

UNIVERSIDAD ESAN



**ASSESSMENT OF CHINA'S FOREIGN DIRECT INVESTMENT
PORTFOLIO**

**Thesis presented in partial satisfaction of the requirements to obtain the degree
of Master in Business Administration by:**

Yana Shen

Yessica Cáceres

Programa de la Maestría en Administración - IMBA

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EXECUTIVE SUMMARY:

China has experienced an historical rapid growth in foreign reserves and domestic wealth over the last four decades. These surging capitals urged Chinese public and private investors to search for new investment opportunities and value creation channels. In 2000, Chinese government announced its “Go-out policy” to encourage Chinese enterprises, especially state-owned enterprises to invest overseas. As response to this policy, the outbound Foreign Direct Investment (FDI) of China started to boom. In 2015, China became the second largest FDI investor of the world.

From 2005 to 2015, China’s outbound FDI went from \$10.2 billion to \$110 billion. At the same time, its investment destinations broadened from 11 countries to 106 countries, including not only the regular FDI recipients but also countries with political, social and economic instability. The rationale and insights behind the Chinese FDI’s big expansion and evolution as well as its ascending role in the global FDI make this research very interesting and useful.

In order to identify the patterns and trends of China’s FDI between 2005 and 2015, financial variables such as weighted expected return, standard deviation, Sharpe ratio, weighted beta and weighted country risk, were computed for 839 FDI transactions within the studied period. To achieve a deep understanding of Chinese FDI evolution, the obtained data was first analyzed from a general perspective through the entire period. Then, a study of China’s FDI in developed and emerging markets was carried out. Finally, the data was analyzed from a regional and sectorial disaggregation.

The following patterns and trends for China’s FDI were identified from the analysis carried out: 1) China’s FDI portfolio in general is getting more diversified in terms of sectors and destinations. 2) The stability of Sharpe ratio indicates that Chinese FDI portfolio maintains a balanced dynamic between expected return and risk through the studied period. 3) Natural resources related sectors are the principal targets for Chinese FDI investors. 4) State owned enterprises are the mainstay of Chinese outward FDI. 5) China’s x FDI shows distinctive characteristics in different markets and regions, in terms of diversification and focused sectors.