The Role of Governmental Influence in Chinese Outward Foreign Direct Investment

MASTER'S THESIS

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List of Abbreviations

CDB China Development Bank

FDI Foreign Direct Investment

IFDI Inward Foreign Direct Investment

MNE Multinational Enterprise

MOFCOM Ministry of Commerce of the People's Republic of China

NDRC National Development and Reform Commission

ODI Outward Direct Investment

OFDI Outward Foreign Direct Investment

PBoC People's Bank of China

SAFE State Administration of Foreign Exchange

SASAC State Asset Supervision and Administration Commission

SOE State-owned Enterprise

UNCTAD United Nations Conference on Trade and Development

WTO World Trade Organization

Abstract

In the last decades, Inward Foreign Direct Investment (IFDI) has played a significant role in China's economic development. However, while being the largest recipient of IFDI among developing economies, China itself has also conducted remarkable outward foreign direct investment (OFDI). This OFDI has not only targeted both developing and developed countries but also addressed different sectors, among them agriculture, mining, energy & power, and high-technology. Furthermore, it has been strongly backed by investment policies initiated by China's central government.

This thesis deals with the phenomenon of Chinese Outward Foreign Direct Investment and aims to analyze it from a governmental perspective. Thereby, the main focus is on the investigation of whether and to what extent the foreign activities of Chinese investors (both private and non-private) have been influenced by a long-term economic and political strategy of the Chinese central government. In particular, the following tasks are dealt with in detail:

- Introduction to main definitions, basic concepts and main motives of OFDI.
- Detailed overview of the development of Chinese OFDI in the recent decades.
- Examination of the economic and political motives behind Chinese companies' (both private and state-owned) foreign investment strategy to the different countries and sectors (e.g. location, resources, political and social factors, etc.).
- Overview of policies, regulations, incentives, and resolutions initiated by the Chinese state concerning OFDI in the last decades. Investigation of the influence of these directives on the investment and M&A activities of both private and state-owned companies.
- Discussion of future challenges concerning China's OFDI strategy.

The findings of the thesis will be backed by extensive literature research.

Chapter 1

Introduction

In the recent decades, the economy of Mainland China[1] has experienced an unprecedented growth. Formerly a centrally planned system with no significant trade or financial relationships to other countries, China has quickly become the world's second largest market-based economy and largest exporter of goods, even surpassing the US as the world's leading trading nation (Monaghan, 2014).

One of the main drivers of this economic development has been Foreign Direct Investment (FDI), i.e. direct investment of foreign enterprises into production and business facilities in the PRC. Starting with Special Economic Zones (SEZs), China has gradually opened up its boundaries for (mainly) Western investors, attracting both capital and technology into the country. As of 2012, the accumulated amount of directly invested foreign capital in China achieved US $ 832 billion (UNCTAD, 2014). The role of this inward FDI in China's development has been subject to significant research, recently (Naughton, 2007; Fetscherin, Voss, and Gugler, 2010).

On the other hand, China itself has also conducted remarkable overseas investments. The goals of this Outward Foreign Direct Investment (OFDI) have been manifold, including the search for new markets, the exploitation of natural resources, but also the access to technological or strategic assets. Between 2004 and 2011, the annual OFDI flow of Chinese firms grew from US $ 5.5 billion to more than US $ 65 billion, and is expected to reach US $ 150 billion in 2015 (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. v). Similarly, the accumulated amount of Chinese overseas investments grew from US $ 40 million in 1981 to US $ 509 billion in 2012. According to Brent (2013), the OFDI outflow of China exceeded its FDI inflow in the beginning of 2013.

This remarkable internationalization of Chinese enterprises has required both a determined develop-

[1] In this thesis, the terms China and Mainland China both refer to People's Republic of China.

ment strategy as well as a number of measurements and regulations from the PRC's central government. Indeed, China's OFDI has been strongly backed by its policy makers both on a national and an international level. Nevertheless, the role of governmental influence in the globalization of Chinese firms has not been a central focus of appropriate research, yet. To fill this gap, this master thesis deals with the research question of how and to what extent the activities of the PRC's government and other government-related organizations have influenced the development of Chinese overseas investment. Thereby, a thorough investigation of the history of Chinese OFDI from the perspective of governmental measurements is conducted.

The thesis is structured as follows. First, in Chapter 2, the theoretical background is set by providing main definitions and concepts of OFDI. This is followed by a detailed overview of the PRC's OFDI history in Chapter 3. Thereby, the most important phases of the development of Chinese overseas investment are presented, underpinned by appropriate statistical data. This historical overview is completed by Chapter 4, providing a thorough analysis of the motives and determinants behind Chinese OFDI. The goal of Chapter 5 is the detailed discussion of governmental influence on overseas investment. For this purpose, the main governmental actors impinging on OFDI are presented as well as a thorough classification of types of governmental activities is provided. Finally, in Chapter 6, past effects of governmental regulations on Chinese OFDI are evaluated as well as expectations and implications for the future are formulated.

Chapter 2

Theoretical background, definitions and main concepts of OFDI

The goal of this chapter is to set the theoretical background of the thesis. Thereby, main definitions are given and central theoretical concepts are discussed. First, Section 2.1 provides fundamental definitions of FDI and OFDI. Then, in Section 2.2, the concepts of MNEs and SOEs are introduced and Dunning's Eclectic (OLI) Paradigm is discussed. Finally, in Section 2.3, the main motives and determinants of OFDI are presented in detail.

2.1 Direct Investment, FDI, IFDI, and OFDI

The IMF[2] defines in its "Balance of Payments and International Investment Position Manual" the concept of direct investment as follows:

Definition (Direct Investment)**.** *"Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy" (IDC, 2013, p. 100).*

The definition clearly sees direct investment as a **cross-border** investment. Therefore, it is also often referred to as **Foreign** Direct Investment (or FDI). Throughout this thesis, the term FDI will be used in general.

[2] International Monetary Found

Another important part of the definition is that it implies a **significant degree of influence** and thus a **long-term** engagement between the investor and the investment enterprise. By definition of the IMF, the investor should own at least 10% of the foreign enterprise. The ownership of a smaller percentage of a foreign company (e.g. in the form of shareholdings) is rather seen as a so-called portfolio investment (Duce, 2003, p. 3).

For the sake of completeness, the IMF's definition of a **direct investor** as well as of a **direct investment enterprise** are also mentioned.

Definition (Direct Investor)**.** *"A direct investor is an entity or group of related entities that is able to exercise control or a significant degree of influence over another entity that is resident of a different economy" (IDC, 2013, p. 101).*

Definition (Direct Investment Enterprise)**.** *"A direct investment enterprise is an entity subject to control or a significant degree of influence by a direct investor" (IDC, 2013, p. 101).*

Based on these definitions, a direct investor can be an enterprise (incorporated or unincorporated), a group of enterprises, an individual person, a group of individuals, but also a government (Duce, 2003, p. 4). Similarly, a direct investment enterprise can be an incorporated or unincorporated enterprise, but also a subsidiary, an associate, or a branch (Duce, 2003, p. 4). A subsidiary refers to an incorporated enterprise in which at least 50% of voting power is hold by the direct investor. If this voting power is between 10% and 50%, the enterprise is concerned as an associate. According to Duce (2003, p. 4), "a branch is a wholly or jointly owned unincorporated enterprise".

2.1.1 IFDI vs. OFDI

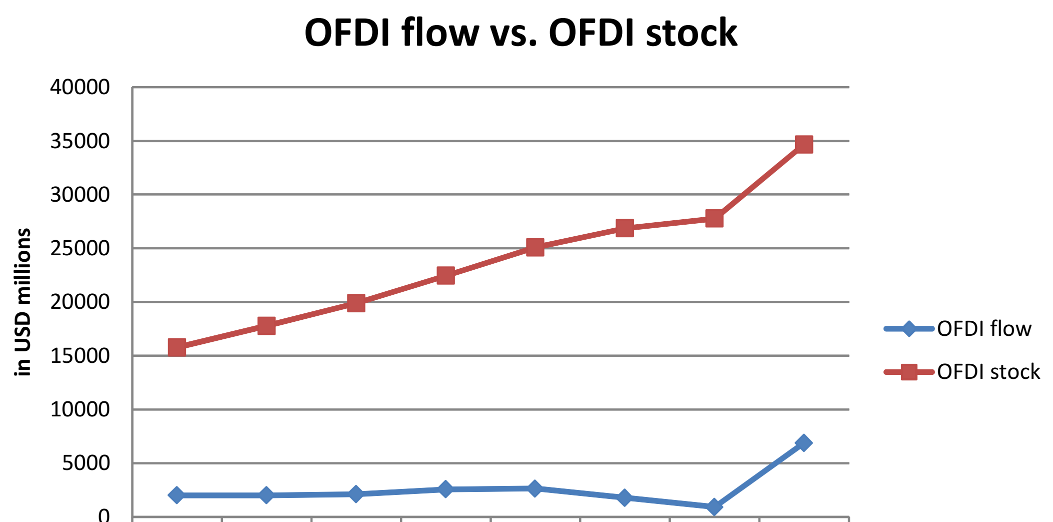
Depending on a specific country's perspective, there is a further distinction between Inward Foreign Direct Investment (IFDI) and Outward Foreign Direct Investment. While IFDI denotes direct investment flowing into an economy from non-residents of that economy, OFDI refers to the foreign investments conducted by the entities of a given economy in other (foreign) economies. However, the term IFDI is used rather rarely.

2.1.2 OFDI flows vs. OFDI stocks

When dealing with (O)FDI, it is important to differentiate between (O)FDI flow and (O)FDI stocks.

(O)FDI flow denotes the amount of (O)FDI over a specific amount of time. In the context of (O)FDI, this time range is typically one year. Thereby, (O)FDI flow consists of mainly three main elements: equity capital, reinvested earnings, and intra-company loans (Portabella, 2013, p. 5). On the other hand, (O)FDI stock denotes the accumulated sum of all foreign owned assets at a given point of time.

As an example, Figure 2.1 illustrates the development of Chinese OFDI flow and OFDI stock between 1994 and 2001. As shown by the numbers in the table, the OFDI stock is an accumulation of the annual OFDI flows.



	1994	1995	1996	1997	1998	1999	2000	2001
OFDI flow	2000	2000	2114	2562,49	2633,81	1774,31	915,777	6885,4
OFDI stock	15768	17768	19882	22444,5	25078,3	26852,6	27768,4	34653,8

Figure 2.1: OFDI flow vs. OFDI stock (Own presentation based on information available from the UNCTAD (2014))

2.2 MNEs and SOEs

In the context of foreign direct investment, enterprises become multinational, also referred to as MNEs (multinational enterprises) or TNEs (transnational enterprises). An often used definition of

MNEs is provided by Dunning and Lundan (2008, p. 3):

Definition (Multinational Enterprise)**.** *"A multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value-added activities in more than one country" (Dunning and Lundan, 2008, p. 3).*

An often cited theory concerning multinational enterprises is the Eclectic (OLI) paradigm of Dunning (2001). It states that a company can be denoted as an MNE when all of the following advantages are fulfilled: **O**wnership, **L**ocation, and **I**nternationalization.

