

An Investigation of OFDI Strategies in China's Private Businesses: 'Round-Tripping' or 'Onward-Journeying'?

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FOR CONSIDERATION FOR JCEBS or ODS

Abstract: Are the internationalization strategies of China's financially constrained private businesses different from those of state-owned businesses? If so, how are they different? To date little systematic empirical research addresses these questions, despite the now well established arguments that market and institutional imperfections play an important role in the outward foreign direct investment (ODI) of large state business groups. Why is so little known about private sector ODI? One important reason is that private companies have gone to considerable lengths to conceal their ODI by using offshore holding companies, typically in tax havens and offshore financial centres. This paper, using a sample of publicly listed privately controlled companies, shows how the havens have been used and how private sector 'onward-journey' ODI (via tax havens) differs to that commonly ascribed to the state sector.

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Introduction

Are the internationalization strategies of China's financially constrained private businesses different from those of state-owned businesses? If so, how are they different? To date little systematic empirical research addresses these questions, despite the now well established arguments that market and institutional imperfections play an important role in the outward foreign direct investment (ODI) of large *state* business groups (Buckley et al 2009; Morck et al 2008; Sutherland 2009). Given these noted features of Chinese ODI, particularly its close association with government and state institutions, it is of interest to ask whether ODI from China's private businesses is somehow different. In particular, because of strong financial support from state institutions, Chinese ODI is quite often characterised as being 'strategic-asset-seeking' in its nature (Child & Rodrigues, 2005; P. Deng, 2007; Ping. Deng, 2009; Rui & Yip, 2008). Such ODI looks to acquire critical technologies, brands, management and the like. Importantly, it is not motivated by a firm's existing competencies, but rather looks to add new competencies. As such some have suggested that new theories of OFDI may be needed to explain it (Child & Rodrigues, 2005; Matthews, 2006). One idea that has been floated is the notion of 'spring-boarding' (Luo and Tung 2007).

Given that most of China's private businesses do not benefit from such preferential treatment, particularly as regards financing, it is interesting to ask whether private sector ODI shares similar traits to state sector ODI. In fact, to date relatively little is known about ODI from China's private businesses. One reason for this is that much current research has focused on only a few high profile case-studies from which it is hard to draw general conclusions (Child and Rodrigues, 2005; Deng 2009). Another is that many quantitative studies have relied upon official ODI data. The ODI activities of many of China's private businesses, however, as we shall show, are often undertaken via offshore holding companies, typically in the Cayman Islands (with the use of further BVI and Hong Kong intermediary holding companies). As such their ODI activities are not captured in any meaningful way in this official data.¹ We dub the use of offshore havens by Chinese companies for the purpose of further international investment '*onward-journeying*'. While considerable amounts of Chinese ODI still '*round-trips*', now primarily because it wishes to avail of funds available in international capital markets as opposed to for tax reasons (tax rates for foreign and domestic corporations were harmonised at the beginning of 2008), a significant share also *onward-journeys*.²

The paper is organised as follows. Firstly, we outline the background to the study, including the focus in the literature on state encouraged strategic-asset-seeking ODI from state owned groups. Secondly, in light of this we specify our research questions relating to private sector ODI. Thirdly, our method is discussed. We develop a novel approach to further explore the ODI strategies of China's financially constrained privately controlled businesses. We do so by identifying 150 privately controlled companies that have undertaken IPOS and listed on US and HK stock exchanges between January 2004 and September 2009. These companies are financially constrained (as they look to foreign markets to raise capital). As such they constitute an interesting sample to compare and contrast state and private sector ODI strategies. This is followed by the results and discussion of their significance. Of the 150 businesses we identify 57 that have engaged in '*onward journey*' ODI (in the form of 158 foreign subsidiaries). We analyse these investments in more detail and show that *onward journey* ODI from China's private firms is a large and important component of China's ODI, despite the fact it remains largely unrecognized to date. It is also qualitatively quite different to the strategic-asset-seeking type investments claimed to be made by many state firms. We conclude by arguing that

¹ Only the first step is identified, hence the large volumes recorded to the Cayman Islands and increasingly Hong Kong. See Cantwell (1994) for a discussion of the problem of special purpose entities and ODI.

² A large market for the property rights of Chinese companies also exists offshore in the tax havens, particularly the BVI.

conventional International Business theory may be more applicable to private sector Chinese ODI than is generally recognised.

Background and Literature Review

Studies on Chinese ODI to date have asked what motivates Chinese ODI and whether the internationalisation experience of Chinese firms may be different to that of the firms from developed markets, upon which extant theory is predominantly based (Child & Rodrigues, 2005; Morck, Yeung, & Zhao, 2008; Rui & Yip, 2008). Since the publication of Child and Rodrigues's (2005) article, a number of others have also argued that strategic-asset-seeking is a major activity of Chinese companies venturing overseas (Deng 2009; Rui and Yip 2008). The common theme that has emerged in these studies, moreover, is the idea that Chinese ODI is driven more by the desire of Chinese firms to 'springboard' via acquisition of 'strategic-assets'. Such assets, including technologies, brands, management know-how and the like, are used primarily as a means of rapidly catching-up with their developed market counterparts (Child & Rodrigues, 2005; Ping. Deng, 2009; Y. Luo & Tung, 2007; Rui & Yip, 2008). Thus, for example it is argued that Chinese companies 'establish their competitive advantage typically via acquisition of established firms in developed economies' because they are 'urgent... to catch-up with the global giants' (Ping. Deng, 2009). As such, China's firms 'do not depend for their international expansion on prior possession of resources, as was the case for most traditional MNEs from Triad countries expanding abroad in past decades. Instead, these new firms *utilize international expansion in order to tap into resources that would otherwise be unavailable*' (Matthews, 2006, p. 22). The implication, therefore, is that conventional theories of ODI based around the idea that firms possess some kind of ownership advantage, may not be so applicable in the Chinese case. A debate concerning whether conventional theory is so applicable to Chinese firms has emerged (Dunning, 2006; Matthews, 2006). Further, a number of empirical studies have been made, generally with evidence claiming to support the strategic-asset-seeking perspective: 'we provide institutional evidence for previous research (Child & Rodrigues, 2005; Luo & Tung, 2007), which claims that Chinese firms go overseas to *primarily enhance a firm's critical competencies rather than to exploit existing assets*' (Deng, 2009: 10)(see also (Yadong. Luo, Xue, & Han, 2010; Rui & Yip, 2008)).

