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Looking back at the Tenth Anniversary: A brief introduction to China's "going global policy"

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2010 marks the 10th anniversary of China's announcement of its "going global policy", as it became officially a policy of the 10th Five-Year Plan, in October 2000. As the most updated statistics show, China's foreign direct investment (FDI) has climbed from USD 2.7 billion outflows and USD 29.9 billion stocks in 2002 to USD 56.53 billion outflows and USD 245.75 stocks in 2009.[2] The growth is at a stunning speed, and in some of the years, the hikes of FDI outflows are double as they were in the previous years, such as in 2005 and 2008. This article aims to describe the course of the past ten years, to see what the significant moments, concerns and changes were, for China's "going global policy".

Looking back beyond the last ten years

Some researchers have pointed out the fact that, the Chinese FDI outflows existed much earlier than 2000, the year it was supposed to be born. In the Globalization Monitor's "Preliminary Report on China's Going Global Strategy", it states that Hong Kong, at the time when it was still a British colony, has become an important destination for the Chinese FDI, as early as late 1970s.[3] The window-companies, owned by Chinese state-owned enterprises (SOE), provincial or even township enterprises were set up in Hong Kong. They went through a period of chaos, corruption, frauds and irregularities. According to the report, by 1989, there were more than 2500 Chinese companies in Hong Kong. However, irregularities became a big concern and the State Department had to launch a clean-up. The number of Chinese companies was then reduced to 1500 by 1991.

Though this article focuses more on the later period, when the scale of Chinese FDI has intensified and starts to make a scene in their host countries, it is to remember that the Hong Kong experience served as a learning experience for Chinese companies, to be more accountable and to play the game in accordance with legislations and regulations better. It is also relevant to know that until today, Hong Kong is the biggest Chinese FDI destination (though Hong Kong is a part of China now, in terms of the statistics, the Statistical Bulletins of China's Outward Foreign Investment issued by the Ministry of Commerce, still considers it as a host country of Chinese FDI). It is commonly believed that a large amount which Hong Kong receives would be then re-channelled. However, there is a lack of statistics from the official reports to show the amount and destinations of the re-channelling.

Walking out and inviting in

The "going global policy" (known in Chinese as Zouchuqu, literally meaning "walking out") was introduced, after China has received 20 years of heavy inflows of FDI (known as Yinjinlai, literally meaning "inviting in"). The discussions on China's policy and role of going global, were mainly initiated at the think-tanks, especially organiza-

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[2] 2009 Statistical Bulletin of China's Outward Foreign Direct Investment. Ministry of Commerce. http://hzs.mofcom.gov.cn/accessory/201009/1284339524515.pdf accessed on 18 December 2010.

[3] Globalization Monitor. "Preliminary Report on China's Going Global Strategy". http://www.globalmon.org.hk/en/wp-content/uploads/2009/03/china_going_global_strategy_final.pdf accessed on 18 October 2010.

tions with a linkage to the government departments or ministries.

"Both the 'inviting in' and 'going global' strategies are ways to integrate into economic globalization. 'Inviting in' is the base for 'going global', and 'going global' is the necessary result of 'inviting in'. The former strategy enables our country to get necessary economic resources like capital, technology and raw materials, but the initiative does not lie in the hands of our corporations. In fact, China's accession to the WTO (World Trade Organisation) not only implies that she has domestic obligations to fulfil, but also that she is entitled to her legitimate rights beyond China. Only when we enhance our strategy of 'going global', of trans-national operation, can we balance our obligation with our rights."[4]

The need to invest overseas became increasingly urgent when China was entering the WTO in December 2001. When entering the WTO, China has to open its market to foreign competitors, while it opens opportunity for Chinese companies to compete with their counterparts in the overseas markets at the same time. China needed to prepare the domestic firms and their management with international experience, so that they will not lose too much ground in their homeland, and might even gain in the new markets.

Another factor is, with strong exports and enormous accumulation of foreign reserves, China was under strong pressure to appreciate its currency, yuan. Investing overseas is seen as one of the solutions to employ its foreign reserves and hold back the demands of yuan appreciation.

Therefore, it is interesting to note that for the Chinese FDI, it is not only a matter of business interest for the Chinese transnational companies, but also comes as a national policy and involves China's international image. In China, FDI policy is drafted and master-planned by the National Development and Reform Commission, the same Commission which is in charge of many major issues, such as China's development rights and its role on climate change. The Ministry of Commerce plays the role in authorizing and controlling the FDI, at a more direct and case by case basis; while the Ministry of Finance, serves to finance companies which aim to go global. For a Chinese company to invest overseas, it needs to seek approval from the Ministry of Commerce as the first step. The capital size involved, industry to be invested, especially if it is natural resources related, China's diplomatic relationship with the host country and etc., are factors for the Ministry to consider.

Therefore, it is not surprising that the forerunners of the Chinese FDI are mostly the SOE. Their size and also their linkage to the Party, serve them a prominent position to make the FDI expedition. The primary goals of the "going global policy" are set, as to increase Chinese FDI, pursue product diversification, improve the level and quality of the projects, expand financial channels with respect to the national market and promote brand recognition of Chinese companies in EU and US markets.