- Ownership-specific advantages refer to the competitive advantages of companies that conduct FDI. Typical examples are trademarks, production techniques, entrepreneurial skills, etc. Having these advantages over possible rivals in the targeted foreign economies is a key prerequisite of successful FDI activities.
- Location-specific advantages refer to the advantages provided by the economic and/or geopolitical location of the targeted countries or regions of FDI activities. Such advantages can be lower wages, well-educated work-force, the existence of raw materials or of an appropriate production or logistics infrastructure etc.
- Internationalization-specific advantages refer to the advantages of internationalizing production processes. Thereby, an enterprise considering FDI activities has to evaluate whether the internationalization of its production or service facilities is beneficial compared to e.g. a licensing contract or a partnership agreement with another enterprise in the foreign country.

A more thorough description of motives and advantages of FDI will be given in Chapter 2.3.

A specific characteristics of Chinese companies conducting OFDI is that a significant proportion of them are owned by the Chinese state or its local governments. These enterprises are also denoted as state-owned enterprises (SOE). For a proper definition of SOEs the definition of the OECD (Lee, 2009, p. 5) is referred to again:

Definition (State-Owned Enterprise (SOE))**.** *"The term 'state-owned enterprises' refers to business entities established by central and local governments, and whose supervisory officials are from the government" (Lee, 2009, p. 5).*

While SOEs owned by China's central government are often referred to as *central SOEs*, enterprises owned by local governments are likely to be denoted as *local SOEs*. Moreover, Lee (2009, p. 6) further differentiates between "state-owned enterprises" and "state-holding enterprises". While SOEs are companies being fully state-funded, state-holding companies are firms with the majority of their shares belonging to the government.

Moreover, SOEs are also often referred to as government-owned corporations, state-owned companies, state-owned entities, publicly owned corporations, government business enterprises or commercial government agencies.

2.3 Motives and determinants of OFDI

The previous sections provided basic definitions of OFDI. Based on this foundation, this section deals with the main motives and determinants of why firms conduct outward foreign direct investment. Recently, significant research on this topic has been conducted by Dunning and Lundan (2008), Rodriguez and Bustillo (2011), Li (2003), Das (2013), etc.

2.3.1 Motives of OFDI

When analyzing the reasons for OFDI, the main question is what motivates firms to conduct investments abroad. According to Dunning and Lundan (2008), the main motives are the exploitation of new markets and the quest for higher efficiency, natural resources, as well as strategic and relational resources. The following subsections deal with these motives in more detail.

2.3.1.1 Market seeking investments

Market seeking investments aim at gaining access to the markets of a foreign country or its adjacent countries. According to Dunning and Lundan (2008, p. 70), the following four motives might induce firms to strive for market seeking investments.

- First, it is often the case that an enterprise follows its main customers or suppliers which have already set up foreign affiliates.
- Second, a typical reason of market-oriented FDI is that products or services have to be adjusted to local preferences or needs.

- Third, the production and transaction costs of local production might be lower than the costs of supplying from a distant location.

- Fourth, an MNE might consider it necessary to be present in a host country based on its global production and marketing strategy. Especially in the case of SOEs, political strategic goals might play a significant role, as well.

When considering market-seeking FDI, a fundamental factor is the size of the market size and the grade of development of the target economy. Research on this topic has proven that market seeking investments are positively associated to the market size, the GDP per capita, the market growth, and the relative wage rate of the host countries (Rodriguez and Bustillo, 2011, p. 722).

2.3.1.2 Efficiency seeking investments

Firms engaged in efficiency seeking investments focus on finding more affordable locations for their production facilities, specifically in low skilled manufacturing (Rodriguez and Bustillo, 2011, p. 723). As stated by Dunning and Lundan (2008, p. 78), efficiency seekers are usually large and diversified MNEs with fairly standardized products that implement internationally standardized production processes.

Dunning and Lundan (2008, p. 72) further differentiate between two kinds of efficiency seeking investments. On the one hand, there are investments aimed at exploiting the differences in the disposability and the cost of factor endowments, such as labour or production costs. On the other hand, there are investments that take place in target economies with similar income levels and conditions as in the home country.

2.3.1.3 Resource seeking investments

Resource seeking investments aim at the acquisition of specific physical, non-physical or human resources in a foreign country. Dunning and Lundan (2008, p. 68) differentiate three main types of resource seeking investors:

- The first group comprises companies seeking for a specific physical resource. These are typically manufacturing enterprises aimed at securing and cost-minimizing their supply sources. Such resources usually include minerals, metals, oil and gas, water, or agricultural products.

- Second, there are resource-seekers searching for cheap low-skilled labour. This type of investment has been a primary goal of western companies investing in China for a long time.
- The third type of resource-seeking FDI is characterized by companies searching for technological capability, management expertise, and organizational skills.

2.3.1.4 Strategic asset seeking investments

Strategic asset seeking investments aim at gaining access to foreign assets of strategic importance, such as know-how, management skills, human capital (Liu and Scott-Kennel, 2011, p. 27), but also general information about operating in the targeted host country. In contrast to market seeking or resource seeking investments, the focus is on rather “virtual" assets, such as skills, know-how or technology. However, Dunning and Lundan (2008, p. 68) classify virtual assets also as “resources" in the sense of resource-seeking investments (see Section 2.3.1.3).

On the one hand, firms engaged in strategic asset seeking are often well-established MNEs pursueing a global strategy (Dunning and Lundan, 2008, p. 72). On the other hand, they might be also so-called “first-time direct investors" trying to enter a previously unfamiliar market by means of a strategic advantage.

2.3.1.5 Relational asset seeking investments

Relational asset seeking investments focus on exploiting the advantages of “social capital", such as personal or business relationships which may provide an easier access to markets and strategic cooperations (Dunning, 2002).

Relational assets play a significant role both at the corporate level and the social level (Dunning, 2001, p. 185). On the corporate level, this means that enterprises are more likely to invest in a foreign country when they already have well-working networks with other companies (e.g. suppliers or customers) that are residents or investors in that country. Similarly, existing social relationships are also of importance, especially in the case of smaller enterprises or “first movers". The impact of relational assets on Chinese OFDI will be subject to Chapter 4.1.

2.3.2 Determinants of OFDI

Besides the motivation of investing firms, OFDI is mainly affected by a number of (especially host-country specific) determinants. In 1998, the UNCTAD published its annual World Investment Report (UNCTAD, 1998) and provided a classification of host-country determinants based on three groups, namely the *national FDI policy framework*, *business facilitation*, and *economic determinants*. This section deals with these groups in more detail.

2.3.2.1 National FDI policy framework

The FDI policy framework of a country receiving FDI typically contains rules and regulations aimed to control the market access and the investment activities of foreign companies. These regulations can range from a complete prohibition of FDI to a non-discriminative treatment of incoming direct investment (UNCTAD, 1998, p. 92). Thereby, "foreign investors can be subject to various degrees of discriminatory and restrictive policies that impose difficulties in acquiring FDI ownership, limit their access to local resources, require mandatory exporting, and interfere with other operational matters" (Cui and Jiang, 2012, p. 269).

While some countries have established regulations that explicitly focus on FDI, foreign investment is also strongly influenced by other (supplementary) policies, among them the host country's trade and privatization policies (UNCTAD, 1998, p. 92). Furthermore, national FDI policies are often influenced or overridden by international investment agreements, such as those regulated by the World Trade Organization (WTO).

2.3.2.2 Business facilitation

Business facilitation comprises measures and regulations supporting the business operations of foreign investors in a given economy. According to the UNCTAD (1998, p. 99), they include promotion efforts, possible incentives for investing companies, the reduction of so-called "hassle costs" (e.g. costs caused by corruption or administrative hurdles), but also the services that positively influence the quality of life of foreign personnel.

The literature on global OFDI claims that in general good institutional quality attracts FDI (Campos and Kinoshita, 2003; Ali, Fiess, and MacDonald, 2010; Portabella, 2013). Thereby, institutional quality refers to several aspects, among them political stability, low debt rate, a good legal infrastructure, short bureaucratic delays, consumer safety, work health, no religious or ethnic conflicts, etc [3].

2.3.2.3 Economic determinants

The economic determinants of incoming FDI might be related to the following characteristics of the target country:

- Characteristics of the **host market**, such as market size, market growth, income per person, access to global markets, etc.
- Availability of **resources** such as raw materials, labour force, physical infrastructure, as well as technological and innovatory assets.
- Further **efficiency-related aspects**, among them resource, transport and communication costs, or even the availability of regional corporate networks.

For a thorough review of economic determinants influencing IFDI the interested reader is referred to the World Investment Report of the UNCTAD (1998, p. 91, p. 106).

[3] For an extensive list of institutional factors, the interested reader is referred to the International Country Risk Guide (ICRG) on http://www.prsgroup.com/ICRG_methodology.aspx

Chapter 3

The history of Chinese OFDI

The previous chapter of this thesis introduced the reader to the most important concepts of OFDI. On the basis of this theoretical foundation, this chapter deals with the history of Chinese OFDI. Thereby, the different phases of Chinese OFDI as well as their main milestones and characteristics are discussed. Furthermore, statistical data on Chinese OFDI are also presented.

When providing data on Chinese (O)FDI, this work refers to following sources:

- The United Nations Conference on Trade and Development (UNCTAD) reports data on foreign investments. Its “World Investment Report" is published on an annual basis: the most recent one came out in June 2013 (UNCTAD, 2013). Furthermore, the UNCTAD operates a Web site providing online reports on different topics, among them on foreign direct investment (UNCTAD, 2014).

- The OECD supplies relevant data, as well. Its statistics database (OECD, 2014) provides parametrizable online reports on FDI flows grouped by countries and industries.

- The Heritage Foundation provides in its “China Global Investment Tracker" a data set of Chinese outward investment transactions dating back to 2005 (CGIT, 2014).

- Finally, the MOFCOM also provides statistical data on foreign investment (MOFCOM, 2014). In 2011 it published the “Statistical Bulletin of China's Outward Foreign Direct Investment" (MOFCOM, 2011).

However, as also stated by Rodriguez and Bustillo (2011, p. 717), the credibility and the accuracy of OFDI data provided by the Chinese government is often questionable.