Why do Chinese firms choose to strategic-asset-seek? One explanation given is that their strategic choices are determined by the institutional framework in which the firm is embedded. In China, it is argued, 'various institutional constraints are prevalent and government endorsement is essential for cross-border M&A' (Ping. Deng, 2009). It is argued that Chinese firms in general conform to national legitimating requirements, including the need to strategic asset seek. Further, most ODI is undertaken by state-owned firms and these firms are also given preferential access to credit to undertake such strategic investments (Morck, et al., 2008).

Given these considerations, we might expect private firms that engage in 'onward journey' ODI to behave differently. Firstly, the presence of an offshore vehicle may relieve some of the domestic institutional pressures (Buckley et al 2009). As these firms are provided with foreign status, among other things, this may help guarantee property rights, reduce regulatory uncertainty, governmental interference and generally reduce the need to seek government endorsement. Secondly, and possibly more importantly, private firms do not have access to the same credit channels as state-owned firms. Indeed, many private firms move offshore with the specific purpose of raising capital. As such they are more financially constrained than state-owned counterparts (Morck, et al., 2008). This may again have an impact on their ability to seek strategic assets, ones that inherently may pose a greater risk.

Research Questions

To date the extent of onward journey FDI from private Chinese companies is still unknown. Neither is its nature or the implications for understanding the internationalization of China's private businesses. Our research questions, therefore, are:

- i. Do private Chinese companies use such offshore holding companies to undertake onward journey ODI? If so, what is its extent?

This is an important question, as if onward journeying is common among private firms, it would suggest that significant volumes of Chinese ODI, and the strategies of private business, are probably being overlooked (particularly in official statistics).

- ii. If so, what is its nature? What countries is it destined for and what are the major activities of foreign subsidiaries of these private firms?

As noted above, to date the focus of many studies on Chinese ODI has been on strategic-asset-seeking, which has implications for current theory. Private firms, however, with less financial support and perhaps less need to follow state policy may not do so. Thus our third question is more specific:

- iii. Is strategic-asset-seeking a major motivation for onward journey FDI among China's *private* enterprises? How important are alternatives, including market and efficiency seeking?

We address these three specific questions and then discuss in more general terms the ways in which onward journey ODI of China's private business differs from that commonly ascribed to China's state sector. We also summarize the implications for current discussion of theory.

Method

To ascertain the extent to which offshore holding companies are used for onward journey investments by private companies is a challenge. Tax havens provide a high level of secrecy for the companies they host. The Chinese companies that go offshore that we are particularly interested in, however, do so with the purpose of raising capital. Those that do so through an initial public offering (IPO) on Hong Kong and North American stock-markets are required to provide detailed prospectuses and annual reports. Our method, therefore, relies upon constructing two samples of listed Chinese companies that remain controlled by private entrepreneurs.³ The first of our samples is taken from Chinese companies listed on the Hong Kong stock exchange between the beginning of 2004 and end of 2009. The second is taken from Chinese companies listed on US stock exchanges (NASDAQ and New York). Of course, by no means all Chinese companies going offshore may undertake an IPO. As such our sample may not be typical of all Chinese firms incorporated offshore. It does, however, provide a particularly good window through which to systematically develop insights into how private companies that are financially constrained (in so far as they do not have access to soft loans) behave in their outward investment strategies. Companies that list overseas and seek capital from foreign

³ All of our sample firms are controlled by Chinese entrepreneurs, typically through beneficial ownership (using a BVI subsidiary). In many instances a single entrepreneur still owns over 50% of the company's shares. Our definition of Chinese private ownership is that the largest three shareholders are Chinese nationals and hold over 20% of the listed companies equity (directly or indirectly) between them.

investors are less likely, we believe, to have easy access to capital via the state controlled banking system.

We proceed as follows. With the Hong Kong sample we firstly identify all IPOs of Chinese companies on the HK stock market between 1st January 2004 and October 2009. We use the stock exchange's listed company information service.⁴ We do this by searching for company IPO allotment results and offering prospectuses. Secondly, we remove all state-owned companies which typically are incorporated in China (and issue H-shares). Our sample of privately controlled firms by contrast are all incorporated outside of China (details of the listed company's incorporation are provided by the exchange). Nearly all our sample firms, as it happens are incorporated in the Cayman Islands (CI) (in both the Hong Kong and US cases, see Tables 1 and 2).⁵ Thirdly, we retrieve each of the most recent annual reports (usually 2008) for the 85 listed companies in the Hong Kong sample. We then use the reports to check again in detail that these companies originate from the Chinese mainland and that they are privately controlled. The origin of a company can be established checking the corporate history of the company (through annual reports and listing prospectuses if the former are not clear) and ascertaining if the major shareholders are Chinese nationals. The provenance of most companies is in general straightforward to ascertain.

Finally, we use the annual reports to obtain and record the details of all subsidiaries for each of the listed companies. Specifically, as we are interested in onward journey FDI, we look to see if they have foreign subsidiaries that are not classified as 'investment holding companies'. Of the 85 listed companies we find 32 with at least one (and often more than one) non-investment holding company overseas foreign subsidiaries. This information is clearly reported in the notes to the consolidated company accounts in the Hong Kong annual reports. Further, the details of the countries in which they are established, the type of business activities and the size of investments are also given in the Hong Kong annual reports and we record these for our results (Table 1). We also note the nature of the investment holding company structures used (as we wish to exclude such holding companies from our final analysis of subsidiary activity).

For the North American sample we follow a similar procedure but instead using the US Securities and Exchange Commission (SEC) web search function to identify Chinese companies listed on US markets. We find 65 such private companies. Unlike the Hong Kong stock exchange, the US SEC website has different search functions. More importantly, it also has different reporting requirements for its companies (which use a standard 20-F form). From this site we identify all private Chinese firms listed between the beginning of 2004 and end of 2006. Again, these companies all have offshore parent holding companies, with similar holding company structures to our Hong Kong sample.⁶ Using their most recent annual 20-F filings we can double check if they are indigenous Chinese companies (i.e. have originated from the mainland of China and are majority owned and controlled by Chinese nationals). As with the Hong Kong sample, the annual 20-F filings allow us to see if they have foreign subsidiaries. While the activities of these companies are not always described in as much detail as the Hong Kong reports (or the amount invested in the company) in the notes to the financial statements in the 20-F reports, the filings generally provide information on their roles and purpose in the sections on

⁴ http://www.hkexnews.hk/listedco/listconews/advancedsearch/search_active_main.asp

⁵ http://www.hkexnews.hk/listedco/listconews/advancedsearch/search_active_main.asp

⁶ Our sample US sample is taken for the period 2004 to 2006 to make it manageable. Our Hong Kong sample shows that more recently listed firms have fewer overseas activities, as such they are less useful in addressing our research question on asset-seeking.

company history (Table 2). We note the roles of these foreign subsidiaries (Table 2). Of the 65 Chinese listed firms we find that 25 private firms have at least one overseas subsidiary.

