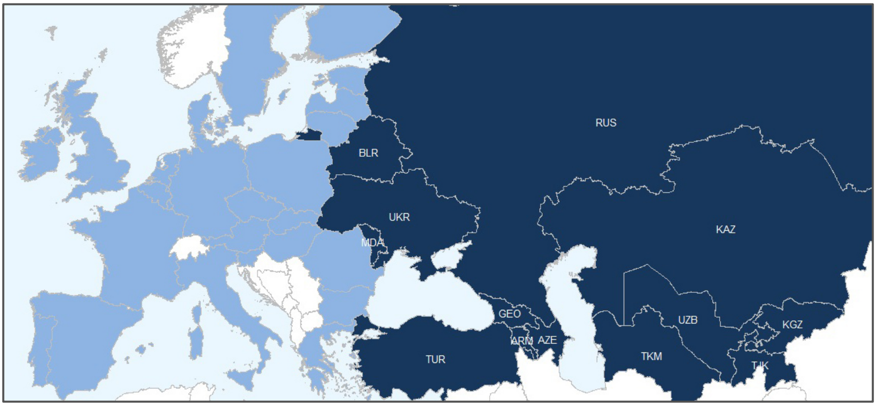
From the EU perspective, the analysis of China's presence and investment in neighbouring countries has a specific relevance: those countries can become competitors for attracting investment from Chinese firms, which may lead to certain countries becoming easy entry points for Chinese goods exported into the EU.

The aim of this paper is therefore to conduct a focused review and analysis of Chinese outward FDI in a specific geographical area that is considered 'close to Europe', referred here as the 'Greater Europe Zone' (see Figure 2). In this study, the Greater Europe Zone includes the Commonwealth of Independent States (CIS) plus Turkey,[b] a mixed group of 13 countries.

[a] In this mode, the Chinese government reaches a framework agreement with a country to undertake a development project in exchange for access rights to natural resources, e.g. oil. No money is usually directly transferred to the recipient government. In return, the Chinese government awards a construction contract to a Chinese company and a Chinese oil company acquires rights to begin exploration/production. Sometimes the Chinese oil company can acquire an interest for cash in a joint venture with a local government. It is presumed that Chinese official FDI statistics cover only a part of these financial packages under the 'Angola mode'.

[b] The GEZ countries are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgystan, Moldova, Russia, Tajikistan, Turkey, Turkmenistan, Ukraine and Uzbekistan.

Figure 2: Map of the European Union and the Greater Europe Zone



Note: EU-27: light blue; GEZ countries: dark blue.

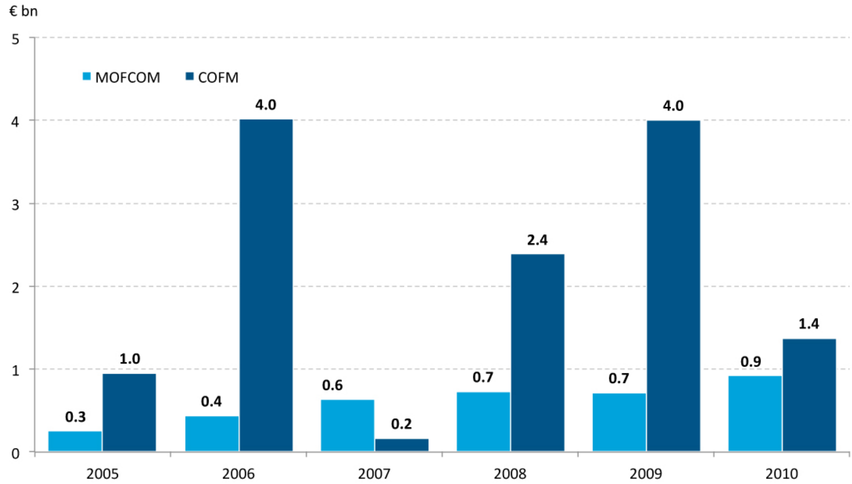
The analysis is structured in three sections. First, there is a quantitative review and analysis of trends and time patterns of China's overseas investment in the GEZ. That is followed by an analysis of the strategies of and challenges to Chinese multinational companies in the GEZ. The final section addresses China's specific policy for the GEZ and the GEZ states' response, particularly in terms of regulatory environment. We conclude with key ideas and recommendations.

1 Quantitative Review and Analysis

1.1 General characteristics of China's investment in the GEZ

The irregularity of China's outward investments in the GEZ shown by COFM data reveals an opportunistic strategy that seeks to make large acquisitions when possible. However, as shown in Figure 3 this irregularity is not confirmed by MOFCOM figures, which show a clear and regular positive trend of outflows to the GEZ, but at around 30% of the total estimated by COFM (average figures for 2005–2009).

Figure 3: China's outward FDI flows to the GEZ, 2005–2010 (€ billion)



Sources: ChinaObs/FDImonitor, MOFCOM

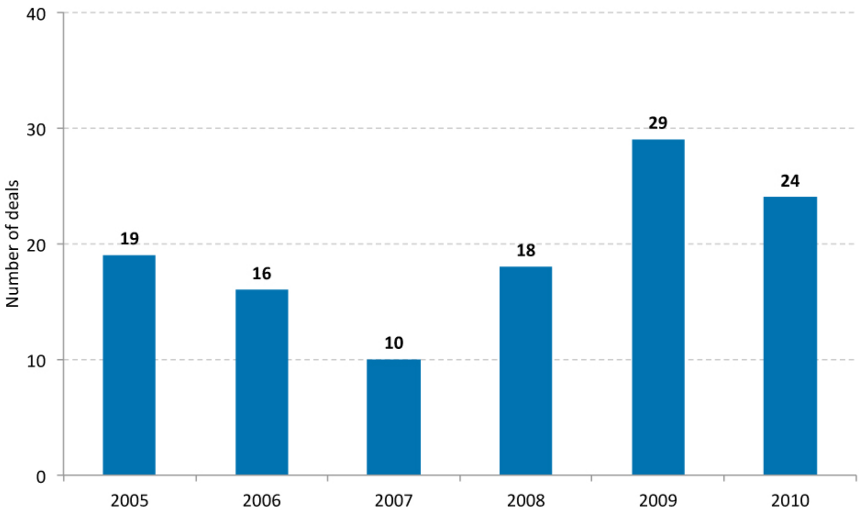
It is obvious too that the discrepancies between these two sources are much larger for the GEZ than are demonstrated globally. It appears that important deals in the energy sector (particularly in oil and gas exploration and production and in constructing gas pipelines) are excluded in MOFCOM reporting. Indeed, the huge discrepancies depicted in Figure 3 coincide with the following important deals:

- In 2006, the €2.8 billion M&A by Sinopec in Russia (OAO Udmurtneft);
- In 2008, the €1.5 billion greenfield investment by PetroChina in Turkmenistan (to build a gas pipeline between China and Turkmenistan); and
- In 2009, the €1.9 billion M&A by an investment group in Kazakhstan (OAO MangistanMunaiGaz) and the €0.7 billion M&A by Fullbloom Investment Corporation (a special-purpose acquisition vehicle formed by the China Investment Corporation) in Kazakhstan (GazMunaiGas).

It is also important to mention that only 40% of operations and deals extracted from COFM for Chinese outward FDI flows into the GEZ have their amount reported in the MOFCOM data. Indeed, if we include amounts for the smallest operations, which are not usually reported, we should expect the COFM total (and therefore the discrepancies between the two sources) to be even higher than that indicated in Figure 3.

In 2010, outward direct investment from China into the GEZ was estimated at €1.4 billion (according to COFM figures), representing 3.3% of China’s total outward FDI. It reveals a sharp decrease compared with 2009 but a 44% increase compared with 2005. However, the number of deals has trebled from the pre-financial crisis period (10 deals in 2007) to 29 operations in 2009, and it decreased only slightly in 2010 (see Figure 4).

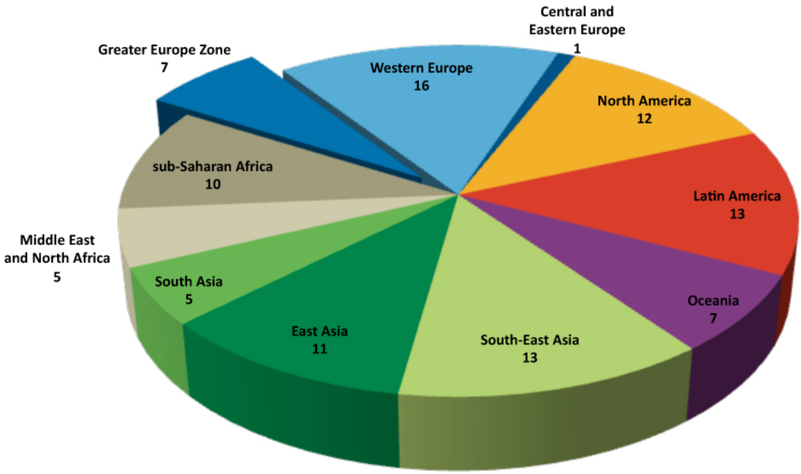
Figure 4: China’s outward FDI flows to the GEZ, 2005–2010 (Number of deals)



Source: ChinaObs/FDImonitor

In 2005–2010, the GEZ attracted about 7% of total Chinese investment overseas, the main regions for investment being South Asia (cultural proximity), western Europe and North America (large markets) and Latin America and the Caribbean (see Figure 5).

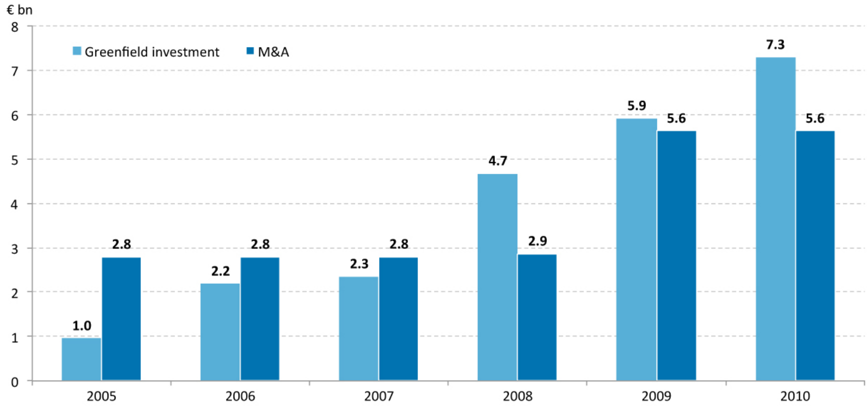
Figure 5: Geographical breakdown of China's outward FDI flows, 2005–2010 (%)



Source: ChinaObs/FDImonitor

Chinese multinationals operate in the GEZ mainly in the form of greenfield investments. These have accounted for 56% of total investments since 2005 and 89% of the total number of operations, compared with 44% and 11% respectively for M&As. Figure 6 suggests that this has occurred only since 2008, but it gives a false impression, related to the irregularity and magnitude of M&As. The main explanation for this lies in the small number of M&A operations and particularly in two 'very big' deals: Sinopec in Russia in 2006 and Investor Group and the Chinese government in Kazakhstan in 2009. If we exclude those two operations, most OFDI in the GEZ consists of greenfield investments, usually in the annual range €1.0–1.5 billion (with an exceptional €2.3 billion in 2008).