3.1 The phases of Chinese OFDI in overview

There exists a number of research papers dealing with the analysis of the development of Chinese OFDI (Wong and Chan, 2003; Rodriguez and Bustillo, 2011; Buckley, Cross, Tan, Xin, and Voss, 2008; Voss, Buckley, and Cross, 2008; Gao, 2011). All approaches identify different periods that are closely related to appropriate stages of Chinese OFDI policy. While there are slight differences between the exact dates of the phases identified by different researchers, all of them identify the following three main periods.

- the initial period beginning with China's "Open-Door Policy"
- the acceleration phase between 1992 and 2001
- the period after China's WTO accession in 2001

This chapter gives an overview of the main stages and their characteristics. Thereby, it focuses on the phases and sub-phases identified by Voss, Buckley, and Cross (2008), which are also illustrated in Figure 3.1.

1979-1991 **„Tasting the water"**	**1992-2001** **„Finding the stepping stones"**	**2002-present** **„A bridge is built"**
1979-1985 Open-Door Policy & first steps on international grounds	1992-1998 The impact of Deng Xiaoping's journey to the south	Accession to the WTO Implementation of the Go Global Policy
1986-1991 The government encourages Chinese OFDI	1999-2001 Pre-WTO accession adjustment & Go Global Policy	

Figure 3.1: Phases of Chinese OFDI (Own presentation based on the phases identified by Voss, Buckley, and Cross (2008))

3.2 1979-1991

Before 1979, the economy of Mainland China was practically closed, maintaining only limited trade and financial relationships to the world economy (Zhao, 2005, p. 4). External trade was controlled and conducted by so-called foreign trade corporations (FTCs). Furthermore, foreign exchange transactions could only be conducted by the Bank of China.

As stated by Zhang (2003, p. 49), China's historical aversion and ideological opposition to transnational corporations was emphatic prior to 1978. Multinational companies were considered as representatives of neo-colonialism by the Chinese regime.

The "birth" of Chinese OFDI can be dated to December 1978, when the Third Plenum of the Eleventh Central Committee of the Communist Party promulgated reforms to the economic system, which were based on Deng Xiaoping's "Open-Door Policy" (Zhao, 2005, p. 4). About one year later, in August 1979, the State Council issued a circular announcing 15 economic reformation measures, the 13th of which explicitly stated that Chinese companies were allowed to invest in foreign economies for the first time in the history of China (Gao, 2011, p. 21). This way the state monopoly on foreign trade has been broken down, allowing Guangdong and Fujian, but later also all other provinces, to establish local foreign trade corporations (Zhao, 2005, p. 11).

According to Voss, Buckley, and Cross (2008), this first period can be divided into two sub-periods.

3.2.1 1979-1985

The first sub-period lasted from 1979 till 1985 and was mainly triggered by the State Council that allowed a number of specific state-owned companies to establish foreign affiliates. According to Voss et al. (2008, p. 8), authorized investment projects had to fulfill the following criteria:

(i) projects aimed at accessing natural resources that are only scarcely available in China (e.g. oil, gas, minerals)

(ii) projects aimed at transferring technology to know-how

(iii) projects strengthening the export capabilities of Chinese firms

(iv) projects increasing managerial skills by 'on-the-job training'

Throughout this sub-period, OFDI has been strongly state controlled. Thereby, the main purpose of the Chinese government was to establish OFDI as a constitutive factor of the economy and to contribute to social welfare (Voss, Buckley, and Cross, 2008, p. 8). Due to the lacking international experience of Chinese firms, OFDI was limited to SOEs in the coastal provinces. Their main investment targets have been developing countries and sectors such as mining, manufacturing, construction, and transportation. The main entry mode of OFDI was greenfield entry as well as the establishment of joint ventures.

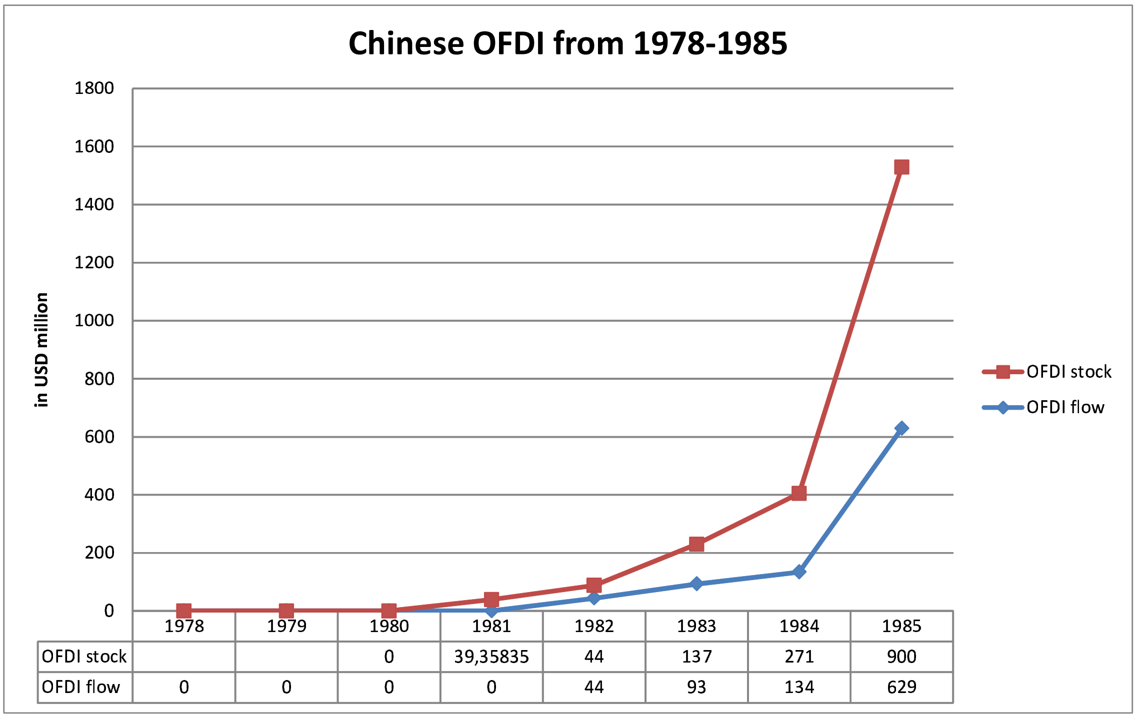
A characteristic and very formative policy of this first sub-period was the so-called "foreign exchange retention system". Introduced in 1978, it authorized firms and local governments to hold back a given share of their foreign exchange earnings to finance their own imports, while the rest of it had to be returned to the government. The size of this share varied both over time and based on the source of the exchange earnings (Zhao, 2005, p. 11). It was gradually increased in the years after 1979 and reached a share of 80%, until the the retention system has been abolished in 1993. Thereby, an explicit approval from the SAFE[4] was required, i.e. foreign earnings could not be freely used for further OFDI. This approval process favored especially companies in the coastal provinces of China.

Another regulation characterizing this sub-period was the "dual exchange rate system", which was practiced between 1981 and 1985. In order to motivate Chinese firms to generate foreign exchange earnings, it applied a so-called *trade settlement exchange rate* to trade transactions, which exceeded the official exchange rate. In 1981, this internal settlement rate was 2.9 RMB/$, and the official rate was 1.5 RMB/$, so the new rate was a devaluation of almost 100% (Zhao, 2005, p. 11). Not only did this dual rate system promote exports, it also positively effected outward investment. Gradually, the official rate has been depreciated, so that the two rates were unified on January 1, 1985 (Zhao, 2005, p. 11).

This first sub-phase of Chinese OFDI was characterized by a rather cautious expansion. Still, by the end of 1983, about 100 foreign subsidiaries have been founded by Chinese companies. Furthermore, by the end of 1985, the Chinese OFDI flow targeted 185 non-trading enterprises overseas, and the OFDI stock summed to US $ 154 million (Tan, 1999, p. 23).

Figure 3.2 depicts the development of Chinese OFDI flow and OFDI stock between 1978 and 1985.

[4]SAFE denotes the State Administration of Foreign Exchange. More information on SAFE and other actors of Chinese OFDI will be presented in Section 5.1.



	1978	1979	1980	1981	1982	1983	1984	1985
OFDI stock			0	39,35835	44	137	271	900
OFDI flow	0	0	0	0	44	93	134	629

Figure 3.2: Chinese OFDI from 1978-1985 (Own presentation based on information available from the UNCTAD (2014))

3.2.2 1985-1991

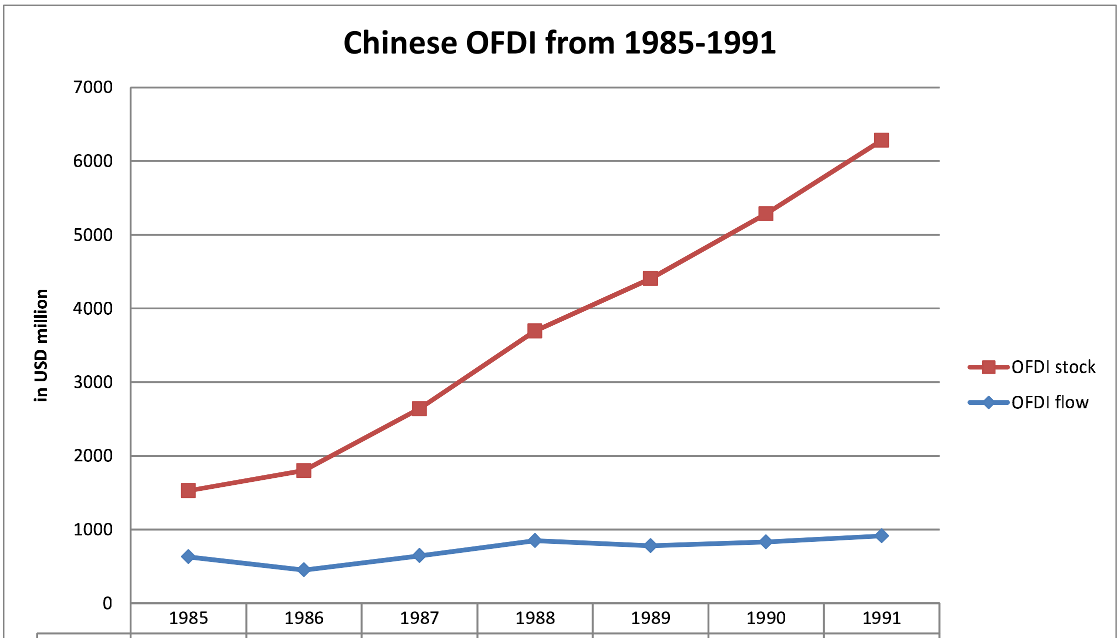
The second sub-period lasted from 1985 till 1991 and was characterized by a stronger governmental encouragement of OFDI. The MOFCOM (which was at that time still called MOFERT, see Section 5.1) released new regulations in 1985 that eased the restrictions on OFDI and opened the application procedure for SOEs (Zhang, 2003, p. 56), (Tan, 1999, p. 23).