Of the total 150 foreign listed indigenous private Chinese companies that we identify in both samples we therefore find that in total 57 businesses have non-investment holding company overseas subsidiaries. From these 57 we then go on to analyse the role the subsidiaries serve in each company, paying particular attention to large investments or acquisitions, of which there were six of particular interest (including Shenzhou International, Texhong Textile, Nine Dragon Paper and BYD Electronics in the Hong Kong sample and Wuxi Pharmaceutical, Mindray Medical International and in the US sample). In analysing the role of the foreign subsidiaries we pay particular attention as to their declared intentions. Such information is again available in annual reports and also, where required, the financial media.

Results

The Hong Kong sample

Our Hong Kong listed sample consists of 32 private firms with at least one foreign subsidiary (non investment holding company), ranging in size from under 1,000 employees (GST Holdings, for example, with 897) to over 35,000 employees (Shenzhou International has 37,436) but with a relatively high average of 6,523 employees (Table 1). Examples include Nine Dragons (ND) Paper, the largest containerboard manufacturer in Asia; Shenzhou International, China's largest (and most profitable) vertically-integrated knitwear manufacturer; Texhong Textile Group, among the largest cotton textile manufacturers; Wasion Group, a leading energy measurement equipment and 'total solution provider'⁷; Xiwang Sugar, a large corn processor; Li Ning, a famous sports brand; Xinyu Hengdeli Group, China's largest watch retailer and distributor of internationally renowned brands; AA Acoustic, a world leading manufacturer of miniature acoustic components; China Glass, China's largest tinted glass and coated glass manufacturer; HongHua Group, a leading manufacturer of land drilling rigs; China Steel, a specialist steel company; Haitian Plastics Machinery (injection moulding equipment)⁸; and BYD Electronic, a world-leading provider of handset components and modules as well as assembly services .

The distribution of foreign subsidiaries by country was as follows: Hong Kong (24), Japan (6), US (5), Italy (4), Singapore (4), Macao (4), Vietnam (2), Germany (2), Dubai (2), Canada (2), UK (2), Indonesia, Spain, Netherlands, Taiwan, Hungary, India, Russia, UAE, India, Indonesia, Pakistan, South Korea, Turkey, Brazil, Thailand and Cambodia (73 in total). The vast majority, moreover, were recorded in their annual reports as sales subsidiaries (Table 1). Of the 32 firms only 7 were involved in substantive overseas manufacturing activities⁹, but these included five of the largest overseas investments in our Hong Kong sample: BYD Electronics (India, \$50 million and Hungary, Euro16.5 million); Shenzhou International (Cambodia, \$30 million); Texhong Textiles (Viet Nam, \$16 million), ND Paper (Viet Nam, \$30 million). Finally, some R&D activities were recorded as taking place in Germany (1), the US (2) and UK (1).

⁷ Accredited by Forbes Asia, best listed SME in the Asia Pacific Region and among the most renowned brands in China.

⁸ Recognized as one of the innovative enterprises in China by Ministry of Science and Technology and SASAC.

⁹ Haitian International, ND Paper, Shenzhou International, Texhong Textiles, BYD Electronics, Minth Group and Honghua Group.

Market seeking

By far the most common activities of the foreign subsidiaries were sales and trading. Hong Kong was an important trading and sales outlet, but such subsidiaries were also found elsewhere. Examples include: Kingdom Group (linen yarns) which has an Italian subsidiary 'offering after-sales services with higher quality to customers in Italy and other European countries, as well as raising added value to its products to improve service quality to customers' (Kingdom Annual Report 2008); Haitian Plastics, with sales subsidiaries in Italy, Turkey and Brazil; Xinyi Glass with sales subsidiaries in Canada, Germany and Japan; Honghua Group (drilling) which uses a 'sales advancement' strategy by setting-up representative offices responsible for 'marketing, communications, technical support, market research as well as post-sales service' (Honghua Group 2008); Xiwang Sugar trades via a Hong Kong subsidiary, as well as having a South Korean subsidiary for sales to that market; Anton Oil Field Services Group has Canadian and Hong Kong sales and service subsidiaries; EcoGreen Fine Chemicals, which sells fine chemicals to Europe through a Netherlands based subsidiary.

Three of the largest direct investments in our sample are from manufacturing businesses investing in Southeast Asia (Viet Nam (2) and Cambodia (1)). Further investigation reveals the motives for these investments appear to be related to both market and efficiency seeking. Shenzhou International, for example, has 'strategically set up' a garment factory in Cambodia' (wholly owned, registered capital of \$30 million). This strategic investment is designed to counter trade restrictive measures against China's apparel exports. It only undertakes cutting and sewing operations: 'depending on the extent of these trade restrictive measures, the Group may further expand the cutting and sewing production capacity at its new production facility in Cambodia' (Shenzhou International, 2008). In another example, ND Paper also has started Cheng Yang Paper Mill in Vietnam (a US\$30 million investment (60% of equity)), 'expediting the Company's entry into the ASEAN markets such as Vietnam, Laos and Cambodia'. Finally, the example of Texhong Textile Group (a US\$16 million) points also to efficiency seeking motives: 'The cost of labor and electricity in Vietnam is much lower than that of China... We expect our Vietnam plant will further improve our overall average cost in future'. While only about 5% of its products manufactured in Vietnam are sold domestically, it also plans to 'form a sales and marketing team in Vietnam for further exploring the market opportunities in Vietnam and other ASEAN countries.' (Texhong Textiles, 2008). Texhong employs 2,682 in Viet Nam (out of a total workforce of 14,962), a very large number of foreign employees by the standards of our other sample firms.

The larger manufacturing investments in Southeast Asia appear to be motivated by both efficiency and market seeking. These two motives may justify these larger investments made (by comparison with the sales outlets so common in our sample). The primary purpose for the establishment of the sales subsidiaries in this sample appears to be related to after-sales service, receiving customer feedback and providing information as well as looking for further sales outlets.

Global production networks

Some of our sample firms have grown through their ability to act as subcontractors through supply contracts to other successful TNCs within the Chinese market.¹⁰ The most successful of these suppliers appear to have gone on to enter the global production networks of TNCs, providing components and related services on a more global basis. BYD Electronics, for example, one of the largest outward investors in our sample, initially grew via provision of components to brand name mobile phone vendors in China. It is a vertically integrated group that can provide these OEMs (original equipment manufacturers) with a full range of products and services. As such it has a broad product portfolio and is also able to respond quickly to changing client demands, making it a successful OEM supplier. As a result of its great success it is now also ‘establishing global production platforms to service its OEM clients’ (BYD 2008). This has now involved significant green-field investments in India (Chennai, around \$50 million) as well as the acquisition of a company in Hungary supplying Nokia with handset housings (acquired from a Korean company for Euros 15.5 million). BYD Electronics notes that it will ‘prudently expand its global production bases, further expand customer network, diversify service categories, develop new markets as well as *establish and strengthen customer relationships*’ (BYD 2008).

