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CHINA'S GOING GLOBAL POLICY: A PRELUDE TO THE BRI

Backgrounder 08

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Summary

- The "Going Global" (*zou xiang shijie*) (走向世界) policy was articulated first in 1992 and formalised over the next two decades to liberalise China's outgoing foreign direct investment (FDI) regime.
- The policy enabled Chinese enterprises to establish themselves in markets around the world to secure natural resources, gain access to technology and enhance the competitiveness of export enterprises.
- The Going Global policies of the 2000s were driven by a combination of internal and external economic pressures, most notably China's accession to the World Trade Organisation (WTO) in 2001. In response to China's WTO accession commitments that heightened domestic competition, government policies encouraged SOEs and private enterprises to pursue investments in markets around the world.
- The policies resulted in the internationalisation of Chinese State-Owned Enterprises (SOEs) and subsequently private companies that sought new import markets, strategic assets, technology and energy and mineral resources.
- The policy has evolved since its inception to include more diverse forms of overseas investment within the framework of the Belt and Road Initiative (BRI). The Going Global policies generated the momentum necessary for China's integration into the global economy.

Origin

The conceptualization of the "Going Global"/ "Going Out" policy took place in the second half of Jiang Zemin's tenure as General Secretary of the Communist Party of China (CPC). Jiang was its principal architect who argued for the participation of enterprises in foreign trade and overseas investment. In internal speeches to members of the CPC between 1992 and 1996, he encouraged overseas investment and explicitly called for the expansion of Chinese enterprises overseas in a speech delivered on July 26th 1996, after returning from a visit to Africa. The following year at the National Foreign Investment Work Conference and the 15th Party Congress he emphasised that the policy was a new stage in the opening up of China, calling for the development of internationally competitive companies. He reiterated the policy at several conferences and eventually discussed it during a Politburo meeting on January 20th 2000.

The policy was officially launched in the annual report to the National People's Congress in 2001, delivered by Zhu Rongji, who stated, "we need to implement a "going outside" strategy, encouraging enterprises with comparative advantages to make investments abroad, to establish processing operations, to exploit foreign resources with local partners, to contract for international engineering projects, and to increase the export of labor". The policy was supported by a framework to assist enterprises in establishing overseas operations, strengthen supervision and administration of SOE operations overseas and cultivate globally competitive 'national champions'. Following these directives from the Party leadership, several departments and officials within the government like the Ministry of Commerce (MOFCOM) and State Council's National Development and Reform Commission (NDRC) developed guidelines for the implementation of the policy.

Drivers

China's push to internationalise its SOEs and other enterprises was driven by three factors that represented an adjustment in the development of the Chinese economy, according to Li Zhaoxi of the Enterprise Research Institute of the State Council.

Firstly, a natural consequence of China's economic growth since 1978 was an increase in the consumption of natural resources that had to be acquired at competitive prices to maintain economic growth. The demand for these resources could no longer be met from domestic sources alone and had to be sourced from overseas.

Secondly, China's accession to the WTO meant a reduction of tariff and non-tariff trade barriers that heightened competition in the domestic economy, prompting enterprises to seek out foreign markets for export. Additionally, Chinese manufacturing sectors hindered by overcapacity and facing intense profit pressures were encouraged to secure large market shares in Africa, where there existed little to no competition and demand for products like electronics, appliances, textiles and other goods could be met by Chinese enterprises.

Thirdly, Chinese SOEs and private enterprises were not exposed to globalisation, which meant enterprises could become more competitive by participating in global markets. The push to create globally competitive "national champions" supplied the impetus for the Going Global policy. This was particularly true for engineering and manufacturing enterprises that were well suited to secure contracts for projects overseas. Expanding this to include manufacturing and service-oriented enterprises was necessary for the Chinese economy to sustain economic growth. Exposure to globalization meant Chinese enterprises could access advanced technology and management expertise that made them competitive in global markets.

Measures/Implementation

Section 4, Chapter 17 of the 10th Five Year Plan (FYP) announced at the NPC in 2001, established the guiding principles and objectives of the "Going Global" policy, which was followed by a circular released by the Ministry of Foreign Trade and Ministry of Finance titled, '*Detailed Rules for the Implementation of the Measures for Administration of International Market Developing Funds of Small-and Medium-sized Enterprises*'. The circular provisioned funds for the development of enterprises looking to operate in overseas markets, detailed the eligibility criteria and supervision mechanisms of the policy and established several other provisions governing the use of funds for supporting overseas investment and expansion by enterprises in China. The following year the government selected around 50 "national champions" from strategic and priority SOEs and in 2003 began a pilot project to accelerate the "Going Global" in coastal provinces and cities like Guangdong, Fujian, Shandong, Zhejiang, Qingdao, Shenzhen and Xiamen. In the first 11 months of 2004, China completed 31 deals of overseas merger and acquisition, worth $1.6 billion.