These regulations have been mainly affected by the fact that China's governmental "development strategy changed from an import-substitution orientation an export-led growth orientation" (Voss, Buckley, and Cross, 2008, p. 11). As part of this strategy, the Chinese government began to devalue the Renminbi around the middle 1980s.

Furthermore, another regulation on the usage of foreign earnings has been issued, as well. The SAFE published an announcement called "Foreign exchange management method for overseas investments" in 1989 and published appropriate regulations in 1990 (Zhao, 2005, p. 11). According to these regulations, SAFE had to approve OFDI undertakings both before and after their authorization by MOFCOM (Wenbin and Wilkes, 2011, p. 7). First, a review of companies' foreign exchange resources and the corresponding investment risk was necessary. Second, after the permission from MOFCOM, companies had to lodge several documents with SAFE (Wenbin and Wilkes, 2011, p. 7). These regulations also required firms to reserve a 5% share of their foreign exchange as deposit.

In 1990, the number of Chinese-invested enterprises reached 801, possessing more than US $ 1.2 billion of OFDI stock (Tan, 1999, p. 24). Furthermore, Chinese investments projects have been registered in 101 countries (Voss, Buckley, and Cross, 2008). While the number of OFDI projects in developing countries (Asia and Oceania) was higher than in developed countries (mainly North America), the accumulated amount of investment was higher in developed countries (Tan, 1999). The target industries of Chinese OFDI has also diversified: “including metallurgy and minerals, petro-chemicals and chemicals, electronic and light industry, transportation, finance, insurance, medicine, and tourism" (Tan, 1999, p. 24).

Figure 3.3 depicts of the development of Chinese OFDI between 1985 and 1991. As can be seen, the OFDI stock has increased in an almost linear way (by about US $ 800 million) between 1987 and 1991.



	1985	1986	1987	1988	1989	1990	1991
OFDI stock	900	1350	1995	2845	3625	4455	5368
OFDI flow	629	450	645	850	780	830	913

Figure 3.3: Chinese OFDI from 1985-1991 (Own presentation based on information available from the UNCTAD (2014))

3.3 1992-2001

The second phase of Chinese OFDI is also often referred to as the so-called “acceleration phase" (Gao, 2011, p. 21) and lasted from 1992 until about 2001. This era was characterized by the liberalization of OFDI and the instigation of the “Go Global Policy" (Voss, Buckley, and Cross, 2008). Besides state-owned enterprises, a growing number of private Chinese firms started to invest abroad, as well. Furthermore, as stated by Gao (2011, p. 22), the industries generating OFDI have become even more diverse.

Voss, Buckley, and Cross (2008) divide this phase into two subsequent sub-periods.

3.3.1 1992-1998

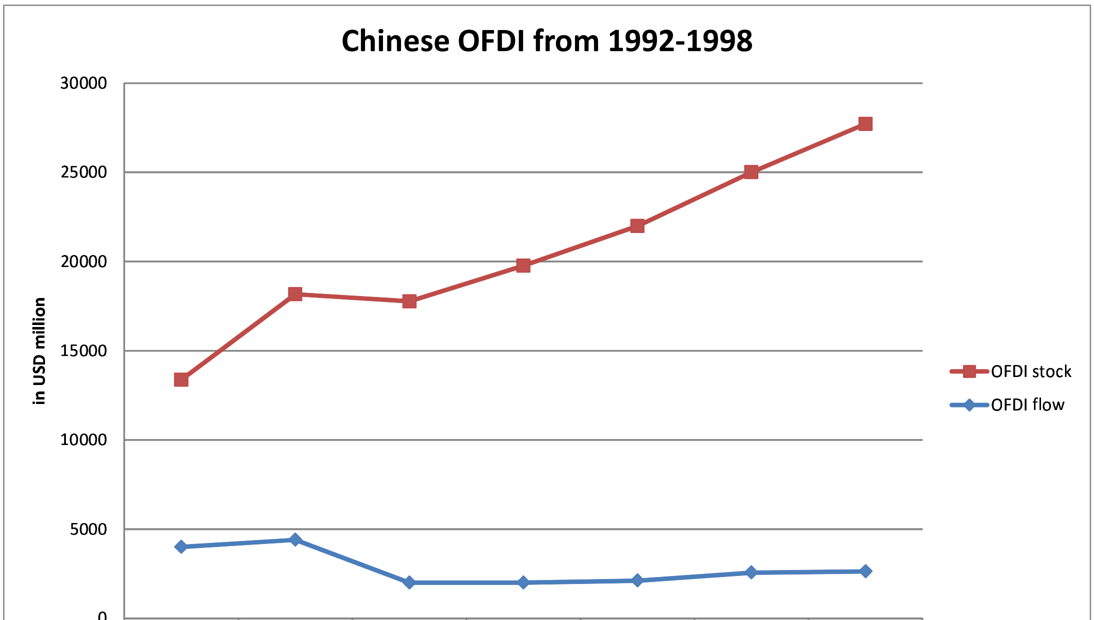
The first sub-phase of this era lasted from 1992 to 1998 and was significantly influenced by the journey of Deng Xiaoping to Southern China. The intention behind his journey was to explicitly express his support for economic reforms and thus to strengthen the more liberal political movements in the Communist Party. This goal of establishing a “socialist market economy" was also officially adopted by the Fourteenth National Congress of the Communist Party in 1992 (Zhao, 2005, p. 14), (Bernasconi-Osterwalder et al., 2013, p. 15).

In this subperiod, Chinese OFDI has officially become a part of China's economic planning (Voss, Buckley, and Cross, 2008). Again, this happened in 1992, when the Fourteenth National Congress of the Chinese Communist Party officially incorporated transnational operations into the country's development strategy (Zhang, 2003, p. 48). The main reason for this was the conviction of government officials that internationalization would further enhance the competitiveness of Chinese companies (Tan, 1999, p. 20).

As a consequence of this development strategy, the approval process of OFDI has been changed. The MOFCOM and the NDRC were allowed to authorize OFDI projects of up to US $ 30 million, only projects above this level had to be approved by the State Council. Furthermore, the measures concerning foreign exchange earnings have been adjusted, as well. The foreign exchange retention policy mentioned in Chapter 3.2 was abolished. Consequently, firms could buy foreign exchange entitlements from SAFE to finance OFDI projects regardless of whether they had previously accumulated foreign exchange earnings by trade (Voss, Buckley, and Cross, 2008). Voss, Buckley, and Cross (2008) describe this change as a movement “from an 'earn-to-use' to a 'buy-to-use' policy".

In this sub-period, the largest recipients of Chinese OFDI were Canada, USA, and Australia. According to this, the main motivation behind OFDI was resource-seeking, targeting the extraction of petroleum and natural gas. Furthermore, in the years prior to its handover to China in 1997, a considerable amount of Chinese investment capital entered Hong Kong, as well (Zhang, 2003, p. 110).

Figure 3.4 depicts of the development of Chinese OFDI between 1992 and 1998. As can be seen, Chinese OFDI has increased even during the Asian financial crisis in 1997.



	1992	1993	1994	1995	1996	1997	1998
OFDI stock	9368	13768	15768	17768	19882	22444,49	25078,297
OFDI flow	4000	4400	2000	2000	2114	2562,49	2633,807

Figure 3.4: Chinese OFDI from 1992-1998 (Own presentation based on information available from the UNCTAD (2014))

3.3.2 1999-2001

The second sub-period is dated to the time frame from 1999 to 2001, i.e. to the years before China's WTO accession (Long, 2007). It was significantly influenced by Premier Jiang Zemin's announcement of China's "Go Global Policy" in 1999, inducing large Chinese companies to conduct OFDI in order to "improve their competitiveness and secure an international business presence" (Child and Rodrigues, 2005, p. 399).

Thereby, according to Wong and Chan (2003, p. 281), the main focus was put on companies of the light industry sector. By means of export tax discounts as well as financial help, Chinese investors were encouraged to go abroad and start production facilities aimed at utilizing Chinese raw materials or further assembling appliances or parts made by Chinese companies.

The “Go Global Policy" was officially incorporated into the Tenth Five-Year Plan (FYP) in 2001. The strategy highlighted seven needs (Wenbin and Wilkes, 2011, p. 9), (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 2):

(i) to enhance China's competitiveness in international markets

(ii) to further develop overseas projects, thus promoting the export of products, services, and technology

(iii) to encourage the exploration of overseas natural resources that were in short supply or not available domestically

(iv) to found research and development facilities abroad using resources of foreign IP (intellectual property)

(v) to induce strong enterprises to conduct transnational operations

(vi) to improve China's overseas investment service

(vii) to improve structures and mechanisms of corporate governance aimed at controlling foreign investment projects

In this sub-period, the investment value of Chinese OFDI to specific countries and regions changed significantly. That is to say, the FDI stock invested in Africa, South America, South East Asia has grown, while OFDI in developed countries (especially US and Canada) has declined.

Figure 3.5 depicts of the development of Chinese OFDI between 1999 and 2001. The reason for the decline of OFDI flow in 2000 might be the early 2000s recession.

3.4 2002 - present

The last phase of Chinese OFDI denotes the time since 2002, i.e. the time after the PRC became a WTO member in December 2001.