There are other examples. In the Hong Kong sample Minth Group, an auto parts supplier, is another case of a lower tier supply firms providing services and components to larger OEMs. It already has offices in Europe, Australia, Japan and the US, ‘mainly focused on customer communication, after-sales service and information collection’ (Minth Group, 2008). A newly established production base in Thailand is ‘*consolidating its global alliance with its customers such as Nissan*’ in the Southeast Asian market (Minth Group, 2008). The group has successfully entered into the supplier systems of PSA Peugeot-Citroen and Fiat in Europe, Ford and Nissan in North America. A final further example of a group attempting to achieve a prominent position in the supply chain is Shenzhou International. Shenzhou intends to increase its investments in Europe and US ‘to further develop its existing relationship with major apparel companies, such as Adidas and Nike... [it] intends to increase its marketing activities and sales staff in these new markets to strengthen its relationship with existing customers and to capture new customers’ (Shenzhou International 2008).

These instances point towards the importance of relationships with OEMs and large TNCs as important drivers in internationalisation in China’s successful private firms. Many of these firms have grown quickly only because of their important supply roles in TNC supply chains.

The US sample

The US listed sample consists of 25 rapidly growing companies (average number of employees was 4,004, 10 are listed on NASDAQ)). It includes well known internet companies (such as Alibaba, Tencent, The9 and Baidu.com); software companies and computer programming services (Perfect World, Longtop Financial Technologies); large solar cell and module makers (e.g. LDK Solar, ReneSola, China Sunergy); and surgical and medical instrument producers (Mindray Medical, China Medical Technologies); pharmaceutical and biotech companies (Wuxi Pharmaceutical, Simcere Pharmaceutical Group, Sinovac Biotech LTD) among others. The firms were engaged in a variety of activities, but typically had a more high-tech focus than the Hong Kong sample (with less

¹⁰As Xinyi Group note: ‘Globalization is the predominant trend in the world market. We notice that there are many overseas customers outsourcing their production of different glass products to us.’ (Xinyi Glass, 2008)

manufacturing activities). Production of surgical and medical instruments, software development (online gaming, for example), online travel services, insurance, biotechnology, telecoms, semiconductors, pharmaceuticals, oil and gas field equipment, are included in their activities.

Foreign subsidiaries (85 in total) were found in Hong Kong (21), the US (17), Germany (10), Japan (6), Singapore (3), Malaysia (3), Italy (3), Australia (3), Canada (3), Korea (3), Macao (2), UK, India, Russia, France, Netherlands, Mexico, Brazil, Sweden, Turkey, Cyprus and Switzerland. In this sample sales activities also appear to be the most common activity. Compared with the Hong Kong sample, however, there are also more resource directed investments (a reflection of the large number of solar cell makers, requiring secure silicon supplies). Further, there are two large foreign acquisitions in this sample of special interest. This includes Mindray Medical International's recent \$209 million dollar takeover of Datascope and Wuxi Pharmaceutical's \$163 million takeover of AppTec. They are both US companies.

Market and resource seeking

Market seeking activities are again the most common activity in this sample (Table 2). The largest acquisition in this sample Mindray Medical appears an interesting case of both market and asset seeking. It has direct sales channels in the US, UK and France (130 sales agents, who have relationships with hospitals, medical clinics and doctors). According to analysts it acquired the US company Datascope primarily to capture an established and successful direct sales and service channel in the U.S and Europe: 'What Mindray and their Asian competitors have been missing is distribution... Datascope's distribution channel will be a big asset'. The acquisition only allowed Mindray to use Datascope's brand for a limited period (8 years), ruling out the brand as its target. Product wise, moreover, there was considerable overlap between the two. There was, however, an additional strategic asset element in play, namely Datascope's software capability (which extends medical device functionality). While a degree of asset-seeking may be important, in the form of technology, the primary reason appears to be entering the US market for further sales of its products.

Market seeking activities are also very common in the other subsidiaries in this sample. Sunergy comments, for example: 'We plan to establish a global sales network' (it already has a German subsidiary). Vimicro International has 'an extensive network of sales, marketing and customer support resources'. JA Solar Holding established a US subsidiary to: 'engage in after-sales and other related services'. It has a sales and marketing strategy to 'selectively and quickly expand our customer base to include established players in the global solar power industry by establishing long-term relationships' (JA Solar Holding 2008). WSP Holdings established a US subsidiary 'to serve as our sales office for the North and South American markets.' Suntech Power Holdings also 'engaged in a number of acquisitions and strategic alliances in order to further expand our sales channels and customer base.' Perfect World, the gaming company, established a Malaysian subsidiary to 'capture potential business opportunities in Southeast Asia region'. Trina Solar sells and markets their products worldwide, including Germany, Spain and Italy. There are more examples.

As with the Hong Kong sample, the majority of overseas subsidiaries in this sample are related to sales activities. Some of the solar cell and module makers, moreover, have also have acquired resource supplies so as to secure supplies of silicon.

Global Production Networks

The second large acquisition in our sample, Wuxi PharmaTech's \$163 million takeover of Aptec, again illustrates the importance of outsourcing and global production networks. It is a successful biotech company that undertakes research and development, testing and manufacturing for bigger drug firms. It considers itself 'well-positioned to capitalize on the global trend of R&D outsourcing'. So called 'contract research organisations' (CROs) have grown quickly in the US, Europe and Japan in the 1990s. Such companies meet the needs of life science companies hoping to improve their R&D productivity. A CRO model allowed independent companies to offer specialized services to a range of life science customers, competing with the more traditional vertically integrated model. Its services are designed to assist 'global customers in shortening the time and lowering the cost of pharmaceutical and medical device R&D by providing cost-effective and efficient outsourcing solutions. Wuxi PharmaTech supplies the ten largest pharmaceutical companies in the world (Wuxi Pharmatech 2008). While it is clear that the Aptec acquisition also enhanced the services Wuxi could offer, one suspects the major motivation for this merger was to satisfy the requirements of its major customers.