Figure 6: China's outward FDI flows to the GEZ by value, cumulated 2005–2010 (€ billion)



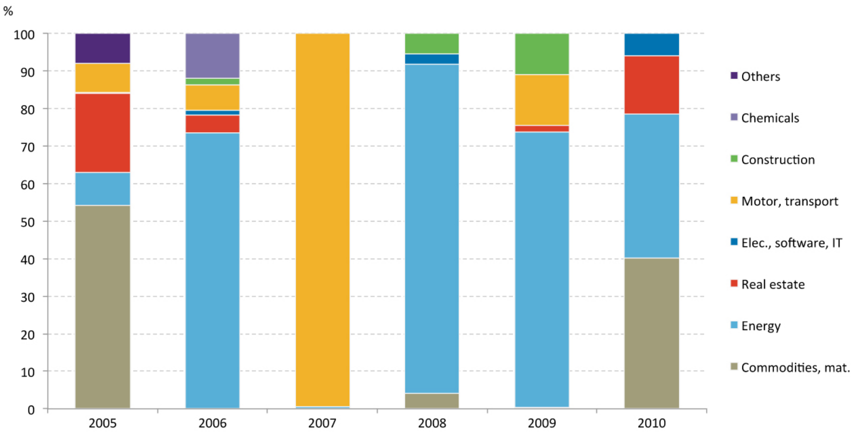
Source: ChinaObs/FDImonitor

The average size of individual investments in the GEZ was higher when China's annual outward FDI flows there were the highest. In 2006, the average size of an investment was about €250 million, dropping to €130–140 million in 2008 and 2009. But in 2005 and 2007, the average size of an investment was lower, as China's total outward FDI flows into the GEZ were lower. Average investments were also lower in 2010, when the number of deals was particularly high (24 in total, the second highest after 2009's 29 deals), implying an average investment size of almost €60 million. In addition, the size of investments differed greatly depending on the type of deal: in 2005–2010, greenfield investments were on average around €70 million, as opposed to an average of some €430 million for M&As.

1.2 Industry breakdown

Globally, China and its multinational companies have a very active outward foreign direct investment strategy. Its main objectives include increasing access to commodity resources and achieving 'shortcuts' in order to help increase technological and commercial knowhow from companies operating in more mature economies. As shown in Figure 7, China's OFDI in the GEZ is directed mostly to the natural resources sector: this helps to ensure sufficient supplies for China's expanding domestic demand in energy and mineral products.

Figure 7: China's outward FDI flows to the GEZ, 2005–2010: breakdown by sector (%)



Source: TAC from ChinaObs/FDImonitor

The breakdown by sector of China's outward FDI flows to the GEZ emphasise the importance of the energy sector. An overwhelming share in the energy sector was registered in 2006 (73% of outward FDI flows to the GEZ), 2008 (88%) and 2009 (74%). In comparison, only the motor and transport sector have seen a larger share (99% in 2007), while other sectors have maintained moderate shares.

1.2.1 Energy sector

Chinese investors in the GEZ's energy sector are exclusively state-owned enterprises. They operate very large M&A or greenfield investments and have clear political and economic motivations. The economic strategic factors behind their FDIs are a combination of seeking new markets and, more importantly, securing access to commodity resources, principally fuels, ores and metals. Political motivations relate to the institutional framework in resource rich countries; Benassy-Quere et al. (2005) have shown that the quality of public institutions is a major determinant of inward FDI, although Chinese companies can gain greater competitive advantage when weaker institutions are present (for example, when there is less transparency). The GEZ countries registered fast economic growth rates in the mid-2000s, often supported by significant returns on productive level of natural resources. This created large opportunities for energy-related infrastructure development funded by Chinese investors, who expanded their presence particularly in Central Asian countries of the GEZ.

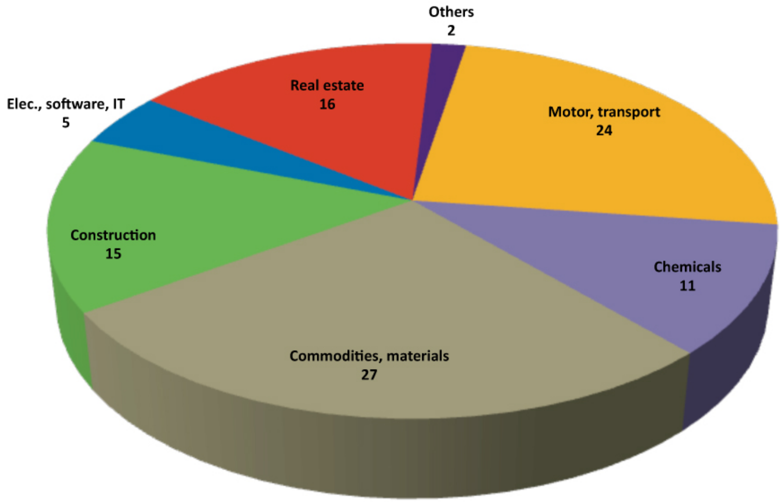
Specifically, the two largest oil companies in China, the China National Petroleum Corporation (CNPC)/PetroChina and the China Petroleum and Chemical Corporation (Sinopec Group), are investing in oil and gas production/exploration and in transnational oil and gas pipelines. China is almost entirely dependent on the international oil market for its oil supply, as its oil fields are ageing and their reserves to production ratios are low. As a result, it became a net oil importer in 1993. The national oil companies' objectives in investing in Central Asia are to support energy production capacities in some countries of the GEZ, as well as to diversify and expand China's access to oil and gas reserves. These goals are the top priority of China's Go Global policy.

1.2.2 Other sectors

The distribution of outward FDI by sector has been influenced by the development of China's industrial structure, which during the past several decades has been increasingly orientated towards heavy industry and transportation equipment.

Excluding the energy sector, we see in Figure 8 that in 2005–2010 China invested mostly in the commodities and materials (€1.2 billion), motor and transport (€1.1 billion), real estate (€0.7 billion), construction (€0.6 billion) and chemicals (€0.5 billion) sectors. However, the chemicals sector registered only a very limited number of deals, as did the food and beverages, healthcare, aerospace and consumer products sectors, which are all included in the category 'others'. The most important sectors in this category were financial services (seven deals in 2005–2010), equipment (six deals) and other services (nine deals).

Figure 8: China's ODI flows into the GEZ, 2005–2010: breakdown by sector, except energy (%)



Source: ChinaObs/FDImonitor

1.3 Country breakdown

Studying the breakdown of outward FDI flows from China to individual countries between 2005 and 2010 (see Table 1) enables the definition of a typology of Chinese foreign investment in the GEZ. Over that period, Russia was the most attractive country for outward Chinese FDI (with cumulated flows of €7 billion), followed by Kazakhstan (€3.1 billion) and Turkmenistan (€1.7 billion). This correlates with China's opportunistic strategy of investing massively in the energy sector and in commodities and materials. Chinese foreign investments in Turkey, Uzbekistan and Tajikistan remained small, at €578 million, €306 million and €121 million respectively, and irregular.

A comparison of the total number of Chinese investment deals with the GEZ countries over the period with FDI flows to them shows that Russia had the largest number of deals, 64, followed by Kazakhstan and Turkey with 11 and 9 deals respectively. Conversely, only three deals were registered in Turkmenistan – one in 2007 and two in 2008 – but the average size of Chinese investment deals was much higher there (€556 million) and in Kazakhstan (€285 million) than in Russia (€110 million). Chinese investments in Turkmenistan and Kazakhstan concentrated on substantial projects when strategic opportunities emerged. The more significant presence of Chinese companies in the Russian market was consolidated through several direct investment deals, which have remained roughly constant over recent years.

Table 1: China's outward FDI flows to the GEZ states*, 2005–2010 (€ million)

	2005	2006	2007	2008	2009	2010	2005–10
Russia	869	3,830	–	137	894	1,293	7,023
Kazakhstan	–	–	–	587	2,550	–	3,137
Turkmenistan	–	–	167	1,502	–	–	1,669
Turkey	–	–	–	–	540	38	578
Uzbekistan	85	159	–	61	–	–	306
Tajikistan	–	–	–	100	22	–	121
Moldova	–	–	–	–	–	45	45
Ukraine	–	28	–	–	–	–	28
Kyrgyzstan	–	–	1	–	–	–	1
Belarus	–	1	–	–	–	–	1

*Note: China's ODI flows into Armenia, Azerbaijan and Georgia are not reported in COFM between 2005 and 2010.
A dash (-) signifies no OFI flows from China to the country for that year.
For Tajikistan, the rounded total for 2005-2010 represents the addition of the non-rounded amounts for 2008 and 2009.
Source: ChinaObs/FDImonitor

1.4 Country / industry breakdown

As shown in Figure 7, the energy sector accounted for the largest share of China's outward FDI flows into the GEZ between 2005 and 2010. Investments in this sector reached €8.6 billion, 67% of total Chinese investment in the region. Nevertheless, the sector surprisingly registered only 22 deals, just 19% of all deals concluded by Chinese enterprises there. This is even more surprising in the context of the global rise in commodity prices and of the surge in Chinese domestic demand for energy, which has led China to sanction substantial amounts of money for investment in Russia and 'the Stans' of the GEZ (namely Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan) in order to secure its energy supplies.

Table 2 shows Chinese FDI energy sector outflows to the GEZ. Some 43% of China's FDI flows went to Russia and 36% of its deals in the energy sector were with Russia. And of those deals there was one investment of great value. Sinopec Group's 2006 96.86% share acquisition in OAO Udmurtneft, a Russian oil producer, for €2.8 billion bespeaks the importance to the two countries of significantly strengthening their partnership in the commercial and technical development of energy projects. This acquisition has allowed, for the first time, a Chinese company to produce crude oil in Russia, the world's second-largest oil supplier at the time; but its importance lies more in China's efforts to increase and secure its energy supplies.