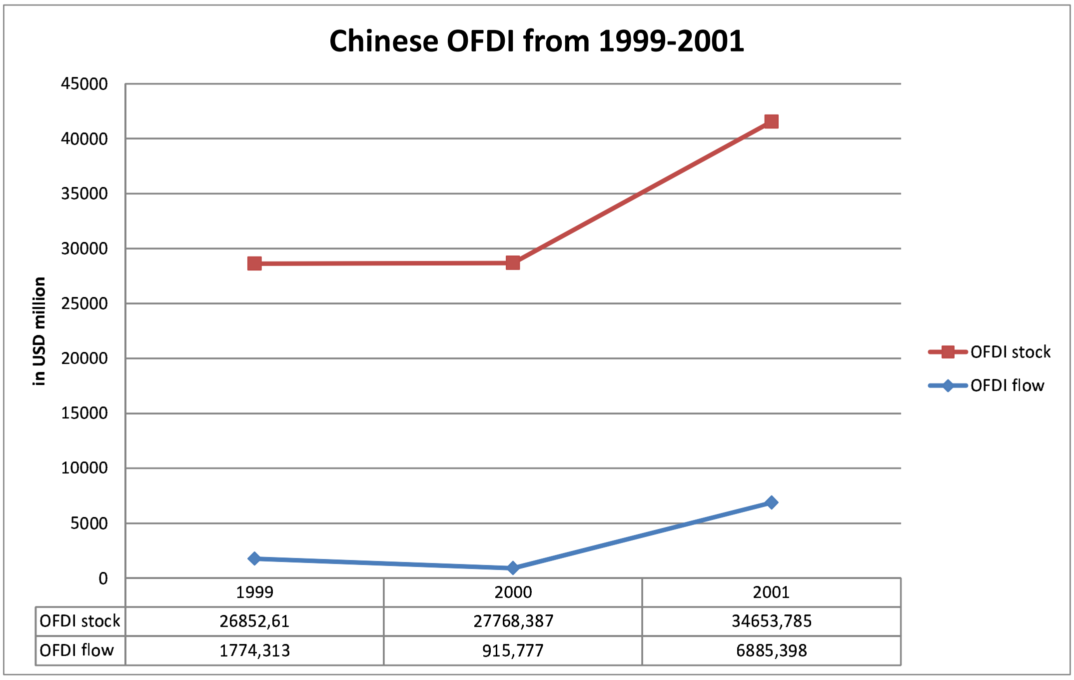


Figure 3.5: Chinese OFDI from 1999-2001 (Own presentation based on information available from the UNCTAD (2014))

As a consequence of the WTO accession, the economic environment of China has changed significantly. The country started to gradually open its previously protected markets, so that Chinese companies had to face an increasing rivalry from both domestic and foreign enterprises and importers (Voss, Buckley, and Cross, 2008). Thereby, it was especially the growing domestic competition that forced Chinese private firms to find new markets abroad and thus to participate in OFDI.

Since 2002, the Chinese government has undertaken a number of steps to facilitate OFDI (Zhao, 2005; Voss, Buckley, and Cross, 2008; Bernasconi-Osterwalder, Johnson, and Zhang, 2012). First of all, the approval process of OFDI projects has faced several changes. In 2004, the process of investment approval has been decentralized to the sub-national level, so that only OFDI projects for specific countries required approval at the national level (Bernasconi-Osterwalder, Johnson, and Zhang, 2012, p. 53). Thereby, the feasibility study (which had been an obligatory part of the application documentation before) has been abolished, as well. Additionally, enterprises did not have to create security deposits at SAFE and could raise money on international markets to finance their investment activities (Voss, Buckley, and Cross, 2008, p. 16).

Furthermore, in 2004, the MOFCOM and the NDRC published the “Outbound Catalogue" (Bernasconi-Osterwalder, Johnson, and Zhang, 2012, p. 40, p. 102). Aimed at encouraging Chinese firms to conduct OFDI, the catalogue listed a number of host countries preferred by the government and regulated the approval process of projects. Since 2004, the catalogue has been updated several times, with each review further relaxing the approval process. The latest issue was published in December 2013. More information about the content and the issues of the Outbound Catalogue will be provided in Section 5.4.2.

The approval process of foreign exchange was also significantly modified in 2002 (Zhao, 2005, p. 21). In October 2002, a pilot program was started, allowing provincial authorities of six coastal provinces to authorize companies to buy foreign exchange for OFDI. In 2003, this regulation was extended to fourteen provinces (so-called experimental districts), followed by another 24 provinces in 2004 (Bernasconi-Osterwalder, Johnson, and Zhang, 2012, p. 268, p. 271). Finally, the policy was extended nationwide.

Besides, the Chinese government issued a number of policies influencing the economic engagement of Chinese enterprises in specific countries and regions, most prominently in Africa. After establishing the Forum for China-Africa Cooperation (FOCAC) in 2000, an official African Policy (in 2006) as well as several Action Plans (in 2006 and 2009) have been issued (Bernasconi-Osterwalder, Johnson, and Zhang, 2012, p. 249, p. 261). While providing financial aid and economic assistance, these regulations provided Chinese enterprises access to African natural resources, agricultural land and strategic infrastructure projects. As discussed by Mohan (2008), the international perception of this cooperation is highly ambivalent.

A more thorough review of governmental regulations and measures will be provided in Chapter 5.

Figure 3.6 depicts of the development of Chinese OFDI between 2002 and 2012. As can be seen, the overall OFDI stock was in 2012 about 14 times higher than in 2012. Similarly, the annual OFDI flow increased to US $ 84.220 million. It can be also seen, that the development of OFDI flow was somewhat reduced in 2008, obviously because of the financial crisis. Yet, in the following years, it has quickly recovered (Davies, 2012, p. 2).

While the UNCTAD provides OFDI data only until 2012, the “China Global Investment Tracker" (CGIT, 2014) created by the American Enterprise Institute and the Heritage Foundation has information about 2013, as well. According to this, the amount of Chinese overseas investment (OFDI flow) reached in 2013 US $ 84.450 million.

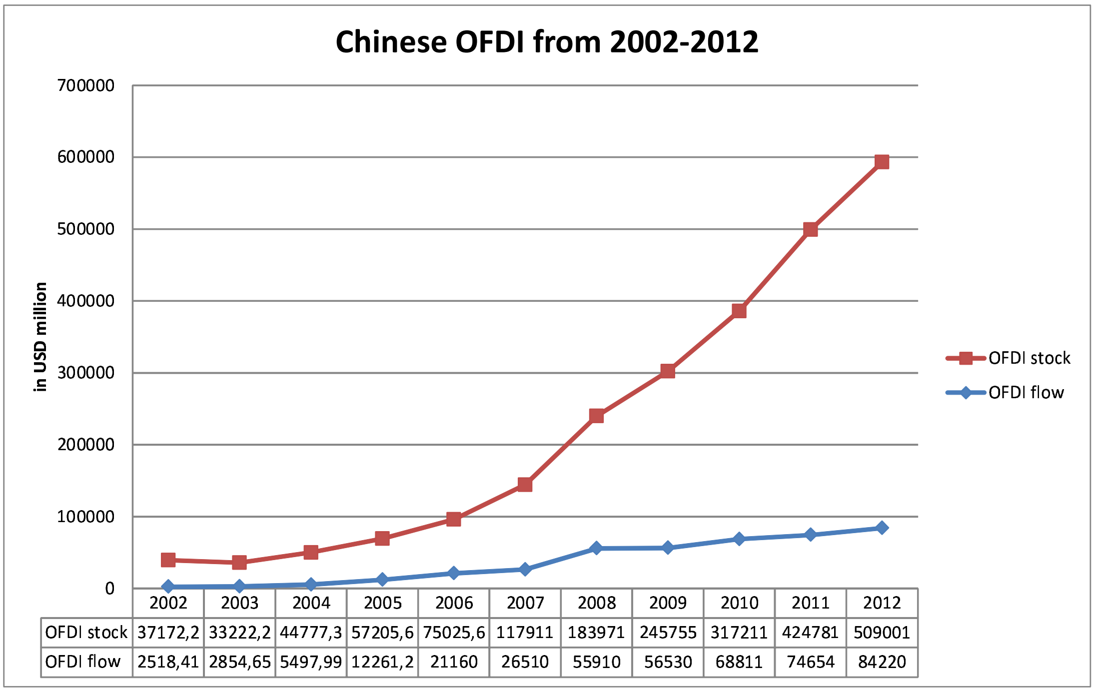


Figure 3.6: Chinese OFDI from 2002-2012 (Own presentation based on information available from the UNCTAD (2014))

Figure 3.7 shows the distribution of these overseas investments according to the targeted industry sectors and geographical regions. According to this, the focus of investment projects was on the energy sector, followed by metals, real estate, and agriculture. Thereby, as also argued by Zhang (2003, p. 109), an exceptionally large amount of OFDI flow has been channeled into natural resource seeking projects. Furthermore, the lion's share of those investment projects was carried out in Africa, the USA and South America.

While not shown in Figure 3.7, the available statistical data provides following information on the combination of sectors and regions in 2013:

- The bulk of OFDI in the energy sector went to Africa (34%), South America (23%), and West Asia (18%).
- The bulk of OFDI in the “metals sector" went to Africa (52%), Australia and New Zealand (20%), and South America (12%).
- The bulk of OFDI in the real estate sector went to East Asia (32%), USA (28%), and Europe (26%).

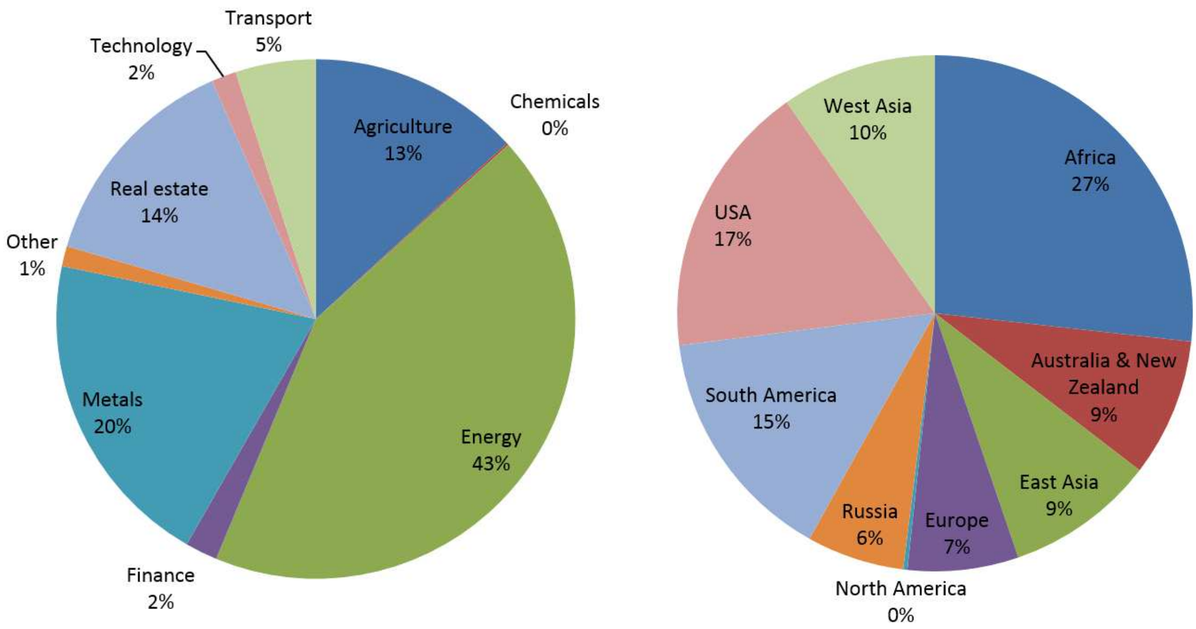


Figure 3.7: Sectoral and Regional Distribution of Chinese OFDI in 2013 (Own presentation based on information available from the China Global Investment Tracker (CGIT, 2014))

- The bulk of OFDI in the agriculture sector went to the USA (63%), Russia (19%), and South America (10%).
- The bulk of OFDI in the technology sector went to the USA (57%), Europe (18%), and South America (15%).