There are other examples of firms in this sample looking to develop closer links with manufacturing OEMs or to grow in partnership as subcontractors to other successful TNCs. China Techfaith, for example, boasts of being QUALCOMM's first independent handset design house partner in China.¹¹ It will 'focus on winning more contracts from international customers' by expanding the 'sales and marketing network to cover Japan, Europe and the U.S' (Techfaith 2008).¹² LDK Solar is a leading manufacturer of multi-crystalline solar wafers. Its position as a pure-play wafer manufacturer minimizes competition and conflicts of interest with its customers (large module assemblers). This has enabled it to develop strategic relationships with its customers, so gaining long-term contracts. Increasingly these come from outside China. It continues to explore 'the viability for the establishment of sales and support offices in our major overseas markets, including Europe, Japan and the United States, to facilitate communications with our customers in those markets and to complement our global sales efforts' (LDK Solar 2008).

As with the Hong Kong sample, there is some evidence that these private businesses have internationalised as a strategic measure to further develop their business relationships as suppliers or service providers to larger brand-name OEMs. These they have first established first in their domestic market.

Discussion

Firstly, our results draw attention to the considerable ODI activities of a number of China's most dynamic *private* companies. Our sample firms have all undertaken IPOs outside of the mainland though offshore holding companies, typically incorporated in the CI (with further BVI and Hong Kong subsidiaries). Even disregarding the role of their offshore holding companies, the overall scale of their ODI activities is by no means insignificant in the context of Chinese ODI. The total ODI of the ten largest examples in our sample firms comes to nearly US\$500 million (Table 1 and 2). Official

¹¹ Qualcomm plays a central role in the rapid adoption and growth of 3G and next-generation wireless around the world.

¹² It also subcontracts manufacturing activities.

ODI flows from China in the in the 2003 to 2007 period totalled \$12.8 billion (when excluding Hong Kong, the CI and BVI) (MOFCOM, 2008). Our sample, moreover, represents only a very small fraction of China's onward journey ODI. There are almost certainly many, many more private offshore holding companies that are not listed undertaking onward journey ODI. As such it cannot be said to be an insignificant component of Chinese ODI. Such onward journey ODI has not generally been recognized and is not captured in official data (which records only the initial outflows to the holding companies, typically in Hong Kong or the Cayman Islands).

It is worth briefly pointing out one final but unintended finding of our study. Chinese companies incorporated with an offshore parent company typically do so using a *triad* of holding companies in Hong Kong, the CI and BVI. To date there have been a number of studies that undertake empirical testing of theories of Chinese ODI (Buckley et al., 2007; Cheung & Qian, 2009; Kang & Jiang, 2009). These studies, however, have overlooked the problem that onward journeying of capital creates in the use of FDI data. In particular, they assume that registered ODI from China to Hong Kong, which constitutes a large share of China's total ODI, is actually its *ultimate* destination. The CI holding company has typically been used as a listing vehicle, with permutations in holding structures beneath this. The use of such holding companies is especially common in Chinese case firstly, as noted, because until recently there have been tax incentives for Chinese companies to move offshore and gain foreign status for their domestic subsidiaries. Secondly, Hong Kong is a developed offshore financial centre providing access to deep pools of capital, via its links with other international financial centres (particularly the CI) and BVI (tax havens). Thirdly, these links were greatly strengthened as a result of a historical coincidence - Hong Kong's return to China in 1997. Companies in Hong Kong looked to secure their property rights via the use of offshore holding companies in other overseas British territories (the CI and BVI). Finally, Hong Kong's role as the domicile for Chinese holding companies has increased considerably owing to a double taxation treaty it has with China allowing it a reduced rate of a new withholding tax that will be applied to dividends paid to holding companies in other tax havens (including the CI and BVI).

The empirical verification of current theories regarding Chinese ODI is in fact severely challenged by the complexity of China's ODI, particularly the use of offshore companies. Econometric studies to date do not account for the *ultimate* destination of Chinese OFDI. Their results must therefore be questioned. Hong Kong's role in Chinese onward journey ODI will only become more important in the light of recent tax law changes imposing withholding taxes on dividends remitted to offshore holding companies.

Strategic-asset or market seeking?

Secondly, our results show that the nature of private sector ODI cannot in general be characterized as of a strategic-asset-seeking type. As noted, the role of capital market imperfections is particularly prominent in discussion of Chinese ODI. Morck et al (2008), for example, provide convincing evidence that Chinese companies' ODI is underwritten by the state (through state-owned banks, for example). This ultimately leads to excessive ODI geared towards the goals of state policy (i.e. strategic-asset-seeking). Others also argue that by doing Chinese companies try to 'springboard' their way to international competitiveness by undertaking overseas investments (Child & Rodrigues, 2005; Ping. Deng, 2009; Y. Luo & Tung, 2007; Rui & Yip, 2008). Our sample of private firms that are more financially constrained (we use firms that are, by definition, looking to raise capital through alternative means – primarily other private investors) do not appear to primarily seek strategic assets.

In fact, we find a theme that resonates strongly within our sample companies is a conservative, risk-averse approach to ODI, underscored by an appreciation that there are no shortcuts to success. ND Paper, for example, follows ‘disciplined development’ with ‘sound development strategies’ (ND Paper 2008, p.6). Others note how they strictly follow, a ‘prudent and focused management principle, the group has not speculated’ (Co Prosperity Group 2008). Alibaba, similarly has, ‘made a strategic decision to focus on becoming a better and stronger, rather than larger’ (Alibaba 2008).

This conservative approach may be understandable given that the success of these companies has been hard won. Most of our sample firms remain controlled by individuals or small groups of entrepreneurs and founding family members. With humble beginnings in many instances, these companies appear risk averse and unprepared to take risky large one-off investments in companies about which they have little real understanding. Their comparative lack of asset-seeking strategies is highlighted by the fact that so few companies have actually acquired overseas strategic assets, such as R&D capabilities, brands, management and the like. In fact, the main emphasis of these companies appears more oriented towards developing these assets domestically. This is evidently clear on the technological front, where there are numerous examples of companies pursuing domestic R&D strategies, such as developing linkages with academic institutions, setting up in high-tech zones/ clusters, so keep track of technological change, and importing technology (many of our sample firms also have joint ventures, which may facilitate technology acquisition).¹³ Where foreign investments in technology projects have taken place these are relatively modest.¹⁴ Vimicro International (multimedia processors, design and manufacture), for example, has a minor joint venture in US: ‘to keep abreast with the latest technology developments in the U.S. and to maintain a small team of engineers to conduct advanced research and development activities’ (Vimicro 1998). Similarly, Li Ning has a small design office in the US. Our sample of private firms, therefore, shows that alternative strategies to large risky investments in critical strategic assets appear to be applied whenever possible by private companies undertaking onward journey ODI.