Some high-profile deals during this period include SinoChem's acquisition of Inchon Oil Refinery Co. Ltd. valued at $544 million, China Huaneng Group's acquisition of OzGen valued at $246 million, SAIC's acquisition of a controlling stake in Sanyong Motor, South Korea's fourth largest carmaker worth $500 million and China Minmetals acquisition of 51% of controlling interest in Shervin Alumina, the second largest aluminium producer in North America. In December 2004, China's Lenovo Group, the country's largest manufacturer of computers successfully acquired the PC business of IBM, a landmark moment for the internationalisation of Chinese SOEs.

In July 2004, the MOFCOM and the Ministry of Foreign Affairs issued the *Guidelines for Investments in Overseas Countries' Industries and the Overseas Investment Guidance Catalogue*, targeting specific industry sectors and 68 priority recipient nations. At the first international forum on "Going Global" organised by MOFCOM in June 2004, one official outlined the objectives of the policy: gradually increasing outward investment and developing overseas processing trade and overseas assembling trade, intensifying overseas cooperation in resource development, contracting overseas engineering projects and facilitating overseas science, technology and talent cooperation. On the role of the government, he noted that high-level visits by officials will be leveraged to secure large projects, intermediary agencies in foreign trade would be encouraged to participate with international counterparts and China will vigorously take part in negotiations on multilateral investment frameworks and accelerate the signing of free trade agreements.

The NDRC in 2004 released regulations titled, *Verification and Approval Procedures for OFDI/Interim Measures for the Administration of*

Examination and Approval of the Overseas Investment Projects, detailing the measures to regulate overseas investment. Article 4 of the regulations state that resource development projects using large amounts of foreign exchange ($30 million or more) were subject to approval by the State Council and Article 5 stated that for projects less than $30 million investment by a Chinese entity, approval and examination functions were delegated to the provincial government departments. Significantly, for enterprises under the administration of the central government investing less than $30 million USD, decisions were to be made by the enterprises independently, granting them freedom to make economic decisions without approval from the state. Article 18 detailed the requirements for an overseas project to qualify for approval, stating that projects must be helpful in the development of strategic resources, promote the export of goods, equipment, technology and labour and absorb advanced foreign technology. The NDRC and Export-Import (Exim) Bank of China followed up these regulations with more measures on supplying credit to overseas investment projects in October that year. In 2005, nearly one-third of Exim Bank's lending was used to facilitate the implementation of the "Going Out" policy. The *Circular on Supportive Credit Policy on Key Overseas Investment Projects* established a joint credit support mechanism, setting aside a certain scale of credit funds with preferential interest rates to support key overseas investment projects encouraged by the state. The projects encouraged by the state included resource development projects making up for the deficiency of domestic resources, production projects enhancing the export of domestic products, equipment and technology, establishing research and development centres with access to advanced technology experiences and merger and acquisition (M&A) projects that could improve international competitiveness of Chinese enterprises.

By 2005, more than 7,000 Chinese enterprises invested in 160 countries and regions around the world, with a total outward foreign investment stock and flow estimated at $50 billion and $5 billion, respectively. Most of this investment abroad came from centrally controlled SOEs who accounted for 4-5ths of stock of outward investment, with SOEs accounting for 76% of all outward FDI in 2003 and 75% in 2004.

After 2005, government departments produced more regulations and policy support mechanisms for cultivating 'export name brands'/'world famous brands': providing export credit insurance, risk reports, industry analysis reports, credit investigation reports and other policy support to export enterprises investing overseas. The *Circular on Implementing Export Credit Insurance* issued in August 2005 by MOFCOM and the China Export and Credit Insurance Corporation also targeted non-public enterprises, promising to provide training for export trade risk management and assistance to resolve financing problems. It established an online business operation system called "Xinbaotong" to reduce labour costs and improve efficiency for non-public enterprises and offered preferential services in export credit management. The same year, MOFCOM also released detailed rules governing the approval of investments abroad. For instance, Article 3 of the circular required that the investment destination be politically and socially stable, its economy be functioning normally with a stable exchange rate and tax regime and its infrastructure capable of supplying water, power, gas, transportation and telecommunication facilities.