Furthermore, while OFDI in Africa and South America was mainly focused on energy and metals, the investments in the USA targeted especially the agricultural and the real estate sector. As also argued by Zhang (2003, p. 108), the investment ratio in the manufacturing industry was rather low, i.e. China did not follow the traditional pattern of OFDI from developing countries. Denry (2013) further remarks that Chinese companies acquire companies from Europe and the USA at an increasing pace.

Chapter 4

Motives and determinants of Chinese OFDI

The previous chapter dealt with the history of Chinese OFDI. Based on characteristic periods and milestones identified by international research, it gave an overview of the development of Chinese outward investments. The aim of this chapter is to explicitly analyze the motives and determinants of Chinese OFDI. Along the general theories introduced in Section 2.3, it deals with the following research questions:

- What are the main motives and determinants of Chinese OFDI activities?
- How did they change or develop throughout the different phases of Chinese OFDI?
- Is there a difference between the motives and determinants of Chinese companies compared to those of developed countries?

4.1 Motives of Chinese OFDI

The motives of OFDI mentioned in Section 2.3 are based on theories focusing on the FDI activities of investors from developed and industrialized countries. In general, they differentiate between

- market seeking,
- efficiency seeking,

- resource seeking,
- strategic asset seeking,
- and relational asset seeking

investments. However, as also mentioned by Buckley, Cross, Tan, Xin, and Voss (2008, p. 5), these theories have only limited validity for developing countries. Therefore, this section deals with the analysis of the main motives of Chinese enterprises throughout the different phases of Chinese OFDI history. Figure 4.1 shows the main findings.

1979-1991 **„Tasting the water“**	**1992-2001** **„Finding the stepping stones“**	**2002-present** **„A bridge is built“**
1979-1985 **Resource seeking** physical resources **Strategic asset seeking** technological skills, managerial skills	1992-1998 **Efficiency seeking** Increase competivity **Resource seeking** resource seeking in Canada and Australia	**Market seeking** **Resource seeking** **Efficiency seeking** **Relational asset seeking**
1986-1991 **Resource seeking** **Market seeking** export-led growth marketisation	1999-2001 **Market seeking** textile & light industries **Efficiency seeking** production in South East Asia	

Figure 4.1: Motives of Chinese OFDI (Own presentation)

1979-1985

As described in Section 3.2.1, the first sub-phase of Chinese OFDI (1979-1985) was mainly characterized by a rather cautious expansion of Chinese OFDI. Its main goal was to access natural resources that are scarcely available in China, to access technological know-how, but also to augment managerial skills. These intentions and efforts can be clearly assigned to the so-called **resource seeking** and **strategic asset seeking** motives. It has to be mentioned that this focus on resource seeking and strategic asset seeking motives is typically characteristic for emerging economies.

1985-1991

While the **resource seeking motives** have not lost significance in the sub-phase from 1985 till 1991, this time period has been further characterized by a growing effort aimed at marketisation. As mentioned in Section 3.2.2, the orientation of China's development strategy changed from import-substitution to export-driven expansion. The appropriate transnational operations aimed at promoting exports of Chinese machinery and technology (Zhang, 2003, p. 109). Especially the devaluation of the Renminbi and the regulations on the management of foreign earnings can be seen as efforts driven by **market seeking** motives.

1992-1998

The period between 1992 and 1998 was the first sub-phase of the "acceleration phase" of Chinese OFDI. Thereby, outward foreign direct investment became an official part of the Chinese development strategy, for the government was convinced that internationalization would enhance the competitiveness of Chinese enterprises. This can be clearly seen as a motive aimed at **efficiency seeking**.

Furthermore, as also mentioned in Section 3.3.1, the main target countries of Chinese OFDI have been Australia, Canada, and the USA. The main reason for this was a strong **resource-seeking motive** aimed at natural resources.

1999-2001

The era between 1999 and 2001 was characterized by the "Go Global Policy", the main goal of which was to extend the international presence and thus the competitiveness of Chinese enterprises. This motive of **efficiency seeking** is underpinned by the significant growth of FDI stock invested in developing countries.

Furthermore, the growing export of light industry products to new markets worldwide proves the further significance of **market seeking** investment motives.

2002-present

It has been almost 13 years since the WTO accession of China: a time period that has been characterized by an unprecedented growth of the Chinese economy, and also of Chinese OFDI. Chinese enterprises have systematically captured international markets and gained both strategic importance as well as efficiency.

In Section 3.4 (see Figures 3.7 and 3.7), the sectoral and regional distribution of Chinese OFDI in the last decade was examined. According to this distribution, the following findings regarding the motives of Chinese OFDI can be made:

- The Chinese economy is substantially dependent on natural resources, such as gas, oil, minerals, etc. The fact that a significant share of OFDI has flown into the energy and metals sectors indicates the significance of **resource seeking** activities in Chinese OFDI. This is also by underpinned by the fact that Africa, Australia, Russia and Canada have been main targets of outward investments.
- In the last decade, the technological focus of Chinese enterprises has been changed, as well. Formerly a “cheap" supplier of especially textile and low-technology products, Chinese enterprises have gradually and successfully started to produce high-technology appliances. This development has been backed by a number of **strategic asset seeking investments** of Chinese firms in the USA, Japan, and Western Europe.
- At the same time, the development of the Chinese economy has also necessitated to capture international markets. The appropriate **market seeking activities** have been mainly focused on Europe, the USA, and South America
- Finally, the investment projects into production facilities in South East Asia clearly prove that **efficiency seeking investments** have also played a significant role in Chinese OFDI.

While the above mentioned motives can be deducted from the regional and sectoral distribution of Chinese OFDI, it is important to emphasize the role of **relation seeking motives** in Chinese OFDI, as well. As discussed by Liu and Scott-Kennel (2011, p. 23), the Chinese tradition of focusing on relationship building (the so-called “guanxi") has always provided “an inherent social and cultural catalyst for Chinese firms to explore international markets through network relationships".

Thus, the worldwide Chinese diaspora did not only significantly contribute to the entry of the PRC into the world economy (Buckley, Clegg, Cross, Liu, Voss, and Zheng, 2007, p. 16), but also “to compensate Chinese MNEs for their relatively late entry into international markets" (Li, 2003).

4.2 Specifics of Chinese OFDI

When examining the motives of Chinese OFDI, the scientific research community has recognized a number of interesting characteristics.

First, there are main differences in Chinese firms' asset seeking behavior by location and ownership. Liu and Scott-Kennel (2011) have found out that Chinese MNEs seek strategic assets in North America, relational assets in Asia, and natural assets in Latin America and Australasia.

Second, Kolstad and Wiig (2012) claim that Chinese OFDI seeks either large markets in OECD countries or large natural resources in non-OECD countries. Furthermore, while SOEs are often likely to invest based on strategic asset-seeking motives, non-state owned enterprises rather conduct OFDI in the quest for relational assets.

Third, there are investigations whether the OFDI behavior of Chinese companies is comparable to the overseas investment activities of "classic" firms from the USA and Western Europe. Buckley et al. (2007) see different reasons why Chinese companies not always act in the traditional manner.

- In comparison to investing firms from "traditional OFDI countries", Chinese enterprises are rather inexperienced with investing in foreign countries.
- Chinese state-owned companies are not (always) profit-maximizers. Quite often, they are led by governmental or geo-political influences. As also mentioned by Zhang (2003, p. 110), the investment decisions of SOEs often serve the interests of the state at the expense of the firms.
- A significant part of Chinese OFDI flows to developing countries recording high levels of political risk. These are African and Southern American countries with unstable political systems.
- Chinese outward foreign investment is often targeted to other communist or ideologically related countries.
- Chinese companies have the experience of operating in an emerging country environment and are thus enabled to deal with risks in equivalent environments.
- Finally, Chinese companies are often willing to invest in countries that are not considered by developed countries for political or ethical (e.g. human rights) reasons (Buckley et al., 2007).

Chapter 5

Governmental support on Chinese outward FDI

The previous chapters of this thesis provided an overview of the history and the motives of Chinese outward foreign investment since 1978. Thereby, different phases and milestones of OFDI were presented, many of which being either directly affected or implicitly influenced by regulations of the Chinese government and government-related organizations.

The goal of this chapter is to investigate the OFDI-related activities of the Chinese government and other government-related institutions in more detail. Those activities are manifold: beside high-level development strategies there are also more concrete laws and policies, tax or tariff regulations, as well as other resolutions. Similarly, they address different industrial sectors, host countries, but even single companies.

The rest of this chapter is structured as follows. First, the main political and economic actors determining China's OFDI policy context are introduced in Section 5.1. Then, in Section 5.2, different types of regulations, measurements, as well as OFDI-related governmental activites are classified. This classification is then followed by a more detailed presentation of selected governmental regulations.

5.1 China's main political actors influencing OFDI

As already mentioned in Chapter 3, there are different political and administrative actors impinging on the development of China's OFDI strategy and corresponding activities. Based on the findings of Voss, Buckley, and Cross (2008), Ren, Liang, and Zheng (2011), as well as of Bernasconi-Osterwalder, Johnson, and Zhang (2013), an overview of those institutions and organizations is presented in Figure 5.1.

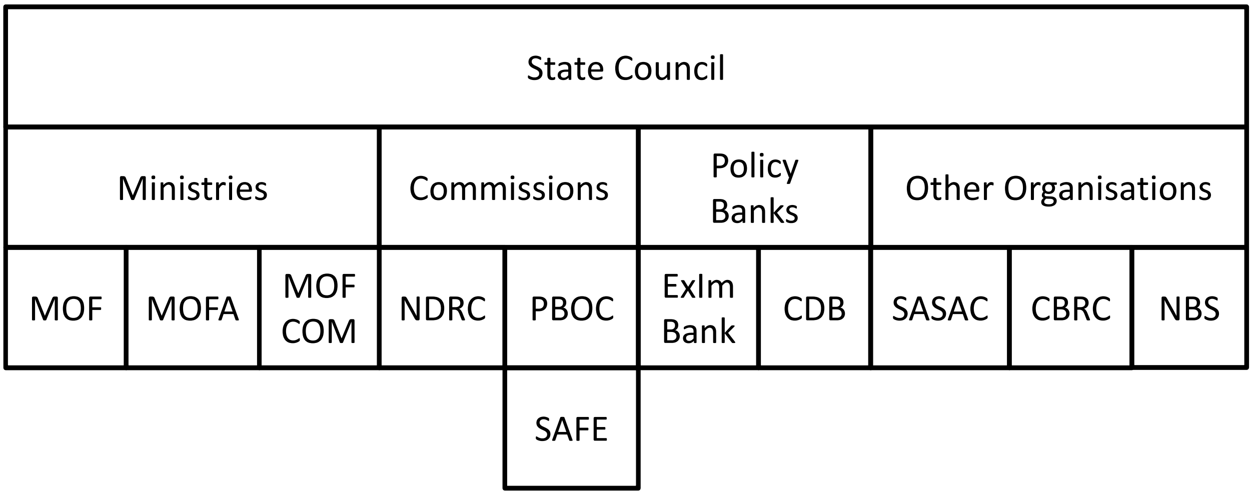


Figure 5.1: Political actors of Chinese OFDI (Own presentation based on the findings of Voss, Buckley, and Cross (2008), Ren, Liang, and Zheng (2011), and Bernasconi-Osterwalder, Johnson, and Zhang (2013))

5.1.1 The State Council

The highest authority influencing OFDI is the **State Council**, which is the chief administrative authority of the PRC. Headed by the Premier[5], it includes the heads of all governmental departments and agencies. It creates and formulates laws and controls China's national development strategy. Furthermore, the State Council regulates foreign affairs and the agreements signed with foreign economies on country level.