There are two potentially important examples of strategic-asset-seeking in our sample of 57 firms. Mindray Medical’s \$209 million acquisition, for example, of the Datascope (US) may have aspects of asset seeking, as may Wuxi PharmaTech’s \$160 acquisition of Aptech (US). This depends, however, exactly upon how such ‘strategic-assets’ are conceived of. Closer inspection reveals that the opening of new markets appears a major motive in the Mindray case. Further, Wuxi Pharma’s acquisition may be more closely related to the evolution of its global production networks (and subcontracting) than true asset seeking. Strategic- asset seeking implies acquiring critical assets that one does not already have: ‘to *primarily enhance a firm’s critical competencies rather than to exploit existing assets*’ (Deng, 2009: 10). In the case of those firms expanding to supply global production networks, such as Wuxi, it seems likely that it is exploiting existing assets and competencies (i.e. its recognized ability to undertake services/production for large pharmaceutical companies). Similarly, in Mindray’s case, it is to leverage the use of existing competencies in new markets, rather than to acquire new ones.

¹³ Wasion Group, for example, has established its own Science and Technology Park. Li Ning, another example, has also created its Sports Science Research and Development Centre (as well as very minor operations in US). Jutal Oil Services, established a design center ‘to endeavor to foster and construct the design capacity... the Company will persistently and patiently advance construction and improvement of the products, services, management and corporate culture in the coming years. During such long-term process, fostering talents is essential.’ (p. 9). In order to further enhance their R&D capabilities, Haitian Group started a post-PHD R&D programme in 2008. It will fund a team of PHD graduates working with Beijing University of Chemical Technology to conduct research into new plastic processing technology. There are numerous other examples.

¹⁴ The9, for example, invested approximately \$38 million for a minority stake in Korean game developer G10 Entertainment Corporation.

There are a number of high-profile studies arguing strongly that strategic-asset-seeking is a dominant force driving Chinese ODI. Only a few studies have pointed out that the argument is based upon only a relatively small number of high-profile examples (Lenovo, Galanz, Haier and so on) or else official data, which itself has serious problems (not least the total omission of onward journey ODI) (Buckley, et al., 2007; Morck, et al., 2008; Schuler-Zhou & Schuller, 2009; Sutherland, 2009).¹⁵ Our findings suggests onward journey ODI of China's private businesses does not have any particular strategic-asset orientation, instead market and efficiency seeking, as well as global subcontracting explanations, appear equally if not more important. As such, it may still be a bit premature to suggest that alternative theories are required to explain China's ODI. The market seeking type activities we find common appear to fit more closely traditional models of firm internationalization strategies.

ODI as an escape

One further novel explanation given for Chinese ODI relates to its role as an escape mechanism. Domestic institutions are weak and costs of doing business, in this argument, are considered relatively high. As such, it may be relatively easier to expand in foreign markets when compared to the home market (Boisot & Meyer, 2008). Our findings lend qualified support to this argument. Firstly, although onward journeying does take place in 57 firms, much of the capital raised through the offshore holding companies 'round-trips' back to China (and in the 93 other firms which raise capital no onward journeying takes place). While the initial creation of such companies may therefore lead to ODI as an escape response in a technical sense (as assets are injected into holding companies), as most of it round-trips (often augmented with further capital, in our sample raised on stock markets) it is debateable to what extent these investments should be seen as genuine ODI. This is because the primary purpose of going offshore is not to expand into foreign markets but instead to raise capital to help boost domestic market expansion (in many cases capital is used explicitly to take-over rival firms and promote industry consolidation). Thus while the initial movement offshore may be a reaction to deficient institutions, in particularly capital markets in our sample, as much returns back onshore it is debateable if this can really be considered ODI. There is evidence, therefore, to suggest that ODI as an escape response to domestic institutional constraints does exist, but only in a rather limited sense for these firms.

Conclusions

Offshore investment holding companies play an important role in the outward investment strategies of China's private businesses through onward journey ODI. Even in our limited sample, moreover, we have found the volumes to be surprisingly high. Despite this fact, to date its role has not been widely recognized. We have found, moreover, that strategic-asset-seeking is by no means the most important driver of ODI in these private firms, many of which may suffer more serious financial constraints than large state-owned enterprises. Instead, we found that the vast majority of subsidiaries created in our sample were for sales related purposes, with the main aim of seeking new markets. Typically such subsidiaries provided after sales service, sought product feedback and looked for new customers. Some of the largest investments to Southeast Asia, as well as being motivated by market seeking, were also driven for efficiency seeking purposes. Finally, an important further motive for

¹⁵ As such, some argue our understanding of the rise in Chinese ODI – 'remains very incomplete.... One reason is the paucity of sufficiently disaggregated data to permit formal analysis of the forces shaping Chinese ODI' (Buckley, et al., 2007, p. 500).

internationalization in these firms was to expand relationships with other successful TNCs, often acting as suppliers to manufacturing OEMs, or as service providers. In all of these cases it was found that the firms had in the first instance developed some core resources and competencies of their own. Their outward investments, therefore, were not of a strategic-asset-seeking type, nor for the purpose of rapidly ‘spring-boarding’ to catch-up with developed market TNCs. Rather, they were undertaken as part of pragmatic long term strategies by conservative private entrepreneurs looking to gradually build up their presence in international markets.

Finally, it is worth considering the policy implications. There is a legitimate role for tax havens and offshore financial centres, as they enable economic activity to occur which otherwise could not. State control of the financial sector, as in China, may crowd out private firms seeking investment funds. From this point of view the establishment of affiliates in tax havens is not necessarily harmful. Indeed, an unplanned consequence of tax laws favouring foreign investment in China was that it created incentives for companies to move offshore. Our results suggest the unplanned consequences of this policy may not have been all bad. Offshore holding companies in well known tax havens, in fact, may also create a good platform for further international expansion. Indeed, even recent examples of state directed foreign acquisitions, such as Chinalco’s failed bid for Rio Tinto, used an offshore vehicle. Even state-owned firms, therefore, recognize the benefits of incorporating offshore for the purpose of onward journey ODI. Recent law changes, however, including the imposition of withholding taxes on dividends paid to such offshore vehicles, mean that the establishment of such holding companies has become substantially more difficult. As such, this could have implications for raising capital, and ultimately, the further internationalization of China’s private businesses.