Table 2: China's outward FDI flows to relevant GEZ states in the energy sector, 2005–2010 (€ million)

	2005	2006	2007	2008	2009	2010	Total	Deals
Russia	–	2,789	–	–	374	529	3,693	8
Kazakhstan	–	–	–	587	2,550	–	3,137	7
Turkmenistan	–	–	–	1,501	–	–	1,502	2
Uzbekistan	85	159	–	–	–	–	245	3
Tajikistan	–	–	–	–	22	–	22	1
Kyrgyzstan	–	–	1	–	–	–	1	1
Total	**85**	**2,949**	**1**	**2,089**	**2,946**	**529**	**8,599**	
Total deals	**4**	**3**	**2**	**5**	**5**	**3**		**22**

Note: a dash (-) signifies no OFI flows from China to the country for that year.
Source: ChinaObs/FDImonitor

In 2009 and 2010, China concluded four further deals with Russia. Among them was a 45% share acquisition of the Nobel Oil Group, a company active in oil exploration and production, by the Chinese sovereign wealth fund the China Investment Corporation (CIC) for €216 million. That investment confirms China's resource-seeking strategy, especially as the CIC has a long-term investment perspective in supporting Chinese companies' overseas development.

Chinese enterprises made substantial investments in Kazakhstan and Turkmenistan in 2008 and 2009, seizing nascent opportunities to expand and secure long-term energy supplies with new partners. Indeed, investments in the energy sector constituted all Chinese FDI outflows to Kazakhstan and 90% of flows to Turkmenistan between 2005 and 2010. China's interest in these two countries lies in their geographical location: they form the eastern and northern shores of the Caspian Sea, an area rich in hydrocarbon resources.

Direct investment in the energy sector in Kazakhstan cumulatively reached some €3.1 billion between 2005 and 2010; but this total might be underestimated, as the COFM database does not report the amount of investments made in 2006 and 2010. The two deals registered in 2009, amounting to a massive €2.6 billion, concerned the acquisition of Kazakh companies engaged in oil and gas production. The first acquisition (approximately €0.7 billion) was a minority stake purchase (11% of the capital) of JSC KazMunaiGas Exploration Production by Fullbloom Investment Corporation, the wholly owned subsidiary of the CIC. The second transaction (€1.9 billion) was the joint purchase of MangistauMunaiGaz, one of Kazakhstan's largest oil producers, by the state-owned China National Petroleum Company and Kazakhstan's KazMunaiGaz. Interestingly, the deal was concluded thanks to a €1.3 billion loan from the CNPC to KazMunaiGaz. At the same time, an additional €3.6 billion loan was agreed between the Export-Import Bank of China (China Exim Bank) and the Kazakhstan Development Bank for other oil and gas projects in the country.

China's presence in Turkmenistan is related to the CNPC's investment (€1.5 billion) in the Amu Darya Natural Gas Project, completed in 2008. The CNPC has a production-sharing agreement to explore and develop gas fields, as well as a natural gas sale-and-purchase agreement with its Turkmen partners for the export of 30 billion cubic meters of natural gas to China annually for 30 years. Construction on the Amu Darya river of a natural gas processing plant, the most technologically advanced and the largest-capacity plant in Central Asia, started in 2008. The plant became operational in 2009.

Looking at the distribution of Chinese investments, excluding energy, by sector and by country in Table 3, we notice again the pre-eminence of Russia, which accounts for about 60% of operations and three-quarters of total invested amounts. Chinese investments in Russia are orientated mostly towards the commodities and materials sector and an average investment was worth €135 million in 2005–2010. The construction and real estate sectors registered a similar value range of average-size operations, at €196 million and €113 million per deal respectively. Only the chemicals sector received substantial investment from China (€478 million in 2006): in Siberia the Chinese company Tsyan-Shan has developed deposits of potash salt, a key input for fertiliser production. Russia received the largest number of investments in the motor and transport sector, the 'others' category and, to a lesser extent, the electronic sector and the software and IT sector. But the total volume of FDI in these sectors was modest: 15% of investments in Russia, excluding energy, in 2005–10.

Turkey and Belarus are also prominent recipients of Chinese investment in terms of number of deals (nine and seven respectively). But while the former's inflows reached €578 million, the latter received only €1 million between 2005 and 2010. Two Chinese greenfield investments in Turkey were realised in 2009. First, the state-owned car manufacturer Chery completed construction of a €360 million plant in the European part of Turkey. It has a capacity of 20,000 units per year and is expected to serve the EU car market. Second, Dongfeng Motor, the third-largest Chinese car-maker, finished a €180 million production facility in Turkey – its estimated annual production is 52,000 units per year – to support Dongfeng's expansion in Europe, the Middle East and Africa.

Table 3: China's outward FDI flows to the GEZ for all sectors except energy, 2005–2010 (€ million)

	Motor, transport	**Chemicals**	**Commodities, materials**	**Construction**	**Elec., software, IT**	**Real estate**	**Others**	**Total**
Russia	312	478	1,080	587	119	678	76	3,330
Turkey	540	–	–	–	38	–	–	578
Turkmenistan	167	–	–	–	–	–	–	167
Tajikistan	–	–	100	–	–	–	–	100
Uzbekistan	–	–	–	61	–	–	–	61
Moldova	–	–	–	–	45	–	–	45
Ukraine	28	–	–	–	–	–	–	28
Belarus	–	–	–	–	1	–	–	1
Armenia	–	–	–	–	–	–	–	–
Azerbaijan	–	–	–	–	–	–	–	–
Georgia	–	–	–	–	–	–	–	–
Kazakhstan	–	–	–	–	–	–	–	–
Kyrgyzstan	–	–	–	–	–	–	–	–
Total	**1,046**	**478**	**1,180**	**649**	**202**	**678**	**76**	**4,309**
Total deals	**26**	**2**	**13**	**4**	**15**	**6**	**28**	**94**

Note: a dash (-) signifies no OFI flows from China to the country for that year.
Source: ChinaObs/FDImonitor

China's strategic expansion of domestic industries, largely state-owned companies, is intended to align foreign investments with the country's long-term development strategies. National industry champions thus have access to overseas natural resources in selected countries. The government's involvement ensures that improved resource allocation is achieved, in particular in energy security, combined with positive spillovers for international competitiveness. The country destination choice for outward investment also has strong links to the Chinese authorities' main geopolitical goal of developing and securing good relations with neighbouring countries, including Russia, Kazakhstan, Kyrgyzstan and Tajikistan in Central Asia.

2 Strategies and Challenges

As evidenced in the previous section, China's motives for outward investment in the GEZ are primarily resource-seeking. But as well as with direct investments, Chinese enterprises are accessing GEZ markets in other ways.

2.1 The different forms of resource-seeking strategy

China engages in strategic partnerships at the sovereign and corporate levels. The main arm of China's overseas activity is the China Exim Bank, whose mission is to assist Chinese companies in their offshore contract projects and outbound investment. Unfortunately, its English-language website does not provide detailed lists of financial transactions, but two major projects in the GEZ are listed in its annual reports:

- The Tajikistan–Uzbekistan Highway Restoration and Reconstruction Project was completed in 2010 with the support of a concessional loan (Export-Import Bank of China, 2010 Annual Report). The China Road and Bridge Corporation undertook the general design, full reconstruction and expansion of the 355 km Tajikistan–Uzbekistan Highway under an engineering, procurement and construction contract.
- The 500 kV North–South Transmission Line Project in Tajikistan: in 2008, the China Exim Bank provided a preferential export buyer's credit (for an estimated €192 million) to address the power supply imbalance and transmission bottleneck in the country (Export-Import Bank of China, 2008 Annual Report).

Projects financed by the China Exim Bank are related mainly to energy and infrastructure development in the GEZ. China has successfully completed several projects on cross-border communications (highways and railways), transforming the cities of Kashgar and Urumqi, in the western-most provinces of China, into major trade hubs in Central Asia. It has also constructed oil and gas pipelines in the neighbouring GEZ, most notably a 2,200-kilometre oil pipeline from the Caspian shore of Kazakhstan to the Xinjiang autonomous region in China. This was completed in 2009 and provides about 5% of China's annual oil consumption. Gas pipelines are under construction in Turkmenistan, Uzbekistan and Kazakhstan up to the Chinese border.

Local Chinese governments in the western provinces have sought the central government's support for a new strategy to advance their underdeveloped markets through better integration with neighbouring countries. The central government's major Go West policy, which aims to develop the Chinese hinterland, helped local governments to address their specific economic development agendas. Moreover, international organisations, such as the Asian Development Bank (ADB) and the United Nations Development Programme, are working closely with the Chinese central government on pan-Asian connectivity initiatives.

Over the years, China has devoted huge funds to implement new projects, with the aim of taking full advantage of regional programmes. In 2009, the China Exim Bank and the ADB concluded a co-financing agreement worth €2.2 billion, of which the disposable part was allocated mainly to the Asian Infrastructure Financing Initiative. China also promised a €7.2 billion loan for infrastructure development within the Shanghai Cooperation Organisation framework – bilateral cooperation within a regional multilateral structure but without international institutions such as the ADB.

China has an important role in regional project management too. It often acts as a catalyst and a coordinator, and becomes an essential part of the design and implementation of projects. China has built a strong competitive advantage through the active participation of its officials in exploratory studies and in planning and technical committees for regional infrastructure projects. It has therefore been able to create a strong position for itself in terms of know-how and research, giving Chinese companies a comparative advantage during international competition for construction and/or exploitation tenders.

As a result of this proactive strategy, the volume of transport trade from China to Central Asia increased markedly from 3.2 million tonnes in 1999 to nearly 22 million tonnes in 2008, comprising mostly mineral resources such as ore, slag and ash, copper, iron, steel, zinc and aluminium, but also cotton shipped from Kazakhstan. China's trade with Central Asia mimics its global trade pattern, with imports primarily of raw materials and mineral fuels. Construction materials, machinery and manufactured goods make up the majority of exports.