Supervised by the State Council, there are different institutions being responsible for OFDI, such as

- ministries,

[5] As of March 2014, the Premier of the State Council is Li Keqiang.

- commissions,
- policy banks,
- as well as other organizations.

These institutions are discussed in the following sections in more detail.

5.1.2 Ministries

The OFDI policy of China is notably influenced by three ministries: the MOF, the MOFA and the MOFCOM.

- The **Ministry of Finance** (MOF[6]) is in charge for the formulation and implementation of regulations and strategies concerning China's public finance and economic development (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 282). Especially, it shapes the foreign exchange policy of the PRC.
- The **Ministry of Foreign Affairs** (MOFA[7]) formulates, controls and carries out the diplomatic policies of the PRC. Furthermore, it is also responsible for drafting the catalogue for guiding the target countries of Chinese OFDI (Ren, Liang, and Zheng, 2011, p. 22). More information on this catalogue will be provided in Section 5.4.2.
- The **Ministry of Commerce** (MOFCOM[8]) is an executive agency that incorporates the former State Economic and Trade Commission (SETC) and the State Development Planning Commission (SDPC). According to Voss, Buckley, and Cross (2008), it is responsible for the following tasks regarding OFDI:
  - (i) It supervises OFDI by the implementation of policies and regulations as well as the approval of OFDI projects.
  - (ii) Furthermore, it represents China at the WTO and other international economic organizations and conducts negotiations with other member countries.
  - (iii) It is further responsible for the compliance of Chinese economic laws with international agreements.

[6] As of March 2014, the MOF is headed by Lou Jiwei.
[7] As of March 2014, the MOA is headed by Wang Yi.
[8] As of March 2014, the MOFCOM is headed by Gao Hucheng.

(iv) Finally, the MOFCOM also coordinates China's funding and loan schemes.

Formerly, between 1993 and 2003, the MOFCOM was called MOFTEC (Ministry of Foreign Trade and Economic Co-operation). Before that, between 1982 and 1993, foreign economic relations were dealt with by the MOFERT (Ministry of Foreign Economic Relations and Trade), which was incorporated into the MOFTEC in 1993.

5.1.3 Commissions

Besides ministries, the State Council supervises a number of commissions, as well. Among those commissions, the following are relevant in the context of OFDI.

- The **National Development and Reform Commission** (NDRC[9]) is a central governmental organization that formulates and controls the development strategy of the PRC (Voss, Buckley, and Cross, 2008). One of its key functions is the development of strategies to regulate China's overseas investments. Among others, it is an important stakeholder in the authorization process of Chinese OFDI. Formerly, the NDRC was called the State Planning Commission and State Development Planning Commission.

- Established in 1983, the **People's Bank of China** (PBoC[10]) is the central bank of China being directly controlled by the State Council. It regulates the financial policies and rules of China's economy. Furthermore, the PBoC is also responsible for supervising and administering the foreign exchange reserves of China (Voss et al., 2008).

- The **State Administration of Foreign Exchange** (SAFE[11]) was founded in 1979. It is responsible for managing foreign exchange policy of China and is under control of the People's Bank of China. Among others, it is responsible for defining the exchange rate policy of the Renminbi. SAFE consolidates the tasks related to China's foreign exchange control (Voss, Buckley, and Cross, 2008), such as:

  (i) delivering balance of payment (BOP) reports to the State Council and the IMF

  (ii) advising the PBoC concerning foreign exchange regulations

  (iii) supervising the movement of foreign exchange from and to China

[9] As of March 2014, the executive of the NDRC is Xu Shaoshi.

[10] As of March 2014, the governor of the PBoC is Zhou Xiaochuan.

[11] As of March 2014, the head of SAFE is Yi Gang.

(iv) managing China's foreign exchange reserves

5.1.4 Policy Banks

In 1994, three so-called policy banks (Lin and Zhang, 2009) have been established by the Chinese government in order to support the financing of state-initiated development and trade projects. Two of these policy banks play a role in China's OFDI.

- The **ExIm Bank**[12] operates at the center of the "Go Global Policy" (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 282). It provides loans for Chinese enterprises operating abroad, but also for importers of Chinese goods and services in specific sectors.
- The **China Development Bank** (CDB[13]) is also one of China's policy banks and became a commercial bank in 2008. Besides financing investments in domestic infrastructure, it is also active in overseas lending, such as the financing of the China-Africa Development Fund[14]. Its overseas activities include infrastructure projects, investments in basic industries and agriculture, but also the financing of SMEs (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 282).

The third policy bank of China is the ADBC (Agricultural Development Bank of China). However, it is not directly related to OFDI.

5.1.5 Other Organizations

Finally, there are some other organizations influencing the Chinese OFDI policy, as well.

- Funded by the State Council in 2003, the **State Asset Supervision and Administration Commission** (SASAC[15]) is aimed at representing the government of China in non-financial SOEs. A significant part of its senior management is directly nominated by the Chinese Communist Party (Naughton, 2007). Furthermore, SASAC is also responsible for reviewing the performance of those top executives (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 282).

[12] As of March 2014, the chairman of the ExIm is Li Ruogu.

[13] As of March 2014, the governor of the CDB is Chen Yuan.

[14] The China-Africa Development Fund will be dealt with in more detail in Section 5.7.4.

[15] As of March 2014, the chairman of the commission is Jiang Jiemin.

- **The China Banking Regulatory Commission** (CBRC[16]) was founded in April 2003. Its main function is the regulation of China's banking sector. Among others, it authorizes overseas investment projects of Chinese banks.
- **The National Bureau of Statistics** (NBS[17]) is an agency under control of the State Council. It is in charge of the gathering, structuring and the dissemination of statistical data, among them on overseas investments.

5.2 Types of governmental activities related to OFDI

There are different types of governmental activities and measurements related to OFDI. Most particularly, the following types can be identified:

- First of all, the Chinese government has issued a number of **broad policies** regarding its general OFDI strategy within the last decades. These broad policies can be principles communicated by the state council, strategic decisions announced in the scope of five-year plans, as well as policies communicated towards the UN. They provide a broad framework for China's long-term OFDI strategy and can be considered as the foundation of all related activities. A summary of the most important broad policies will be provided in Section 5.3.
- The implementation of any OFDI strategy necessitates specific measures on the operational level. For this purpose, Chinese policy makers have adopted several regulations on:

  (i) the general **approval and verification process** of OFDI investments

  (ii) the process of **information gathering and dissemination** about OFDI activities

  An overview of these policies will be given in Section 5.4 and Section 5.10, respectively.
- Besides general regulations, the Chinese government has also introduced several measurements regulating OFDI activities in **specific economic sectors**, such as in manufacturing, processing, or mining. An overview of the most important regulations will be given in Section 5.5.
- Similar to regulations addressing specific industry sectors, the Chinese government has also introduced policies regulating economic relations to **specific continents or countries**. An

[16] As of March 2014, the chairman of the CBRC is Shang Fulin.

[17] As of June 2014, the NBS is headed by Ma Jiantag

overview of the most important policies regarding China's economic relations with Africa will be given in Chapter 5.6.

- To encourage Chinese enterprises to invest abroad, the Chinese government has also set up a number of programs aimed at providing **financial aid** for overseas investment projects. The appropriate funds and investment programs will be described in Section 5.7.
- Similarly, while not only addressing outward investment, Chinese policy makers have adopted several policies regulating **foreign exchange administration**. In Chapter 3 selected policies were already shortly mentioned. A more detailed overview will be given in Section 5.8.
- In the first place, the regulation of OFDI necessitates appropriate micro- and macroeconomic policies. Nevertheless, the intensity of China's resource-seeking investment activities in developing countries has raised a number of issues concerning **environmental protection and social responsibility**, as well. Appropriate policies and regulations are a topic of Section 5.9.

5.3 Broad policies regarding OFDI

As stated before, the Chinese government has published a number of broad policies concerning OFDI. In contrast to concrete laws and regulations, these policies have been formulated on a more abstract level and provide a strategical framework for further policies.

Table 5.1 presents the most important policies and announcements. It was created based on the appropriate summary provided by Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. i). As the most important policies based on the point of view of the author the incorporation of the "Going Global" policy into the the Tenth FYP and the OFDI-related announcements of the Twelfth Five-Year Plan are mentioned.

5.3.1 Incorporation of the "Go Global" policy into the Tenth FYP

As already mentioned in Section 3.3.2, the "Go Global" policy was officially incorporated into the Tenth Five-Year Plan (FYP) at the National People's Congress in 2001. According to Chapter 17, Section IV of the FYP, Chinese enterprises are encouraged to "expand the areas, channels and methods of international economic and technological cooperation" (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 2).

The policy explicitly mentions the need for exploiting natural resources being scarcely available in the PRC, thus formulating resource-seeking interests. Furthermore, firms are encouraged to set up research and design centers abroad, thus utilizing human capital resources (and following strategic asset-seeking motives) in foreign countries. Besides, the improvement of a Chinese service system for the support and administration of OFDI projects is also announced, focusing on information services, taxation, financial and HR-related aspects, etc.

Date	**Policy**
January 1964	China's Eight Principles for Economic Aid and Technical Assistance to Other Countries
January 1983	China's Four Principles of Economic and Technological Cooperation
1992	Official incorporation of OFDI into the country's development strategy at the Fourteenth National Congress of the Chinese Communist Party
2001	Section on "Going Global" from the Tenth Five-Year Plan
July 2004	State Council Decision on Reforming Investment System
September 2005	Five Measures Announced by the Chinese Government on the UN High-Level Meeting on Financing for Development
2006	Section on "Going Global" from the Eleventh Five-Year Plan
October 2006	Nine Principles on Encouraging and Standardizing Outward Investment
September 2008	Six Measures for Foreign Aid Pledged by the Chinese Government at the 2008 UN High-Level Meeting on the Millennium Development Goals
2010	Six Measures for Foreign Aid Pledged by the Chinese Government at the 2010 UN High-Level Meeting on the Millennium Development Goals
March 2011	Twelfth Five-Year Plan
April 2011	White Paper on China's Foreign Aid

Table 5.1: Overview of broad policies targeting OFDI. The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 1).