The diversity of the Chinese FDI

The Ministry of Commerce has been published annual reports of the Chinese FDI, known as Statistical Bulletin of China's Outward Foreign Direct Investment, since 2006. It has categorised the types of FDI between financial and non-financial. The annual report of 2009 states that "by the end of 2009, nearly 12,000 domestic investing entities had established about 13,000 overseas enterprises, spreading in 177 countries (regions) globally. The accumulated outward FDI net stock volume stood at US$245.75 billion… By the end of 2009, the foreign affiliates employed 970 thousand workers, of which 438 thousand are foreign".[5]

The major types of FDI outflows in 2009 are credits and business services (36.2 per cent), mining (26.5 per cent), financial sector (15.5 per cent), wholesaling and retailing (10.8 per cent) and manufacturing (4 per cent).[6] By scale, the top Chinese transnational companies (non-financial), ranked by the size of their FDI are three oil companies (China National Petroleum Corporation, China National Offshore Oil Corporation and China Petrochemical Corporation), followed by two companies dealing with resources (Aluminium corporation of China and China Resources (Holdings) Co.,Ltd.). Shipping, foodstuffs, chemicals and trading companies are also listed. These

Zouxiang Shijie de Zhongguo Kuaguo Gongsi, (Chinese TNCs going out for the world), edited by Wang Zhile, China Commerce Press, 2004, p. 20. The English translation was taken from Globalization Monitor's "Preliminary Report on China's Going Global Strategy". http://www.globalmon.org.hk/en/wp-content/uploads/2009/03/china_going_global_strategy_final.pdf accessed on 18 October 2010.

[5] 2009 Statistical Bulletin of China's Outward Foreign Direct Investment.

[6] 2009 Statistical Bulletin of China's Outward Foreign Direct Investment.

give some insights that the Chinese TNCs, at least at this stage, are mainly from the oil and resources sector, but other sectors also play a role there.

The format of FDI also varies, from traditional type of joint venture, acquisitions and building new plants in the overseas countries, China is also developing strategic partnership with their FDI host countries. It occurs rather often in Africa, "with the increase in Asian FDI flows to Africa has come a new aid-investment nexus between Asian countries and their African partners. China, for instance, plans to increase contributions to its African Human Resources Development Fund by 33% and to provide training to 10,000 African personnel by 2008."[7] Apart from the energy and resources sector, China is also reportedly to be interested to invest its FDI on agriculture. "According to the *Catalogue for the Industrial Guidance of Foreign Direct Investment* amended by the NDRC and the MOFCOM in 2007, the Government encourages foreign investment, in agriculture-related R&D", it covers sugar corps, organic fertilizers and polyploidy trees.[8]

Sovereign wealth fund with Chinese characteristics

In late 2005, the Ministry of Finance established a special fund to support Chinese enterprises' overseas investments and other international operations by providing direct grants and subsidies for interest payments. In September 2007, China Investment Corporation (CIC), as China's sovereign wealth fund (SWFs), was formally created under the wings of State Council and the Ministry of Finance. It started with a registered capital of USD 200 billion.

"From its inception in September, 2007 through the end of 2008, CIC deployed about USD 21 billion into the market. The gradual deployment of capital was appropriate for a new company particularly under the turbulent market conditions. However, as CIC built its capability and the global economic and investment environment started to show signs of recovery, it significantly stepped up its investment activities, making new investments of about USD 58 billion in 2009."[9] The investments CIC made in 2009 are mainly in the areas of minerals, renewable energy as well as coal, natural gas and oil companies. It covers countries like Canada, Indonesia, Russia and Kazakhstan. Foreseeing its interests in the acquisition of minerals and in the energy sector, especially in North America, CIC is going to launch its first overseas office in Toronto in January 2011.

Compared with other SWFs, CIC is considered as a passive player, China Investment Corporation (CIC), and "was not seriously hit by the crisis due to its conservative portfolio composition. At the end of 2008, CIC held 87 per cent of its assets in cash and cash products".[10] According to its 2009 annual report, the return on CIC global investment portfolio was 11.7 per cent. Combined with the results of Central Huijin, the CIC's subsidiary which invests exclusively in China's domestic financial institutions, CIC provided its shareholders with an overall return on registered capital of 12.9 per cent. It is noted that the recovery and performance of CIC has improved significantly when compared with 2008, when a loss of 2.1 per cent and 6.8 per cent of return on registered capital. One researcher has pointed out, "While most of other SWFs in the world come from fiscal surplus, the funding of CIC comes from the bonds issued by the Ministry of Finance. To repay the 4.5 per cent annual dividends and to cover the around 8 per cent appreciation rate of RMB, CIC must have an annual return of 13 per cent, or it would suffer from loss."[11]

Yet, not all are happy about the Chinese FDI

However, the Chinese acquisitions also raise doubts, worries and even criticisms in their host countries. One of the common criticisms is that the Chinese FDI is representing mainly the interests of the State. It is often heard when Chinese FDI lands on the energy and natural resources sector, and the visible hand of the Chinese Government and the knowledge of China is energy-thirsty and resources-hungry make the media buzz louder than ever.