Complementary to the favourable investment financing provided in the form of credit lines by the China Exim Bank to Chinese companies, the Chinese government has taken another important step to support outward FDI by domestic enterprises in the framework of the Go Global strategy. At the end of 2001, it set up an export credit insurance corporation, Sinosure, whose mandate is to support investment. Sinosure provides investment insurance schemes for both Chinese enterprises investing overseas and foreign enterprises investing in China. Unfortunately, Sinosure does not publish detailed lists of the projects (with country of destination and value of investment covered) that benefit from their services. Nevertheless, it shows the Chinese state's strong interest in promoting domestic enterprises' overseas investment as part of enhancing its power and influence abroad.

Another type of government support for the foreign expansion of Chinese enterprises is referred to as 'tied aid': this is when Chinese foreign aid programmes are linked to preferential commercial contracts (for example, for the awarding of construction contracts), even though this practice is generally discouraged by international aid organisations. As a case in point, the white paper on China's foreign aid (2011) mentions, among several economic infrastructure construction projects, the 2.3 kilometre Shar-Shar tunnel in Tajikistan, which much improves traffic conditions between Tajikistan and China. In fact, the Chinese government provided Tajikistan with a €32 million grant for the project, which began in October 2006, under the proviso that the China Railway Engineering Corporation would be the general contractor for the tunnel's construction.

China has indeed used its aid-giving power as an indirect way to provide new market opportunities for domestic enterprises, taking advantage of the relatively low cost of local workforces. This also respects one of the basic features of China's foreign aid policy: China promotes mutual benefit and common development through economic and technical cooperation with other developing countries.

Finally, the Chinese presence in the GEZ can be observed in the form of large engineering and construction contracts. These are not outward direct investments, but their mention is necessary in order to provide a complete view of China's strategy. The following list of large engineering and construction contracts is incomplete, as the transactions often involve a Chinese or a local firm that does not provide financial disclosure, but it is nevertheless indicative of their scale.

- Sinohydro Corporation, China's major hydropower developer, signed a deal in August 2008 to carry out the design and construction of a hydroelectric power station in eastern Tajikistan worth up to €204 million.
- China Minmetals Development, a subsidiary of the state-owned international metals and mining China Minmetals Corporation, signed an agreement worth around €290 million in October 2008 with the Russian mining and metal company Mechel. In this contract the parties agreed to the joint development of several projects, among them the construction of a rail and structural steel mill at Chelyabinsk Metallurgical Plant and the building of a new coal-mining complex at the Elga deposit in the far east of Russia.
- China National Materials Corporation (Sinoma), one of the leading Chinese cement equipment and engineering service providers, has signed a €167 million contract with Lafarge SA to design and construct a cement production line in Mykolaiv, western Ukraine.
- China's Sinopec Engineering, a subsidiary of the state-run Sinopec (Asia's largest refiner and a major producer of chemicals) and the Kazakhstan government have signed a €1 billion contract to build a polypropylene production plant in the western Atyrau region, part of a €4.8 billion gas processing complex. The China Exim Bank is providing a loan to Sinopec's counterpart, and Sinopec is responsible for the export of the plant's products.

2.2 Entry points into the EU or domestic market penetration?

The trade-off between domestic market penetration and the establishment of a basis for extra-border operations is dictated by strategic decisions at the corporate level; as the nature and the size of direct investments vary, so do their expected returns. Preliminary negotiations between potential business partners are often supported and entangled in bilateral political relations. Multiple visits by Chinese leaders to the GEZ have each time encouraged a greater tie-up between the visited country and China in the fields of economic and trade cooperation and in improving business contacts and developing specific initiatives. This demonstrates the extent to which China's political leaders influence and support the activities of state-owned companies in the GEZ. Hong and Sun (2006) retrace the strategic shift of Chinese overseas investment in both the arenas of government policy and corporate entrepreneurship to emphasise the active responses of enterprise to the challenges and opportunities offered by globalisation.

Detailed quantitative analysis of China's overseas investment in the GEZ, for which see Section 1, has shown that the predominant motivation for Chinese companies engaging in investment is to secure access to commodity resources (chiefly sources of energy). At the same time, some large direct investments in Russia and Turkey are aimed at developing the presence of Chinese companies in those markets. The sectors of particular interest, mainly commodities and materials, construction and real estate, are targeted through a specific market penetration strategy for the GEZ.

The investments of Chinese car manufacturers (Chery and Dongfeng Motor) in Turkey are clearly motivated by a desire to tap into not only the domestic market but also enlarged neighbourhood markets. Chery's production facility in Istanbul is strategically located to target the European market. Its vehicles have unencumbered access to the EU because of an EU-Turkey Customs Union agreement, and safety standards at the plant have also been put in line with EU regulations.

In Table 4, we summarise the biggest deals in all sectors and countries since 2005 (except for energy). Interestingly, all the deals are for less than €500 million and most are greenfield investments. Moreover, these investments focus primarily on Russia, with only a few others located in other countries (such as in the car sector in Turkey in 2005 and 2007 or in Turkmenistan in 2007). Except for the biggest deal in the list – Tsyan-Shan in Russia in 2006 (chemicals) – most of them are in the construction, real estate or motor/transport sectors. Only a few of them are in other sectors, such as electronics, food and beverage, aerospace, financial services or healthcare.

Table 4: China's largest ODI flows to the GEZ for all sectors except energy, 2005–2010 (€ million)

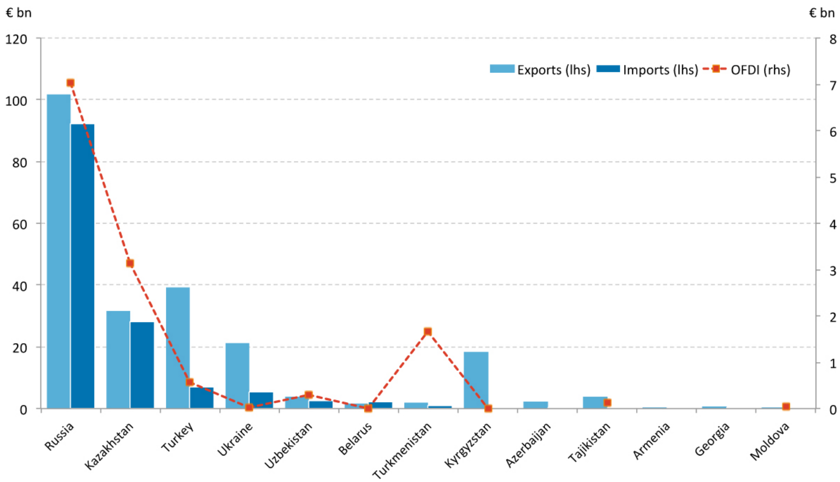
Type	Year	Investor	Destination	Sector	Amount
Greenfield	2006	Tsyan-Shan	Russia	Chemicals	478
Greenfield	2009	China North Industries Group (NORINCO)	Russia	Construction	443
Greenfield	2009	SAIC Chery Automobile	Turkey	Motor, transport	360
Greenfield	2010	Kefeng	Russia	Real estate	213
Greenfield	2005	Sinzhou	Russia	Real estate	201
Greenfield	2006	Zhejiang Kangnai Group	Russia	Real estate	199
Greenfield	2009	Dongfeng Motor	Turkey	Motor, transport	180
Greenfield	2007	China National Petroleum Corporation	Turkmenistan	Motor, transport	167
Greenfield	2006	SAIC Chery Automobile	Russia	Motor, transport	159
Greenfield	2006	Great Wall Motors (GWM)	Russia	Motor, transport	80
Greenfield	2006	Yaohua Glass	Russia	Construction	76
Greenfield	2008	Shanghai Hengcheng Group	Russia	Construction,	68
M&A	2008	Suntech Power Holdings Co Ltd	Russia	Elec., software, IT	68
Greenfield	2008	CFMC	Uzbekistan	Construction	61
Greenfield	2009	NORINCO	Russia	Real estate	50
Greenfield	2005	GWM	Russia	Motor, transport	48
Greenfield	2006	Midea Group	Russia	Elec., software, IT	48
Greenfield	2010	Shangdong Auhua	Moldova	Elec., software, IT	45
Greenfield	2010	Huawei Technologies	Turkey	Elec., software, IT	38
Greenfield	2006	Dongfeng Motor	Ukraine	Motor, transport	28
Greenfield	2005	Guansing Agrobusiness	Russia	Food and beverage	26
Greenfield	2005	SAIC Chery Automobile	Russia	Motor, transport	24
Greenfield	2005	Industrial and Commercial Bank of China	Russia	Financial services	24
Greenfield	2005	Dongbao Enterprise Group	Russia	Healthcare	16
Greenfield	2009	Jungwan Huncheng	Russia	Real estate	14
Greenfield	2005	Lingye Electronics	Russia	Aerospace	10
Greenfield	2005	Huawei Technologies	Russia	Elec., software IT,	2
Greenfield	2006	ZTE	Belarus	Elec., software, IT	1

Source: ChinaObs/FDImonitor

3 China's Policy for the GEZ and the GEZ States' Response

In order to assess China's OFDI policy for the GEZ, a comprehensive review of the literature on that policy and its evolution since the launch of the Go Global policy in 1999 has been completed, as has research on bilateral investment treaties' (BITs) effects on FDI. An analysis of specific GEZ countries' proactive and/or restrictive policies towards Chinese investments highlights the nature of the relative openness of GEZ countries. Indeed, Figure 9 shows the strong relationship between China's trade with the GEZ and investment flows from China to the GEZ in 2005–2010. The correlation coefficients between trade and ODI are very high: above 90% for imports and close to 80% for exports. This suggests that the strategy of Chinese investment in the target GEZ countries has been developed thanks to trusted and significant commercial ties.

Figure 9: China's trade with and outward FDI flows to the GEZ states, 2005–2010 (€ billion)



Source: Comtrade, ChinaObs/FDImonitor

Knowledge of the local business environment in the GEZ and confidence-building with partners who export to the Chinese market provide sound support for China's investment decisions for the GEZ. In order to assess China's OFDI policy for the GEZ and to highlight the nature of the relative openness of the GEZ countries, an analysis of specific GEZ countries' policies towards Chinese investments has been made. A provisional list of bilateral agreements, from China's Ministry of Foreign Affairs and available in Annex 2, demonstrates the importance given by Chinese authorities to formalising bilateral relationships and prioritising areas of further cooperation.

3.1 Go Global and China's ODI policy for the GEZ

This section reviews the recent evolution of China's policy regarding ODI, including the specific role of state-owned enterprises in resource-seeking strategies.

Go Global is the banner name of a national policy encouraging outward investment by Chinese firms. It was introduced in 1999 but has evolved to represent a cluster of individual policies. Previously companies had been heavily restricted from investing overseas. The policy to promote outward investment and to establish an adequate support system was officially included in the Tenth Five-Year Plan, 2001–2005. A major objective of the Go Global policy has been the loosening of controls on outward investment by Chinese firms (Davies, 2010).