Table 1: onward journeying investments in Hong Kong listed sample of firms

Name	a.	b.	Main business	Source	Holding structure	Chinese subsidiaries	Location of foreign subsidiaries	Value	Overseas subsidiary role	Seeking:
HAITIAN INT'L	C.I	3,700	Manufacturing and sales of plastic injection moulding machines and parts	p.65	BVI, HK	14	Italy, Turkey, Brazil and Hong Kong and Germany	5.4 mil real, 0.5 million lira, 100,000 euro, HK 10,000	Sales (all) and trading (only HK); manufacture, sales and R&D (Germany)	Markets
KINGDOM HOLDING	C.I	2,564	Textiles, clothing	p. 70 (2007)	BVI, HK	6	HK, Italy	HK \$10,000	Sales (after sales service), trading	Markets
JUTAL OIL SER	C.I	1,843	Provision of technical support for oil and gas industry and sales of equipment and materials, fabrication of oil and gas facilities	p.72	BV (3) , HK (1)	5	Macao, HK	MOP100,000	Civil engineering projects and provision of technical support services	Markets
CO-PROSPERITY	C.I	1,600	Processing, printing and sales of finished fabrics; manufacture and sales of high density and high-end yarns	p. 65	HK (1)	7	HK	HK \$2	Trading of fabrics	Markets
ND PAPER	B.	10,800	Paper, packaging	p.99	BVI (2), CI (1), HK (3),	>10	Vietnam (1)	US \$30 m.	Manufacture of paper	Markets/efficiency
WASION METERS	C.I	2,452	Development, manufacture and sale of electronic power, water and gas meters; and data collection terminals	p. 98	BVI (2), HK (1)	8	Macao (1)	MOP 1 m.	Trading of power meters	Markets
XIWANG SUGAR	B.	2,616	Refining sugar	p.99	BVI (1), HK (1)	...	South Korea (1), HK (1)	won 300 m., HKD 10,000	Imports, trading and selling of sweeteners and corn co-products, exports (HK)	Markets
CHINA FLAVORS	C.I	832	Research & development, manufacture and sale of flavours and fragrances	p.71	BVI (4), HK (1)	3	HK (1)	HKD 10,000	Trading	Markets
MINTH GROUP	C.I	3,492	Design, manufacturing, processing, developing and sales of exterior automobile body parts and moulds of passenger cars	p.104	BVI (4), HK (6)	>10	US (1), HK (1), Japan (1) and Thailand (1)	US \$26 m., HK\$ 4 m., JPY 50 m., Bht 178 m.	Primarily sales/after sales, marketing development (US), trading/logistics and technology import (HK)	Markets
SHENZHOU INTL	C.I	37,436	Manufacturing and sale of knitwear products	p.125	BVI (1), HK (2)	>10	Cambodia (1)	\$30 m.	Manufacture/sales of knitwear, to Cambodia and beyond	Markets/efficiency
XINYU HENGDELI	C.I	3,950	Retail and distribution of internationally branded watches, and the related after-sale services	p.89	None	>10	Italy, Hong Kong	Euro 1 m., HKD 5 m.	Production and wholesale of luxury writing instruments (Italy), retail of watches and jewellery (HK)	Markets

			and other extended goods							
AAC ACOUSTIC	C.I	9,928	Manufacture and sales of acoustic related products	p. 77	No	>10	HK (2)	...	Sales	Markets
GST HOLDINGS	C.I	3,531	Development, manufacturing, sales and installation of intelligent fire detection and control systems	p.93	2 BVI	>10	UK, Dubai	...	Sales	Markets
JOLIMARK	C.I	897	Manufacture and sale of printers and other electronic products manufacturing	p.54	BVI (2), HK (2)	>10	Singapore, HK	...	Sales and logistics	Markets
CHINA GLASS	B.	6,476	Production, marketing and distribution of glass and glass products	p.80	BVI (1), HK (1)	>10	HK	...	Trading	Markets
CHINA SP STEEL	C.I	3,300	Specialized steel products	p.105	BVI (4), HK (4)	>10	Indonesia, Singapore and HK		Mining, trading	Markets/resources
XINYI GLASS	C.I	7,338	Production and sales of float glass products including photovoltaic glass and automobile glass	p.84	BVI (1)	>10	Canada, Germany, Japan and Hong Kong	CAD 120,000, Yen 20 m., Euros 25,000, US\$ 10,000, HKD 10 M.	Sales agents	Markets
TEXHONG TEXTILE	C.I	14,952	Manufacture and sale of yarn, grey fabrics and garment fabrics	p. 141	BVI, HK (numerous)	>10	Vietnam, HK, Macao	16mill. Us dollars, HKD, 10,000 and MOP \$100,000,	Manufacturing of yarn (Viet Nam), trading	Markets/efficiency
SHINEWAY PHARM	C.I	2,345	Research and development, manufacture and trading of Chinese pharmaceutical products.	p. 84	BVI (2), HK (2)	5	HK	...	Trading , Chinese pharmaceuticals	Markets
ESPCO	C.I	316	Gold exploration, mining and mineral processing	p.61	BVI (1)	1	Singapore, HK, Macao	US \$ 50,000, HKD 1 m. , Macao MOP 1 m.	Trading and distribution of desktop PC components	Markets
LI NING	C.I	4,001	Research, design, manufacturing, distribution and retailing of sports footwear, apparel and accessories for sport and leisure	p. 113	BVI (1), HK (2)	>10	Spain, USA and Singapore	US \$1,000, Euro 3,000	Sale of sports goods (Spain, Singapore), design of athletic shoes and apparel (US)	Markets
TENCENT	C.I	...	Provision of internet and mobile value-added services and online advertising services.	p.113	BVI (one)	>10	HK	...	VOIP service provision	Markets
SINOCOM SOFT	C.I	3,016	Provision of outsourcing software development services and technical support services.	P.68	BVI (5)	5	Japan (2)	JPY 40 m.	Provision of outsourcing software development services	Markets