Human rights and environmentalists also criticize China's investment in countries such as Burma and Sudan. Civil society in the host countries, such as in Africa, made the observation that FDI inflows from China do not necessarily help their

[7] World investment report 2006, http://www.unctad.org/en/docs/wir2006_en.pdf, accessed on 4 November 2010.

[8] World investment report 2009, http://www.unctad.org/en/docs/wir2009_en.pdf, accessed on 6 November 2010.

[9] CIC's annual report 2009, http://www.china-inv.cn/cicen/resources/news_20100729_391820.html, accessed on 5 November 2010.

[10] World investment report 2010. http://www.unctad.org/en/docs/wir2010_en.pdf, accessed on 8 November 2010.

[11] http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/theory/2009-02/06/content_10772625.htm, accessed on 3 November 2010.

community with more employment or transfer any skills to the locals,[12] as most of workers at the Chinese companies are Chinese. The unionists at the host countries are also speaking of gross violations of labour rights by the Chinese companies.[13] For example, the Shougang Group, a Beijing steelmaker which invested in Marcona, Peru as early as in 1992, was accused by the local Peruvian as "Shougang has turned us into slaves." Falling work safety standard, job cuts and poor environmental protection are quoted by the local community and since 2001, there has been at least one strike per year in the mine.[14]

Another criticism is that the leadership of the Chinese companies which have the capacity to invest overseas, namely and mostly the SOE, are under the supervision of State-Owned Assets Supervision and Administration Commission, a commission controlled by the State Council. The commission holds the power to appoint, evaluate, promote or dismiss the senior positions such as CEOs at the SOE, and therefore, the SOE leaders might not only serve to gain the highest interests for its shareholders, but to put the Party's interest as its priority. Taking CIC as an example, its CEO Lou Jiwei, is of course, a party member, and prior to this appointment, he was the vice-minister of Finance and vice-governor of Guizhou Province.

The second criticism goes further that as the SOE are less transparent, weaker governance from its common-people shareholders and often pays little or even no dividends to their shareholders; even they are reportedly profit-making.[15]

The Chinese Government is very much aware of these two criticisms. To address them, Premier Wen Jiabao has spelt out three principles for CIC at its establishment, namely, CIC is set up for business purpose and seeks products after its own risk evaluation; CIC operates in a corporate model and invests according to its business interests; and it makes its own decisions and receives no intervention from the government.

[12] http://www.tni.org//archives/act/16959, accessed on 6 November 2010.

[13] http://www.zimbabwemetro.com/news/chinese-companies-are-engaged-in-the-gross-violation-of-labour-rules-in-zimbabwe/, accessed on 29 November 2010.

[14] http://www.minesandcommunities.org/article.php?a=1540, accessed on 9 November 2010.

[15] Morck, Randall, Young, Bernard, and Zhao Minyuan (2007). Perspectives on China's Outward Foreign Direct Investment. Journal of International BusinessStudies. Downloaded from http://www.usc.cuhk.edu.hk/PaperCollection/Details.aspx?id=6538, accessed on 13 November 2010.

Chinese FDI as a national pride

After decades of receiving FDI inflows, the Chinese media and also the majority of the people take the "going global" policy as their national pride. However, it can be a dangerous blind spot, "The corporate executives, Party Committee members, and bankers seen thus restoring China's honour as a true economic power arguably gain respect and status unattainable by any other means…China's outward FDI may be justified economically to SOE insiders who overvalue control due to their distrust of markets and sense of national pride. This third rationale can continue as long as those who control China's business enterprises continue to accept below-market share valuations in exchange for these perceived benefits of control."[16]

"A study shows that amongst overseas branches of Chinese firms, only 55% are profitable, and they are mostly non-manufacturing firms. Firms which are neither profitable nor experience losses account for 28%. 17% are losing money; most of these are manufacturing firms. Another survey shows that only 30% of overseas investment is profitable, 30% experience losses, and 40% barely make ends meet", according to the Globalization Monitor report.

The Ministry of Commerce also acknowledged this problem; it has been publishing and updating guidelines on different destinations, outlining their attractions, as well as their potential risks, legal issues to be careful with, for the Chinese companies as references. On its website, it also provided case studies of how some companies fail, how some Chinese workers, mainly construction workers who work for the Chinese subcontractors overseas got into trouble with their visas or conflicts with the residents in the host countries. It repeatedly reminds the Chinese investors that corruption should be avoided and rule of law shall be respected in their host countries.

Currently, Chinese FDI outflows ranks fifth in all economies and given China's population, its FDI per capita is not yet significant. However, the Chinese FDI is believed to continue making news headlines in the coming future, regardless if it is really "the age of Chinese acquisitions", thanks to the media hype and the myths surrounding Chinese companies.

[16] Morck, Randall, Young, Bernard, and Zhao Minyuan (2007).

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