Outward investment requires approval by the Ministry of Commerce, with concomitant foreign currency approval from the State Administration of Foreign Exchange (SAFE). In 2002, SAFE authorisation was decentralised from the central agency to selected local authorities for projects of about €1 million or less, with an overall investment cap of about €210 million. Decentralisation continued in 2005, when foreign exchange authorisation was extended to all provinces, municipalities and autonomous regions. The local limit was increased to about €8 million and the overall investment quota was expanded to about €4 billion. The power of authorisation was decentralised from the Ministry of Commerce to local commercial administrations in October 2004, except for large state-owned enterprises. In June 2006, the overall investment quota was abolished.

Outward investment has been encouraged further through support from the Ministry of Commerce. Some of this support has been information and bureaucratic expertise in navigating foreign investment rules. In July 2004, the Ministry of Commerce along with the Ministry of Foreign Affairs provided a 'guidance list' of industries preferred for outward investment. Additional support has come in the form of preferential treatment of outward-investing Chinese firms in terms of direct grants, tax benefits, low- or no-interest loans, access to foreign exchange etc. This culminated in November 2004 in the creation of a formal loan support system under the authority of the National Development and Reform Commission and the China Exim Bank.

New measures in April 2009 covering the administration of outbound investments promise faster and simpler reviews of many small to medium-sized Chinese direct investments abroad and more careful reviews of others. Chinese companies proposing routine outward direct investments in foreign non-financial sectors, and also foreign sellers and joint-venture participants, can benefit from the availability of simpler and faster verification procedures of the Ministry of Commerce. However, non-routine investments will not benefit from simpler or faster verification. These include investments into the energy and mining sectors and into companies intended to be red-chips (offshore companies that hold Chinese companies' subsidiaries and are controlled by Chinese investors but are listed on a stock exchange in Hong Kong or on a foreign market). MOFCOM's verification procedures were updated with effect on 1 May 2009 in accordance with its recently issued Measures for Administration of External Investment. The main effects of these measures, compared to the previous rules, are the availability of a three-day turnaround of an online application, without supporting documentation, for approval of a routine small to medium-size investment from MOFCOM or from a provincial-level department with authority delegated by MOFCOM.

The prominence of energy investments relates, as has been pointed out above, to China's growing dependence on imported fuels for its energy needs. The associated 'energy diplomacy' is implemented by China's central government and Chinese energy companies. This growing dependence has created a visible 'energy worry' among the Chinese leadership: there is a clear relationship between the social need for development, political stability (and the strength of the Communist Party) and the economic growth rate and access to the required energy to feed this growth. Shortages of fuel have already triggered social protests in different provinces. And the Chinese authorities' belief that the US is exerting de facto control of major supply sources in the Middle East and is in a position to control the key maritime routes, at the straits of Hormuz and Malacca, taken by oil bound for China has only added to their feelings of insecurity. Finally, the Chinese authorities see as an element in this security issue the dominance of oil markets by large (mostly US and European) multinationals and state-owned companies in 'West-friendly' producers, which creates the potential for price manipulation and volatility.

Both China's international strategic objectives (its relations with Taiwan, role in Asia and role as a dominant world power) and domestic ones (political stability and avoidance of economic and social disruptions) have converged to make the question of reducing this dependence a central objective for the authorities (see Holslag, 2010). This perception is pushing the government to develop a multi-faceted strategy regarding access to oil and gas resources:

- There has been a multiplication of diplomatic initiatives to secure access to resources through cooperation/long-term supply agreements with oil-producing countries. However, the Chinese authorities have clearly stated that there is little room left for such bilateral agreements: the existing contractual/marketing relations of the largest producers mean that China is pushed to establish links where other nations or companies have been reluctant to do so. Thus it has relations with Angola, Sudan, Iran and a significant number of other countries about which an objective country risk analysis would suggest being very cautious. In such countries, China has a pragmatic approach of not interfering with their domestic/governance issues and accompanying any agreement with substantial development aid and economic cooperation.
- China has supported the acquisition of oil/gas fields abroad by the large state-owned oil companies. The CNPC (and its subsidiary Petrochina), Sinopec and the China National Offshore Oil Corp (CNOOC) are the key vehicles for this acquisition drive.
- It has supported and funded the improvement of ground transport of energy supplies, implying the great importance of long-term relations with Central Asian countries (Kazakhstan, Azerbaijan), the need for a strategic relation with Russia and the funding of large pipeline projects from those three countries into China. There is a clear conflict of interest between China, Japan and Europe in securing supplies of oil and gas from Russia. Russia is undoubtedly determined to play this rivalry to its own advantage.

This strategy will have major implications for China's general international position as well as for energy price developments (considered less critical than access to resources). The race for energy resources is likely to increase regional tensions in Asia (e.g. with Japan and with India, which shares the Chinese interest in Kazakhstan and Myanmar/Burma). It is also likely to increase tensions over the control of international waters, as some of the most promising deep-sea oil fields are in areas (of the South China Sea) contested by China, Vietnam, Malaysia and the Philippines. The consequences will also be felt in the defence and security fields, with naval control, the ability to secure the maritime routes of energy supplies, becoming more important. This will place a large premium on the ability to gain land access to resources in Central Asia.

An important fact that helps us to understand Chinese investment strategy in the GEZ and in the rest of the world is that the Chinese companies investing abroad are predominantly state-owned enterprises. For instance, three Chinese state-owned enterprises operating in the petroleum and power sectors are listed among the top 10 of the 2011 Fortune Global 500 multinational companies: Sinopec Group, the CNPC and State Grid Corporation of China. China has 61 companies listed in the top 500; and in terms of country of origin, it ranks third after the United States and Japan.

Eighty-four per cent of all Chinese investment in the GEZ comes from state-owned enterprises. In fact, between 2005 and 2010, only three of the main Chinese investors there were not state-owned: Huawei Technologies (four deals in the telecommunications sector), Great Wall Motors (three deals in the motor sector) and the Midea Group (three deals in the household products manufacturing sector). As most investments are made by state-owned enterprises – such as Sinopec Group, CNPC/PetroChina, Datang International Power Generation, SAIC Chery Automobile, the State Grid Corporation (power transmission and distribution), the China Huadian Corporation (power generation) and China North Industries Group – investment decisions in the GEZ often reflect political objectives, not just profit-maximisation as in the case of privately owned companies.

3.2 Bilateral investment treaties with the GEZ countries

This section summarises the current state of BITs between China and the GEZ countries and offers a qualitative evaluation of their potential and causal effects.

BITs are agreements between two sovereign countries fixing terms and conditions for private investment by nationals and companies of one country in the other country. Under a BIT, contracting countries grant a number of guarantees to foreign investors, such as fair treatment, protection from expropriation, and repatriation of investment and returns. Developing and emerging countries sign BITs to attract and promote FDI but these agreements can also include dispute-settlement mechanisms between a national or a company and the host country. In many cases, they allow international arbitration, often under the auspices of the International Centre for the Settlement of Investment Disputes (ICSID).

According to the UNCTAD country list of BITs, China has conducted active investment diplomacy in the GEZ since the early 1990s. It has signed bilateral investment agreements with all the GEZ countries. All 13 Chinese BITs with the GEZ countries have entered into force, after an average interval from signature of two years (see Table 5). The ICSID database of BITs also gives the 13 signed BITs for China, based on information provided by governments (Chinese or counterparts), of which only 12 have entered into force.

For the initial BIT between China and Russia, the ICSID database reports only a signature date, 21 July 1990. The gap between this signature date and the subsequent signature date, 9 November 2006, is related to the BIT's renegotiation. This renegotiation was initiated by China and Russia in order to update the content of the agreement in response to greater bilateral economic cooperation. The entry into force of the China-Russia BIT signed in November 2006 automatically terminated the relations under the agreement signed in July 1990.

Table 5: China-GEZ bilateral investment treaties

Partner	Date of signature	Date of entry into force
Armenia	4 July 1992	18 March 1995
Azerbaijan	8 March 1994	1 April 1995
Belarus	11 January 1993	14 January 1995
Georgia	3 June 1993	1 March 1995
Kazakhstan	10 August 1992	13 August 1994
Kyrgyzstan	14 May 1992	8 September 1995
Moldova	6 November 1992	1 March 1995
Russia	9 November 2006	1 May 2009
Tajikistan	9 March 1993	20 January 1994
Turkey	13 November 1990	20 August 1994
Turkmenistan	21 November 1992	4 June 1994
Ukraine	31 October 1992	29 May 1993
Uzbekistan	13 March 1992	12 April 1994

Source: UNCTAD, http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1
(accessed on 30 June 2011)

The second BIT signed between China and a member of the GEZ was with Turkey in November 1990; it entered into force more than three years later. Turkey had begun to negotiate BITs in the latter 1980s so as to provide favourable conditions for foreign investment as a means to foster economic growth. That time was when a liberal and flexible foreign investment policy had been adopted as a part of a programme of economic transformation launched early in the decade. It appears that as investments by Turkish enterprises abroad increased, BITs became a main instrument for providing more predictable and transparent conditions for Turkish investors. Therefore, China and Turkey negotiated and concluded a BIT establishing identical rights and obligations for both parties. They agreed that disputes between the contracting parties should be submitted to an ad hoc international arbitration tribunal in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law.

Soon after the dissolution of the Soviet Union and the declaration of independence of 10 republics in 1991, China initiated bilateral negotiations with the governments of the newly created CIS. The official dates of signature between the CIS countries, excluding Russia, and China were between March 1992 (with Uzbekistan) and March 1994 (with Azerbaijan).

Over the past decade, and especially since 1998, many academic studies have investigated the potential impact of BITs on FDI flows and economic growth. The potential impact of a BIT can be analysed through four channels:

1. A commitment effect: a binding international commitment to the satisfactory protection and treatment of foreign investors, which reduces risks and increases FDI from home partner countries;
2. A signalling effect: a BIT is a signal of seriousness about improved property rights in the host country applying to all investors. Thus it may stimulate FDI from all countries, not only from the BIT contracting parties;
3. A shortcut to improved institutional quality: foreign investors may consider BITs a substitute for improved institutional quality, and thus FDI inflows from these investors may be stimulated; and
4. A promotion effect: strong provisions in favour of foreign investors have a greater chance of stimulating FDI.