SMIC	C.I	10,598	Computer-aided design, manufacturing, packaging, testing and trading of integrated circuits and other semiconductor services	p.121	BVI, HK, Samoa and CI	8	US, Japan, Italy, ...	Marketing and sales	Markets	
ECOGREEN	C.I	301	Production and trading of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products	p. 94	BVI (2), Netherlands (1)	9	Netherlands and HK	Euro 18,000, HK 10,000	Sale of fine chemicals (Netherlands), trading (HK)	Markets
CHINA ORIENTAL	B.	9,400	Iron and steel, including mining operations	p.156	BVI (many)	>10	HK	...	Import and export of goods	Markets
ALIBABA	C.I	7,992	Provision of software, technology and other services on online business-to-business marketplaces	p.114	BVI (many)	Some	US, Japan, HK, UK, Taiwan	HKD \$4 m.... Not exact	Provision of internet content and advertising services (Japan), Technology maintenance, marketing, admin (US, UK)	Markets/assets
ANTON OILFIELD	C.I	1,000	Provides high-end oilfield services and products in the areas of well services, drilling and production services and field services	p.75	HK (1)	15	Canada, Dubai and HK	...	Sales and leasing of drilling equipment, services and sales (HK)	Markets
BYD ELECTRONIC	HK	39,000	Manufacture of handset components and modules, and provide assembly services for handsets	P.62	CI (1), BVI (1)	3	Hungary, India	HUF 3.5 bil., RS 2.5 bil.	Manufacture and sale of mobile handset components	Markets/assets (?)
EYANG HOLDINGS	C.I	1,856	Manufacture and sale of multi-layer ceramic capacitor, mobile phones and mobile phone components	p.84	BVI (1), HK (1)	4	HK	HKd 05 m	Trading of mobile phone components	Markets
HONGHUA GROUP	C.I	3,487	Research, design, manufacture, setting and sale of land rigs and related parts and components.	p.108	HK (1)	6	US, Russia, UAE, India, Indonesia and Pakistan	us\$ 0.8 m, R. 10,000, AED 1 m.	Sales/customer service, and manufacture of drilling rigs and related parts (US)	Markets
SOLARGIGA	C.I	1,186	Trading and manufacture of monocrystalline silicon ingots and wafers, processing of solar ingots/wafers	p.105	BVI (1), HK (1)	6	HK	...	Trading of silicon wafers	Markets

Notes: a. is place of incorporation; b. is number of employees; BVI is British Virgin Islands; CI is Cayman Islands; HK is Hong Kong.

Sources: all information taken from annual reports for 2008, unless otherwise stated.

Table 2: onward journey investments in the US listed sample of firms

Name	a.	b.	Industry	Inv. Holding	Chinese subs	Number of overseas subsidiaries	Business of overseas subsidiaries	Seeking:
China Finance Online	HK	1,310	Business services	HK (1), BVI (4)	PRC (8)	HK (3)	Consulting, brokerage services	Markets
China Medical Technologies	CI	843	Surgical and medical instruments	BVI (3), HK (1)	PRC (3)	HK (3), US (1)	Trading	Markets
China Techfaith	CI	400+	Business services	BVI (8), HK (1)	7 BVI, 2 PRC, 1 HK	HK (1), US (1)	Mobile handsets, design (US), sales (HK)	Markets/assets
China Technology Global	BVI	110	Converted paper & paperboard prods	BVI	Not clear	HK, Macao	Formerly paper trading	Markets
LDK Solar	CI	14,130	Semiconductors & related devices	HK (1), Luxembourg (1)	PRC (5)	US (1), Germany (1)	Leading manufacturer of crystalline wafers, solar cells and modules	Markets
Longtop Financial Technologies	CI	2,602	Computer programming services	BVI (1), HK (1)	PRC (5)	HK, Singapore, US	No details	Markets
New Oriental Education & Technology	CI	5,200 +	Educational services	3 PRC, 1 Canada	PRC (50+)	Canada (1), HK (3)	No details	Markets
ReneSola	BVI	3,258	Semiconductors & related devices	...	PRC (3)	US (1), Singapore (1), Malaysia (1)	Procurement of raw silicon	Resources
Semiconductor Manufacturing International	CI	10,598	Semiconductors & related devices	CI (5), BVI (1), Samoa (1)	PRC (7)	Italy, Japan, US, HK	Trading/sales/marketing	Markets
Sinovac Biotech LTD	AT	354	Pharmaceutical preparations	...	2 PRC	HK (1)	Biotech	Markets
Trina Solar LTD	CI	4,604	Semiconductors & related devices	BVI (1)	PRC (2)	Korea (1), HK (1)	Procuring silicon and and arranging tolling manufacturing (HK), Korea (marketing)	Markets/resources
VanceInfo Technologies	CI	6,075	Computer programming services	BVI (1), HK (1)	PRC (8)	US (2), Japan (1), HK (1), Malaysia (1)	IT outsourcing, service clients	Markets
Yingli Green Energy Holding	CI	4,704	Semiconductors & related devices	BVI (1),	PRC (8)	Germany (2)	Sales, some manufacturing	Markets
Baidu.com	CI	6,387	Computer programming services	BVI (1), HK (1)	PRC (7)	Japan (3)	Targetting Japanese market	Markets
China Sunergy	CI	1,799	Semiconductors & related devices	1 BVI	PRC (1)	HK (1) Germany (1)	Sales	Markets
JA Solar Holding	CI	4,213	Semiconductors & related devices	1 BVI, 1 HK	PRC (6)	US (1)	Sales	Markets
Mindray Medical International	CI	5,554	Surgical and medical instruments	BVI (6), HK (2)	PRC (3)	UK, Italy, US, Singapore, India, Russia, Germany,	Numerous, undertook US \$ 209 million acquisition of Datascope in 2009	Markets/assets

						France, Netherlands, Canada, Mexico, Brazil, Sweden, Turkey		
Perfect World Co.	CI	2,096	Software	HK (1), BVI (1)	PRC (4)	US (1), Malaysia (1)	Sales/business expansion	Markets
Sincere Pharmaceutical Group	CI	2,759	Pharmaceutical preparations	BVI (1), HK (1)	PRC (11), 1 HK	HK (1)	Trading	Markets
Suntech Power Holdings	CI	9,070	Semiconductors & related devices	BVI (3), Singapore (1), HK (1), Cyprus (1)	PRC (9)	Germany, Japan, Australia (3), Germany (3), Italy, US (3), Cyprus, Switzerland, Korea, HK	Sales/procurement and technology	Markets/resources
WSP Holdings	CI	4,414	Oil & gas filed machinery & equipment	1 BVI	PRC (2), US (1), Canada (1)	US (1), Canada (1)	Sales/trading	Markets
WuXi PharmaTech	CI	3,347	Pharmaceutical preparations	1 BVI, 1 US	PRC (5)	US (1)	Biotech, \$163 m.	Markets/assets
Solarfun Power Holdings	CI	3,989	Semiconductors & related devices	1 BVI, 1 US	1 HK	US (1), Germany (1)	Sales	Markets
The9 Limited	CI	1,626	Business services	1 HK	HK (2), PRC (6)	HK (1), Korea	Online games	Assets
Vimicro International Corp	CI	663	Semiconductors & related devices	HK (1)	PRC (6)	US (1), HK (1)	Small research and development team (US), sales (HK)	Market/assets

Notes: a. is place of incorporation; b. is number of employees; AT is Antigua and Barbuda.

Sources: all information taken from 2008 20-F filings unless otherwise stated.

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