By 2006, the central government focused on overseas investment by privately owned enterprises and in a circular released by MOFCOM, the ministry noted that "private enterprises still face real institutional hurdles and other difficulties in "Going Global," and effective measures must be taken to solve these problems" (Encouraging and Supporting "Go-Global" of Privately Owned Enterprises). The circular noted that private enterprises should 'enjoy the same policy treatment as enterprises of other types of ownership'. It recommended the extension of financial and policy support to private enterprises, even detailing the role of Chinese embassies in assisting enterprises to operate in foreign countries. The policy was given further emphasis in the 11th Five Year Plan from 2006-2011 which stated in Chapter 37, Section 1 that the "Going

Global" policy would prioritise competitive industries, assist in overseas processing trade, cultivate competitive international brands through M&As, equity participation, public listing, restructuring etc. The 11th FYP further encouraged enterprises to seek out foreign markets, resources, technology and assets calling for them to "go further outwards" (*Jinyibu zouchuqu*).

To streamline the policy, NDRC, MOFCOM, MOFA and other departments issued a circular in 2006 outlining the sectors and industries in which investment was to be prioritised and in March 2007 the State Administration issued rules and procedures simplifying taxation of overseas investments. The same year, China established its sovereign wealth fund, the China Investment Corporation (CIC), with initial capitalization of $200 billion of which $90 billion was allocated to overseas investment. These measures aimed to deepen state support for strategic investments in overseas markets were intended to acquire access to technology, establish a foothold in export markets and create internationally competitive companies. Key to this goal was access to advanced technology, which prompted the MOFCOM to provision funds for foreign economic and technological cooperation through the *Notice of Application of the 2011 Special Funds of Foreign Economic and Technology Cooperation*. The measures encouraged overseas technological cooperation by subsidising upfront costs related to legal, technical, financing and consulting services.

By the end of 2010, according to China's Ministry of Commerce, more than 13,000 Chinese investing entities had established 16,000 overseas enterprises in 178 countries and regions globally. The accumulated outward FDI net stock volume had reached US$317.21 billion. Mergers and Acquisitions emerged as the preferred method for overseas investment, with Chinese enterprises concluding 188 M&A deals in 2010 totaling $38 billion USD. For example, Chinese companies have invested heavily in European companies, like Nanjiang Auto's purchase of MG Rover, Geely's purchase of Volvo, PetroChina's stake in Ineos, China National Blue Star's investment in Orkla, Sany's purchase of Putzmeister, Xuzhou Construction Machinery's stake in Schwing, DLK Solar's purchase of Kiekert, Joyson Investment Holdings purchase of Preh etc. Between 2007 and 2010, Chinese greenfield investments and acquisitions increased tenfold, from $589 million USD to $5.35 billion USD. Since 2002, China has become a significant source of global FDI outflows, which rose from USD $ 2.7 billion in 2002 to USD $ 84.2 billion in 2012.

Objectives

1. *Resource Extraction*
In 2008 China became the world's largest oil importer whereas two decades ago it was East Asia's largest oil exporter. The demand for energy resources like oil and natural gas was matched by the demand for minerals and metals like aluminum, copper, nickel, iron ore and other key commodities. Overall, demand for these resources was driven by domestic factors like rapid urbanisation and industrialisation, along with concerns about energy security expressed by senior Party officials like Li Peng. As a result, oil and natural gas resource exploitation overseas became one of the first avenues of overseas investment, led by major SOEs like CNPC and CNOOC.

For instance, Sudan became the largest recipient of Chinese overseas investment in Africa by 2005 and between 1995 and 2003, the CNPC invested $2.7 billion in the Sudan. During this period, SOEs invested in the oil industry of 14 countries by 2004, like Angola, Sudan, Iran, Kazakhstan, Yemen and Indonesia.

2. *Capture Export Markets*
The objective to capture new markets in Africa, Asia and Latin America through an aggressive export policy was outlined in the Going Global policies. To sustain China's growth in exports, SOEs and private enterprises sought new markets to expand into. Given that China enjoyed cost efficiency in production of manufacturing goods and other competitive advantages, enterprises looked to overseas markets to base production and assembly facilities. The market

seeking objective of China's outgoing FDI allowed enterprises to compete for market share in less developed countries in the pursuit of becoming market leaders in new and emerging markets.

3. *Technology Access and Acquisition*

The expansion of enterprises overseas was also driven by the need to gain access to advanced technology and management expertise in industrialised countries. Access to technology and other intellectual property would enable Chinese enterprises to climb the value chain and transition away from producing low-end manufacturing goods. Through mergers and acquisitions and joint ventures, Chinese enterprises sought access to advanced manufacturing techniques and technologies that enhanced the competitiveness of exports.