Applying the economic principle of efficient allocation of production factors, some studies assess the impact of the BITs on the general stock or flows of FDI with a set of control variables; these account for different economic and business environments in the partner countries. In 2009, UNCTAD conducted an analysis of 'The Role of International Investment Agreements in Attracting Foreign Direct Investment to Developing Countries', providing an overview of 15 major econometric studies that examined the impact of BITs on FDI flows into developing countries. It is particularly interesting to see that there is no consensus on the influence of BITs on FDI, mainly because of the lack of clear statistical evidence.

Some studies, such as Neumayer and Spess (2005), conclude that BITs do have an effect on FDI but many more analyses, such as Hallward-Driemeier (2003) or UNCTAD (2009), conclude that BITs have only a weak effect or none at all. In their report, UNCTAD (2009, pp. xi-xiii) concludes interestingly that 'International investment agreements (IIAs) alone can never be a sufficient policy instrument to attract FDI' but they 'can influence a company's decision where to invest, and this impact is generally stronger in the case of preferential trade and investment agreements than with regard to BITs'. Moreover, UNCTAD adds '[a]lthough most BITs do not change the key economic determinants of FDI, they improve several policy and institutional determinants, and thereby increase the likelihood that developing countries engaged in BIT programmes will receive more FDI.'

As for the influence of BITs on China's FDI outflows to the GEZ, there is little evidence about how they have contributed to the growth of FDI. After all, BITs are only one of several confidence-building measures used to improve each GEZ country's investment climate. In addition, a look at the trend of investment flows for each country of destination (see Figure 5 on the geographical breakdown of Chinese outward FDI flows to the GEZ between 2005 and 2010) shows clearly that BITs have had no remarkable effect on the growth of China's FDI outflows to the GEZ.

3.3 Host countries' policies towards Chinese investments

Political relations between China and the GEZ countries, particularly its Central Asian members, have evolved considerably, due to the emergence of relative political stability in Central Asia after the collapse of the Soviet Union. State-building in Central Asian countries is complex and fragile, with varying degrees of internal and external vulnerability. Chinese interests favour their increased political and economic stability, notably to reduce security risks and ensure stability on its continental Asian border. Chinese foreign policy objectives for the region include mutual cooperation, through a permanent dialogue platform in the Shanghai Cooperation Organisation, and the diversification of China's supplies of natural resources and the options for their transportation, as endorsed by the Go Global policy.

China addresses the underlying economic challenges to stability in Central Asian GEZ countries through its provision of financial support. Its conditional lending and commercial practices are often related to purchases and hiring from China, in contrast to the conditionality traditionally attached to Bretton Woods institutions related to micro- and macroeconomic reforms. Financial relations, and in particular China's investment flows, constitute a large part of its economic diplomacy; and gaining access to natural resources in the GEZ is more important in its investment policy than sound local regulatory frameworks for direct investments. Close political relations between China and GEZ governments, and mutual interests developed by corporate leaders in the energy sector, have formed a common basis for strengthening bilateral economic relations and facilitating Chinese direct investments in the GEZ.

The Chinese investments are particularly well received in the GEZ countries as ways to improve economic conditions at the firm level and to balance Russia's influence on the region's oil and gas development. They favour inward investment, and most see it as a priority for fuelling economic growth. In comparison with many of the political attitudes shown towards Chinese investments globally (e.g. by the US, the European Union and Japan), the GEZ countries have developed welcoming policies towards Chinese companies. Global political issues, such as human rights, democracy and international intervention are not a primary concern at high-level political and economic meetings between China and GEZ states. Politically sensitive issues such as Taiwan and Tibet are often left aside by most GEZ countries, as their focus is on domestic and regional economic and social stability.

The GEZ countries have established the necessary legal conditions (liberalisation of sectors open to FDI, guarantees and protection of rights) and incentives (favourable fiscal regimes, schemes for disinvestment/privatisation of state property) to attract potential foreign investors. In addition, they have put a number of initiatives on transparency and promotion into place such as creating organisations to promote their economy and to create awareness on investment opportunities and one-stop-window agencies to inform investors of and perform all necessary legal procedures etc.

Table 6 gives a provisional list of organisations in each GEZ country that aim to create a favourable investment environment for foreign direct investors. The progressive implementation of new regulations for investment, particularly foreign-orientated strategies, has promoted a competitive environment for attracting FDI into the GEZ. A special coalition representing the interests of 'international capital' often helps to shape the region's FDI-friendly economic policies. This coalition consists of sections of the ministry of industry and trade and the ministry of foreign affairs, local branches of Western consulting firms and their local competitors, and companies providing services to foreign investors.

Even though Kyrgyzstan has a liberal investment regime with laws on foreign investment that guarantee protection from expropriation and nationalisation for foreign investors, its outdated regulatory framework has not yet put in place an agency that deals specifically with foreign investments. Despite the government of Turkmenistan's intention to improve investment conditions and its adoption of legal reforms on foreign investment and licensing in 2008, the lack of an established rule of law, inconsistent regulatory practices and unfamiliarity with international business norms are major disincentives for foreign investment.

National policies related to foreign investment in the GEZ generally have no specific objective regarding China's inward investment. Nevertheless, governments in the GEZ welcome and encourage Chinese OFDI in their economies. A wide range of actions both at the domestic level and on a bilateral basis enhance the GEZ's attractiveness for Chinese investment, such as business leaders meetings, regular political dialogue and (temporary or permanent) country-focused programmes for investment promotion. For example, Moldova has prepared and implemented a strategy to develop trade and investment with a specific country-focus on China and seven other countries (OECD Investment Compact, 2006).

Table 6: Investment promotion institutions in the GEZ

Country	Name	Year	Type	Ownership
Armenia	Armenia Development Agency	1998	Trade promotion/development organisation	100% government
	Association for Foreign Investment and Cooperation	1998	Investment promotion/development organisation	Non-profit, non-governmental business association
	Gegharkunik Chamber of Commerce and Industry	2002	Chamber of commerce	Non-governmental organisation
Azerbaijan	Azerbaijan Export and Investment Promotion Foundation	2003	Investment promotion/development organisation	Joint public-private initiative
	Caspian Investment Centre	2003	Investment promotion/development organisation	Private
Belarus	National Investment Agency		Investment promotion/development organisation	100% government
Georgia	Georgian National Investment Agency	2002	Investment promotion/development organisation, investment authority	100% government
Kazakhstan	Foreign Investors' Council	1998	Investment promotion/development organisation	100% government
	Kazakhstan Investment Promotion Centre	1998	Investment promotion/development organisation	100% government
Kyrgyzstan	none			
Moldova	Moldovan Investment and Export Promotion Organisation	1999	Investment promotion/development organisation	100% government
Russia	National Agency for Direct Investment	2001	Investment authority	Independent, non-commercial partnership
	Foreign Investment Advisory Council	1994	Investment promotion/development organisation	Joint public-private initiative
Tajikistan	State Committee on Investments and State Property Management	2006	Investment promotion/development organisation Investment authority	100% government
Turkey	Investment Support and Promotion Agency	2006	Investment promotion/development organisation	100% government
Turkmenistan	none			
Ukraine	Centre for Foreign Investment Promotion	2005	Investment promotion/development organisation	Independent non-profit investment agency
Uzbekistan	Chamber of Commerce and Industry of Uzbekistan	2004	Chamber of commerce	Joint public-private initiative
	Uzbek Information and Commercial Centre	1992	Trade promotion/development organisation	100% government

Source: UNESCAP (2009), U.S. Department of State (2011)

The BITs signed with China form the principal means of enabling a better environment for Chinese OFDI. Even though a BIT does not constitute a legal investment framework in each GEZ country, it provides an incentive for Chinese multinationals, guaranteeing their protection and security and the fair and equitable treatment of direct investments. In addition, the GEZ countries have favourably orientated their bilateral political relations towards the sectoral interests of Chinese companies. For example, memorandums of understanding (MoUs) signed beween Russia and China detail bilateral cooperation in the oil, nuclear and gas sectors (see Annex 2 for a provisional list of bilateral agreements between China and the GEZ countries).

In the case of the Russian energy sector, the government of Russia has granted strategic status to a limited number of large state-owned companies. These corporations usually enjoy a dominant position in the domestic market in their area of activity (Gazprom in the oil sector, Rosneft in the gas sector, Rosatom in nuclear energy, Sovkomflot in shipbuilding etc.). The government, which controls inward and outward foreign investment, has adopted a development strategy in the energy sector that resulted from strategic alliances with foreign companies. The 2006 initial public offering (IPO) of Rosneft tapped several international strategic investors, and the CNPC bought a stake of about €400 million in a landmark IPO of €8.5 billion. This purchase is only one milestone in Russia-China relations, as Rosneft and the CNPC established in 2010 a new joint venture for the construction/exploitation of a refinery with an annual capacity of 13 million tonnes as a part of energy cooperation between the two companies.

4 Conclusions and Recommendations

Under the Go Global policy implemented in the past decade, the Chinese government has provided support for Chinese enterprises engaging in outward direct investment (Lemoine, 2011). Large enterprises, mainly state-owned companies, have expanded their presence in the GEZ. Their main focus has been on the energy sector, to fulfil China’s quest for energy. Chinese investments in the GEZ have a clear strategic motivation. Indeed, the main strategic factor behind much FDI is to seek access to commodity resources.

China’s total FDI in the GEZ reached €12.9 billion in the period between 2005 and 2010, but the pace of investment was irregular, peaking in 2006, 2009 (both at €4 billion) and 2010 (€1.4 billion). Russia is the major destination for Chinese FDI in the GEZ, receiving approximately €7 billion over this period (54% of FDI there), followed by Kazakhstan (€3.1 billion) and Turkmenistan (€1.7 billion). The average size of an investment is larger in Turkmenistan than in other GEZ countries and five times the size of an average investment in Russia.

The sectoral distribution of Chinese direct investments in the GEZ is highly concentrated in energy, which accounts for 67% of total Chinese investments (€8.6 billion between 2005 and 2010). The two next most significant sectors are motors and transport (9%) and commodities and materials (8%). But in terms of the number of deals, a fourth sector is also important: the electronics, software and IT sector takes 13% of the 116 deals in the GEZ, against 22% for motors and transport, 19% for energy and 11% for commodities and materials.

Globally, Chinese FDI's focus on the energy sector is motivated by the strategic imperative of securing access to natural resources at a time of rapidly growing Chinese energy (and other raw materials) demand and potential tensions in international supply. China's central government and the state-owned energy companies are actively implementing an 'energy diplomacy', with the aim of gaining access to readily available/developing oil and gas reserves. To this end, the Chinese authorities have engaged in multiple strategic initiatives. These include cooperation/long-term supply agreements with oil- and gas-producing countries in the GEZ (notably in Kazakhstan, Russia and Turkmenistan); the acquisition of foreign assets by large state-owned oil companies (the CNPC and its subsidiary Petrochina, Sinopec and the CNOOC); and the construction of ground transport of energy supplies.

The policy of the GEZ countries towards Chinese direct investments is driven by economic considerations. The GEZ countries registered fast economic growth rates in the mid-2000s, in line with the development of their energy sector. This has created big opportunities for Chinese companies in the development of energy-related infrastructure, and several Chinese companies have since expanded their presence in Central Asia. The regulatory framework for direct investment into the GEZ is at different stages of development, but the conclusion of BITs between China and individual members of the GEZ ensures full protection and security, and fair and equitable treatment, for Chinese direct investments in the region.

We can therefore draw two broad conclusions with policy implications from these findings:

1. Chinese investments in the GEZ have a clear focus on energy and commodity-related industries. The GEZ is a major supplier of energy to the EU. GEZ countries, Russia and Kazakhstan in particular, clearly intend to use the implicit strategic resource competition between the EU and China to their advantage. The very large investments made by Chinese companies and their connection with explicit policy objectives (and policy-related financial resources) mean that the EU risks being left behind in this long-term competition.
2. There is scant evidence of a Chinese EU market penetration strategy that uses the GEZ countries as a production platform for exporting into the EU. Most of the non-commodity-related investments by China in the GEZ are in Russia and to a lesser extent Turkey, and such operations target primarily those domestic markets.

Annex 1: Breakdown of China's Outward FDI Flows to the GEZ, 2005–2010 (€ million)

Type	Year	Investor	Destination	Sector	Amount
Greenfield	2005	Asmill Steel	Kazakhstan	Commodities, materials	–
M&A	2005	China National Petroleum Corporation (CNPC)	Kazakhstan	Energy	–
Greenfield	2005	Quant Holding	Russia	Commodities, materials	–
Greenfield	2005	Dongbao Enterprise Group	Russia	Healthcare	16
Greenfield	2005	Huawei Technologies	Russia	Elec., software, IT	2
Greenfield	2005	Nanjing Automobile Group	Russia	Motor, transport	–
Greenfield	2005	Sinzhou	Russia	Real estate	201
Greenfield	2005	Guansing Agrobusiness	Russia	Food and bev.	26
Greenfield	2005	China Petroleum and Chemical (Sinopec)	Russia	Energy	–
Greenfield	2005	Great Wall Motors (GWM)	Russia	Motor, transport	48
Greenfield	2005	Industrial and Commercial Bank of China	Russia	Financial services	24
Greenfield	2005	Lingye Electronics	Russia	Aerospace	10
Greenfield	2005	Chzhenzhun	Russia	Commodities, materials	482
Greenfield	2005	GWM	Russia	Motor, transport	–
Greenfield	2005	SAIC Chery Automobile	Russia	Motor, transport	24
Greenfield	2005	Xinzhou Group	Russia	Commodities, materials	34
M&A	2005	Sinopec Group	Russia	Energy	–
Greenfield	2005	Weihai Textiles GROUP	Turkey	Commodities, materials	–
Greenfield	2005	China Petroleum and Chemical (Sinopec)	Uzbekistan	Energy	85
Greenfield	2006	ZTE	Belarus	Elec., software, IT	1
Greenfield	2006	People's Bank Of China	Georgia	Financial services	–
Greenfield	2006	CNPC	Kazakhstan	Energy	–
Greenfield	2006	SAIC Chery Automobile	Russia	Motor, transport	159
Greenfield	2006	Lunen Industrial Trade	Russia	Commodities, materials	–
Greenfield	2006	GWM	Russia	Motor, transport	80
Greenfield	2006	Zhejiang Kangnai Group	Russia	Real estate	199

Type	Year	Investor	Destination	Sector	Amount
Greenfield	2006	Midea Group	Russia	Elec., software, IT	48
Greenfield	2006	Ronghua Group	Russia	Real estate	–
Greenfield	2006	Tsyan-Shan	Russia	Chemicals	478
Greenfield	2006	Yaohua Glass	Russia	Construction	76
M&A	2006	Sinopec Group	Russia	Energy	2,790
Greenfield	2006	Dongfeng Motor	Ukraine	Motor, transport	28
Greenfield	2006	Tianjin FAW Automobile	Ukraine	Motor, transport	–
Greenfield	2006	CNPC	Uzbekistan	Energy	159
Greenfield	2006	CNPC	Uzbekistan	Other services	–
Greenfield	2007	China Development Bank	Belarus	Financial services	–
M&A	2007	Zhongneng	Kyrgyzstan	Energy	1
Greenfield	2007	Guangxi Liugong Machinery	Russia	Equipment	–
Greenfield	2007	Chongqing Lifan Industry	Russia	Motor, transport	–
Greenfield	2007	CNPC	Russia	Energy	–
Greenfield	2007	Industrial and Commercial Bank of China (ICBC)	Russia	Financial services	–
Greenfield	2007	Geely Holding Group	Russia	Motor, transport	–
Greenfield	2007	Sinotruck	Russia	Motor, transport	–
Greenfield	2007	Genertec	Turkey	Financial services	–
Greenfield	2007	CNPC	Turkmenistan	Motor, transport	167
Greenfield	2008	China FAW Group (First Automotive Works)	Armenia	Motor, transport	–
Greenfield	2008	CNPC	Azerbaijan	Other services	–
Greenfield	2008	Midea Group	Belarus	Elec., software, IT	–
Greenfield	2008	Datang International Power Generation	Kazakhstan	Energy	587
M&A	2008	China Zhenhua Oil Co. Ltd	Kazakhstan	Energy	–
Greenfield	2008	SAIC Chery Automobile	Russia	Motor, transport	–
Greenfield	2008	Shanghai Hengcheng Group	Russia	Construction	68
Greenfield	2008	Qiao Xing Universal Telephone (Cosun)	Russia	Elec., software, IT	–
Greenfield	2008	Zijin Mining Group	Russia	Commodities, materials	–
Greenfield	2008	Hubei Jingshan Corrugating Machinery	Russia	Equipment	–
Greenfield	2008	Beiqi Foton Motor	Russia	Motor, transport	–

Type	Year	Investor	Destination	Sector	Amount
M&A	2008	Suntech Power Holdings Co. Ltd	Russia	Elec., software, IT	68
Greenfield	2008	Zijin Mining Group	Tajikistan	Commodities, materials	100
Greenfield	2008	Hubei Jingshan Corrugating Machinery	Turkey	Equipment	–
Greenfield	2008	CNPC	Turkmenistan	Energy	1,502
Greenfield	2008	CNPC	Turkmenistan	Energy	–
Greenfield	2008	CFMC	Uzbekistan	Construction	61
Greenfield	2008	CNPC	Uzbekistan	Energy	–
Greenfield	2009	Chongqing Lifan Industry	Azerbaijan	Motor, transport	–
Greenfield	2009	China Aerospace Science and Industry Corporation	Belarus	Motor, transport	–
Greenfield	2009	Xinhua News Agency	Georgia	Other services	–
Greenfield	2009	China Guangdong Nuclear Power Corp.	Kazakhstan	Commodities, materials	–
Greenfield	2009	CITIC Group	Kazakhstan	Healthcare	–
Greenfield	2009	Xinhua News Agency	Kazakhstan	Other services	–
M&A	2009	People's Republic of China	Kazakhstan	Energy	676
M&A	2009	Investor Group	Kazakhstan	Energy	1,874
Greenfield	2009	Xinhua News Agency	Kyrgyzstan	Other services	–
Greenfield	2009	Xiyang Group	Russia	Commodities, materials	–
Greenfield	2009	Guangxi Liugong Machinery	Russia	Equipment	–
Greenfield	2009	China Construction Bank	Russia	Financial services	–
Greenfield	2009	Baoding Tianwei Baobian Electric	Russia	Equipment	–
Greenfield	2009	China Development Bank	Russia	Financial services	–
Greenfield	2009	Xinhua News Agency	Russia	Other services	–
Greenfield	2009	Xinhua News Agency	Russia	Other services	–
Greenfield	2009	Yantai Shuchi Vehicle	Russia	Motor, transport	–
Greenfield	2009	Huawei Technologies	Russia	Elec., software, IT	–
Greenfield	2009	Jungwan Huncheng	Russia	Real estate	14
Greenfield	2009	China North Industries Group (NORINCO)	Russia	Real estate	50
Greenfield	2009	NORINCO	Russia	Construction	443
Greenfield	2009	China Petroleum and Chemical (Sinopec)	Russia	Energy	158
Greenfield	2009	Lunsin	Russia	Commodities, Materials	12
M&A	2009	Peoples Republic of China	Russia	Energy	216

Type	Year	Investor	Destination	Sector	Amount
Greenfield	2009	Tebian Electric Apparatus (TBEA)	Tajikistan	Energy	22
Greenfield	2009	SAIC Chery Automobile	Turkey	Motor, transport	360
Greenfield	2009	Dongfeng Motor	Turkey	Motor, transport	180
Greenfield	2009	Xinhua News Agency	Ukraine	Other services	–
Greenfield	2009	Xinhua News Agency	Uzbekistan	Other services	–
Greenfield	2010	Chongqing Lifan Industry	Azerbaijan	Motor, transport	–
Greenfield	2010	SAIC Chery Automobile	Belarus	Motor, transport	–
Greenfield	2010	Midea Group	Belarus	Elec., software, IT	–
M&A	2010	Midea Group Co. Ltd	Belarus	Consumer products	–
M&A	2010	Sinopec Group	Kazakhstan	Energy	–
M&A	2010	Undisclosed Chinese Investors	Kyrgyzstan	Chemicals	–
Greenfield	2010	Shangdong Auhua	Moldova	Elec., software, IT	45
Greenfield	2010	Kefeng	Russia	Real estate	213
Greenfield	2010	Geely Holding Group	Russia	Motor, transport	–
Greenfield	2010	Oway	Russia	Equipment	–
Greenfield	2010	Beiqi Foton Motor	Russia	Motor, transport	–
Greenfield	2010	Hengxing Lamp Material	Russia	Elec., software, IT	–
Greenfield	2010	China Huadian Corporation	Russia	Energy	529
Greenfield	2010	TCL	Russia	Elec., software, IT	–
Greenfield	2010	Anhui Jianghuai Automobile (JAC)	Russia	Motor, transport	–
Greenfield	2010	State Grid Corporation	Russia	Commodities, materials	551
Greenfield	2010	China Three Gorges Corporation	Russia	Energy	–
Greenfield	2010	Haier Group	Russia	Elec., software, IT	–
Greenfield	2010	BYD Electronics	Russia	Elec., software, IT	–
Greenfield	2010	Huawei Technologies	Turkey	Elec., software, IT	38
Greenfield	2010	Huawei Technologies	Turkey	Elec., software, IT	–
Greenfield	2010	China FAW Group (First Automotive Works)	Turkey	Motor, transport	–
M&A	2010	Investor Group	Turkey	Consumer products	–
Greenfield	2010	Hunsin Corporation	Ukraine	Commodities, materials	–

Note: a dash (-) signifies no data available.
Source: ChinaObs/FDImonitor

Annex 2: Provisional List of Bilateral Agreements with the GEZ Countries

The following provisional list of bilateral agreements, from China's Ministry of Foreign Affairs (website accessed on 30 June 2011), demonstrates the importance given by the Chinese authorities to formalising bilateral relationships and priority areas of further mutual cooperation.