Table1: Resource Extraction by Country

Natural resources: Baosteel; Chalco; China Huaneng; CNOOC-China National Offshore Oil Corporation (*Repsol YPF, Indonesia; Gorgon Liquified Natural Gas Field, Australia*); China Minmetals Corp.; China National Petroleum Corporation (*PetroChina Intl., Indonesia, con PetroChina*); Sinopec; PetroChina (*PetroKazakhstan, Can; Devon Energy Corp., Australia*)

Food: *Chalkis (Conserves de Provence, France)*; Qingdao Beer

Automotive: Nanjing Automotive (*MG Rover, UK*); SAIC-Shanghai Automotive Industry Corporation (*Sssangyong Motor, S. Korea*); Qianjiang Group (*Benelli, Italy*); Anhui Jianghuai Automobile Co., Lifan, Chery

Chemicals & Pharmaceuticals: *China National* Blue Star Group Corp. (*Adisseo, Luo Sulphadiazine Company, France)*; Lizi Industrial Group; Shanghai Dongbao Biopharmaceutical (*Ferring's Malmö Manufacturing Operation, Sweden*); Sinochem, Ltd.; Suzhou Huasu Plastic Co., Ltd.; Baolige Taican Chemical Ind'l. Co.; Guan Zuodun Yuanyang Laquer Co.; Shanghai Naikeming Pharmaceutical Co.

Electronics: TCL (*Schneider Electronics, Deutschland; Thomson, France*); BOE Technology (*Hunday Display Tech Hydis, S. Korea*); Shriro (*Hasselblad, Sweden*, Shanghai IC R&D Design Centre, SVA Group, CHINT Group, Skyworth)

Household appliances: Changhong; Haier (*Meneghetti, Italy*); Galanz; Konka, Midea Group, Hisense, SVA

Logistics: COSCO, China Ocean Shipping Company; China Classification Society; Huagang Hi Speed Passenger Ship Co.

Mechanical: Xi'an Electric Motors Works; Shenyang Machine Tool Group (*Schiess*); China's Huapeng Trading (*Welz Gas Cylinder*); SGSB Group (*Durkopp Adler, Deutschland*); Luoshan Scana Machine Manufacture, Huayi Group (*Moltech Power Systems Inc, USA*)

Telecoms & IT: Lenovo (*IBM PC, USA*), Huawei Technologies; ZTE Corporation

Textile: D'Long, Sail Star Shanghai (*Boewe Textile Cleaning, Deutschland*); Sinatex; LDG Sock

Research: Suntar Membrane Technology (*Hoechst, Deutschland*); ChangAn Automobile Group

Table 1: (Bellabona and Spigarelli)

Based on the list of countries in the table below, it is clear that China targeted Europe, Japan and other advanced industrialised economies for their know-how in manufacturing.

Conclusion

The Going Global or Going Out policy internationalised Chinese SOEs and private enterprises, expanding China's economic interests overseas. The policy exposed enterprises to globalisation, facilitating China's integration into the global economy. It also enabled the export of China's secondary sector: manufacturing, mining, construction and energy industries to new and emerging markets in Asia, Africa and Latin America. Simultaneously, the policy supported the acquisition of technology and strategic assets in advanced industrial economies to enhance the quality of China's manufacturing enterprises. Together, these factors improved the competitiveness of Chinese enterprises, positioned them to capture large market shares and become “national champions”. The policy formed the blueprint for subsequent policies like the BRI that promote China’s construction and manufacturing enterprises to secure project contracts abroad, paving the way for Chinese enterprises to expand their merchandise exports and establish themselves as market leaders in overseas markets.

The philosophy of expanding the FDI activity of enterprises was most recently embraced in the Third Plenary Session of the 18th Central Committee: “Enterprises and individuals are permitted to develop overseas investment based on their own advantages. They are allowed to take risks in all the countries and regions to develop engineering or labor cooperation projects. And they can use innovative methods to undertake overseas expansion involving Greenfield investment, mergers and acquisitions, securities investment, joint venture investments, and the like.” The push to internationalise Chinese SOEs and private companies continues under Xi Jinping who has expanded the scope and scale of China’s participation in global markets through the BRI, which is a rebranded and expanded version of the Going Global policy.

About the Author

Rahul Karan Reddy is an international relations analyst with a Masters degree from O.P Jindal Global University in Diplomacy, Law and Business. He is the author of ‘Islands on the Rocks’, a monograph detailing the Senkaku/Diaoyu island dispute between China and Japan. His research focus is China and East Asia. He was a research analyst at the Chennai Center for China Studies (C3S) and an intern at the Institute for Peace and Conflict Studies (IPCS), writing articles and reports on China’s foreign policy and domestic politics. His blog, Asian Drama, follows the rise of India and China as they navigate the Asian Century.

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