Armenia

- Economic and trade agreement, signed on 9 January 1992.
- Agreements on technical-economic cooperation, signed on 27 September 2004 and re-signed on 26 September 2005, 28 December 2007, 24 June 2009, 11 September 2009, 2 June 2010 and 12 April 2011.

Azerbaijan

- Protocol of Economic Cooperation signed on 24 October 2000 by respective foreign ministers.
- Accord between the two governments on economic and trade cooperation, signed on 17 March 2005.

Belarus

- Agreement on economic and technological cooperation, signed on 24–25 March 2010.
- Framework agreement on promoting trade and economic cooperation, signed on 24–25 March 2010.
- During the official visit of China's Vice President Xi Jinping to Belarus in March 2010, 13 other agreements between banks and enterprises were also signed. These had a value of €2.6 billion and covered locomotive supply, telecommunications, special vehicle manufacturing, wood processing equipment, infrastructure construction and renovation, and hydroelectric development.

Georgia

- Agreement on economic and technological cooperation, signed on 11 April 2006.

Kazakhstan

- Treaty on Good-Neighbourliness, Friendship and Cooperation, signed on 23 December 2002.
- Agreement on cooperation strategy for the twenty-first century signed on 20 December 2006.
- Program for Economic Cooperation in the Non-resources Sector, signed on 18 August 2007.
- Action Plan for Implementation Measures of the Program for Economic Cooperation in the non-resources sector, signed on 9 April 2008.
- In order to strengthen the China-Kazakhstan strategic partnership, both governments agreed within the framework of the above-mentioned Program and plan to push for the implementation of specific cooperation projects in machinery manufacturing, transportation infrastructure, power station construction, petrochemicals, processing, pharmaceuticals and other fields.
- Agreements on environmental protection and the equivalent of a €0.7 billion local currency swap to enhance bilateral trade, signed on 14 June 2011. In addition, the two countries expect to double their trade volume by 2015.

Kyrgyzstan

- Guidelines for cooperation for 2004–2014, signed on 21 September 2004.
- Nine cooperation agreements, concerning the economy, technology, infrastructure construction, education, environmental protection and narcotics control, signed on 14 August 2007.
- Cooperation plan, signed on 12 November 2008.
- Bilateral cooperation agreements on the economy, technology, roads and finance, signed on 15 October 2009.

Moldova

Bilateral relations between Moldova and China have achieved significant results in areas of common interest including political, economic, cultural, scientific and military cooperation. The parties have signed a total of 47 bilateral agreements. However, only a few agreements are related to economic cooperation:

- The first bilateral agreement on economic and technical cooperation was signed on 24 July 2002.
- China announced on 24 July 2009 the availability of a concessionary loan of €700 million to the Moldovan government, significantly easing Moldova's debt burden in the medium term.

Russia

- Market Access Agreement on Russia's Accession to the World Trade Organization (WTO), signed on 14 October 2004, demonstrating China's firm support for Russia's efforts to join the WTO.
- During regular meetings between China and Russia's heads of government, the two countries have signed several documents reinforcing cooperation in a wide range of areas, such as bilateral, regional and international security, education, movements of people (including visa policies), atomic energy, oil and gas exploration and exploitation etc. For example:
  - An MoU on oil cooperation. An MoU on cooperation between the China National Nuclear Corporation and the Rosatom State Atomic Energy Corporation is for the building of two units and a commercial-demonstration fast reactor for the extension project of the Tianwan nuclear power plant in China. There has been agreement in principle on the construction and operation of a crude oil pipeline between Skovorodino and the China-Russia border by the CNPC and Transneft of Russia. All three agreements were signed during the thirteenth regular meeting of the heads of state on 28 October 2008;
  - The road map on gas cooperation. This prompted the launch of the western corridor (ranging from the natural gas fields in Western Siberia to the Altai Republic at China's border) and eastern corridor (from the gas fields in Eastern Siberia and Sakhalin to China's

northeastern province Heilongjiang) in a bid for Russia to begin supplying 68 billion cubic metres of gas to China between 2014 and 2015. Twelve bilateral cooperation documents were signed during the fourteenth regular meeting of the heads of state on 13 October 2009; and
    - A protocol amending the agreement between Russia and China on trade and economic relations of 5 March 1992, signed during the fifteenth regular meeting of the heads of state on 24 November 2010.

- In addition, the Russian president Dmitry Medvedev's official visit to China on 26–28 September 2010 deepened the bilateral strategic partnership of cooperation. The following list of agreements were signed by both parties:
    - an amended protocol for the agreement on cooperation in the oil sector from 21 April 2009;
    - a new protocol on the MoU for cooperation in the field of coal from 24 June 2009;
    - an MoU between the Russian Ministry of Energy and the State Committee of China on National Development and Reform on cooperation in energy efficiency and renewable energy;
    - an MoU between the Russian Ministry of Energy and the State Energy Office of China on cooperation in the field of power supply networks and road maps for cooperation in the coal sector;
    - a general agreement on mutual relations and cooperation in the implementation of oil supplies by the Skovorodino–Mohe pipeline;
    - extended basic conditions regarding the supply of natural gas from Russia to China; and
    - a 20-year contract for the supply of 300,000 barrels of oil per day via the Skovorodino–Daqing pipeline.

- Overall, the two countries have signed more than 200 documents on bilateral cooperation, with the mechanisms and legal basis of bilateral relations being further improved. This implies strong political support to enhance the business environment for further mutual investments, with a strong emphasis on the energy sector.

Tajikistan

- Treaty of Good-Neighbourliness, Friendship and Cooperation, signed on 15 January 2007. In this most recent initiative to strengthen bilateral economic and trade cooperation, the two sides agreed to improve the trade and investment environment and to continue to explore potential cooperation in road and cross-border transport.

Turkey

The Joint Economic Commission is a regular bilateral consultation mechanism of Turkey and China. It is the main platform for high-level discussions aimed at enhancing the level of economic cooperation and tightening social and cultural intercourse.

- During President Gül's visit to China on 25 June 2009, seven bilateral documents on cooperation were signed. These were in the fields of foreign affairs, energy (Chinese companies are encouraged to invest and cooperate with Turkish companies on nuclear energy, thermal power and renewable energy), cultural heritage, mass media and trade (China's Exim Bank signed three framework agreements for trade financing worth about €580 billion to help the development of Turkey's telecoms, foreign trade and infrastructure industries). In addition, a China-Turkey business forum was held on the same date at which Chinese and Turkish companies signed six bilateral business cooperation contracts worth €1 billion involving infrastructure, power, mining, agricultural trade and other fields.
- During Prime Minister Wen Jiabao's visit to Turkey on 8 October 2010, seven agreements were signed. These included a framework agreement on further expanding and deepening bilateral trade and economic cooperation; an MoU on promoting cooperation in third countries on contracting and consulting engineering services; a railway cooperation agreement; cooperation in transport infrastructure and maritime affairs; and an MoU in the field of information and communication technologies.

Turkmenistan

- The Sino-Turkmen Cooperation Committee is a platform for high-level exchanges aimed at deepening relations of friendship and all-round cooperation between China and Turkmenistan.

- In March 2011, both parties signed an intergovernmental agreement for a Chinese loan (€2.9 billion from the China Development Bank) to the Turkmenistan gas giant Turkmengazi State Concern for the second phase of the development of the South Yolotan-Osman gas field. China had supplied an initial loan of €2.9 billion in 2009 for the first phase of the South Yolotan project.

Ukraine

Some 200 documents fix the legal framework of Ukrainian-Chinese bilateral relations. In 2010, 24 legal documents were signed and are currently in force. Between January and June 2011, a further 27 documents were signed, most of which were concluded during the April 2011 visits of the Ukrainian Prime Minister M. Azarov to China, and of Vice Premier of China Zhang Dejiang to Ukraine, and the state visit of the president of China Hu Jintao to Ukraine in June 2011.

Some agreements explicitly concern investments. For example:

- The memorandum on investment and development signed by the State Agency of Ukraine and the Export-Import Bank of China on 3 September 2010.
- MoUs on financing state priority projects between the State Agency for Investments and National Projects of Ukraine and the Export-Import Bank of China (signed on 18 April 2011) and between the former and the Ministry of Commerce of China (signed on 20 April 2011).
- The agreement, signed on 20 April 2011, on investment cooperation in Kalush's fertiliser plant between the Ministry of Environment and Natural Resources of Ukraine, the regional state administration, the Chinese engineering company Wuhan Engineering Co. and the State Export-Import Bank of China.

Uzbekistan

- The Treaty on Friendly and Cooperative Partnership was signed on 25 May 2005, along with the China-Uzbekistan Economic and Technical Cooperation Agreement and the China-Uzbekistan Mutual Help on Customs Agreement.

- The China-Uzbekistan Economic and Trade Cooperation Committee commits the governments of both countries to work together closely within the bilateral and Shanghai Cooperation Organisation frameworks in a bid to ensure sound long-term economic and social development in both countries.
- In July 2001, China's Vice Premier Li Keqiang proposed expanding bilateral cooperation with Uzbekistan with a view to boosting bilateral trade growth, deepening cooperation on energy resources, raising investment and finance cooperation and enhancing cooperation in non-resources and high-tech fields.

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