5.3.2 OFDI-related announcements of the Twelfth Five-Year Plan

The Twelfth Five-Year Plan has been announced in 2011 at the National People's Congress. It was aimed to give a framework to China's political and economic development in the time between 2011 and 2015. An overview of its OFDI-related issues is provided by Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 13).

According to this, the Chinese investment policy clearly focuses on a combination of the strategies "bringing in" and "going out". Thereby, inward investment is foreseen to be intensified in the sectors of modern agriculture, high-technology, services, and energy conservation. This shows the shift of focus of China's development from a country of low-skilled labour to a provider of advanced technology and know-how, but also the actual concerns of the Chinese government regarding the sustainable availability of energy resources. A further focus is set on encouraging the investment of foreign capital in the middle and western provinces of the PRC.

On the other hand, a "speeding up" of the "Going Global" strategy is announced, as well. Again, OFDI in the fields of energy utilization, agriculture, and R&D is defined to be intensified. Furthermore, Chinese cross-country financial institutions should be (further) developed, thus strengthening China's role as an important player on international markets. Thereby, a number of mutual country-levels agreements are taken into account, especially to avoid double taxation. Finally, it is important to mention that the aspect of CSR (Corporate Social Responsibility) is mentioned as well, promising to "bring benefits to local people". The topic of CSR and its relation to Chinese OFDI policy will be discussed in more detail in Section 5.9.

5.4 Regulations of the general approval and verification process of OFDI

In order to conduct OFDI projects abroad, Chinese firms have always had to undergo a number of approval or authorization processes. In general, different aspects of overseas investment require approval, such as:

- the authorization of an OFDI project itself,
- the approval of foreign exchange activities,
- the approval of financial support for OFDI projects,

- as well as the authorization of credits and credit insurances.

While the administration and approval process of foreign exchange assets for overseas investment is subject to Section 5.8, this section deals with the general approval regulations of OFDI. An overview of the related measurements is shown in Table 5.2 and Table 5.3. Again, a selection of these regulations (chosen by the author) is presented in more detail in the following subsections.

5.4.1 Pilot Work Concerning the Examination and Approval of Overseas Investments

As already mentioned in Section 5.1.3, the most important stakeholder in the authorization process of Chinese OFDI is the NDRC. Traditionally, together with the MOFTEC, it has been responsible for approving the overseas investment intentions of Chinese enterprises. That is to say, the authorization process has been centralized for a long time.

In the sense of the “Go Global" policy, the MOFTEC has introduced an important pilot reform regarding the approval of OFDI projects in April 2003 (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 37). The main goal of this reform was the decentralization of the approval process to a selection of so-called *local administrative departments* in a number of “pilot provinces and cities", among them:

- the provinces of Guangdong, Fujian, Shandong, and Zheijang,
- the cities of Tianjin, Beijing, Shanghai, Ningbo, Qingdao, Shenzhen, and Xiamen.

The pilot reform regulates the process of application for a so-called Approval Certificate to conduct OFDI projects. Furthermore, it covers the reporting obligations of both enterprises and local administrative departments to the MOFTEC, but also the necessary registration in the commercial offices of Chinese consulates abroad. Finally, the reform also obliges the pilot local administrative departments to regularly report about their experiences, possible remarks and suggestions concerning the new decentralized process to the MOFTEC.

Later on, in October 2004, the decentralization of OFDI approval was incorporated into the NDRC’s “Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects" (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 43-44). Thereby, explicit rules for the decentralization have been defined:

- Projects requiring foreign exchange capital between US $ 10 million and US $ 50 million had to be authorized by the central NDRC. Projects requiring more than US $ 50 million should be subject to auditing by the NDRC and an approval by the State Council.

- In the field of resource-seeking for oil and mines, OFDI projects with an investment amount between US $ 30 million and US $ 200 million should be authorized by the NDRC. Projects in these fields with an investment amount above US $ 200 million should be approved by the State Council.

- Investment projects below US $ 10 million (or US $ 30 million in the oil and mining sectors) have been allowed to be subject to a local or provincial approval.

These regulations clearly show the Chinese government's efforts to facilitate a less bureaucratic decentral examination system, while still “keeping a central eye" on investments of national strategic importance.

5.4.2 Outbound Catalogue and Approval process of outbound investment projects

The Investment in Foreign Countries Industry Sector Catalogue (mostly referred to as the 'Outbound Catalogue') was initially published by the MOFCOM, the MOA and the NDRC in 2004 (Deschandol and Luckock, 2005, p. 31). It was aimed to provide a list of the investment countries and industries favoured by the Chinese government and to encourage Chinese companies to conduct OFDI by offering tax discounts and other incentives (Voss et al., 2008). In the initial version, preferred industry sectors in 67 countries have been mentioned, accompanied by a broad range of incentives, such as tax concessions or preferential customs treatment.

Based on the Outbound Catalogue, projects targeting OFDI were required to undergo the following approval processes:

- In general, almost all OFDI projects required approval by the NDRC or a local DRC. The fact whether approval was mandatory depended on the investing company, the amount of the planned investment as well as the industry and the location of the investment.

  The only investments that did not have to undergo this process were investments conducted by SOEs which did not exceed US $ 100 million in size and which involved neither “sensitive countries and regions" nor “sensitive industries".

  “Sensitive countries and regions" included countries or regions “without a formal diplomatic relationship with China or under international sanctions, at war, or in a state of unrest," and

Date	Policy
June 2001	Circular of the Ministry of Foreign Trade and Economic Cooperation and the Ministry of Finance on Printing and Distributing the Detailed Rules for the Implementation of the Measures for Administration of International Market Developing Funds of Small- and Medium- sized Enterprises
April 2003	Circular on the Pilot Work Concerning the Examination and Approval of Overseas Investments
July 2004	Circular of Ministry of Commerce and Ministry of Foreign Affairs of Distributing Guide Catalogue of Countries and Industries for Investment Abroad (Outbound Catalogue)
June 2004	“Enhance International Cooperation and Promote Common Development." Government Speech at MOFCOM’s First International Forum on “Going Global"
October 2004	Verification and Approval Procedures for OFDI/Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects
October 2004	Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State/Circular on Supportive Credit Policy on Key Overseas Investment Project Encouraged by the State

Table 5.2: Regulations concerning the approval process of Chinese outward investment projects (part 1). The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 29) and extended by the author.

Date	Policy
June 2005	Ministry of Commerce and China Export and Credit Insurance Corporation Circular on Promoting Development of Export Name Brands with Help of Export Credit Insurance
August 2005	Circular on Implementing Export Credit Insurance
September 2005	Circular about the Relative Issues on Offering More Financing Support to Key Overseas-invested Projects
October 2005	Detailed Rules for the Examination and Approval of Investments to Open and Operate Enterprises Abroad
December 2005	Notice on Using and Managing Special Funds for Foreign Economic Co-operation
January 2006	Circular on Relevant Issues Concerning Financial Interest Subsidy to Loans for Foreign Contracted Projects in 2005
February 2006	Encouraging and Supporting “Go-Global" of Privately Owned Enterprises
July 2006	Outward Investment Sector Direction Policy & 2006 Catalogue of Industries for Guiding Outward Investment
March 2007	Opinions of the State Administration of Taxation Upon Doing Well in the Taxation Service and Management for the Overseas Investments of Chinese Enterprises
December 2007	Adjusting the Relevant Matters on the Examination and Approval of Overseas Investment
March 2009	Measures for Overseas Investment Management
December 2013	Catalogue of Investment Projects Requiring Government Approval

Table 5.3: Regulations concerning the approval process of Chinese outward investment projects (part 2). The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 29) and extended by the author.

"sensitive industries" included "basic telecommunication operations, cross-border water resources development and utilization, large-scale land development, main electrical grids, and news media".

- Projects involving the establishment of a non-financial overseas entity also required and "overseas investment approval certificate" from MOFCOM or a local MOFCOM agency.

- The transfer of funds offshore or the retention of profits or other foreign exchange generated offshore also required a further registration with the SAFE (see also Section 5.8).

In 2006, an updated version of the Outbound Catalogue was issued, introducing the three categories of *encouraged*, *allowed*, and *prohibited* investment projects. Thereby, projects aimed at seeking scarce natural resources (resource-seeking), promoting the export of Chinese products and labour (market-seeking), as well as utilizing high-technology and skills (strategic asset seeking) were declared as encouraged. Similarly, investments endangering China's national security or utilizing protected Chinese products and technology were prohibited. Besides this classification, encouraged projects have been provided support in economic control as well as in receiving credit support, tax incentives, insurance, etc.

On December 2, 2013, China's State Council issued the Catalogue of Investment Projects Requiring Government Approval which further relaxed the Chinese approval requirements for overseas investment projects of Chinese investors (Huang, Riemenschneider, Kirschner, and Guang, 2014, p. 2). Most particularly, the following regulatory changes have been announced:

- NDRC approval is required for projects which involve Chinese investments larger than US$ 1 billion in size or which concern "sensitive countries or regions" or "sensitive industries".

- All other projects will require only a filing with NDRC or a local competent Development and Reform Commission.

- For non-sensitive projects, Chinese investors will only need to submit a filing with MOFCOM or MOFCOM's local counterpart.

- For the time being, overseas investment projects of State-owned companies still appear to require approval by the SASAC.

However, there are still special requirements applying to investments in the financial sector (Huang, Riemenschneider, Kirschner, and Guang, 2014; Jian, Poh, Mayo, Gu, and Fu, 2014, p. 1).

5.4.3 Support for Privately Owned Enterprises

In the beginning of Chinese OFDI, overseas investment was mainly restricted to SOEs as well as other state-related companies. In order to encourage privately owned enterprises to engage in OFDI, the MOFCOM issued an appropriate draft in 2006 (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 63).

In this draft, private companies in the fields of light industry, clothing and textiles, machinery, and communications have been encouraged. Especially, an equal treatment of private and state-owned enterprises by the provision of state support for qualified private companies was announced. This support should cover a number of administrative fields, among them the authorization of projects, custom clearance, support in personnel administration, foreign exchange administration, insurance, and information dissemination.

It is doubtless that this regulation was a significant milestone in the development of Chinese OFDI.

5.5 Regulations regarding OFDI in specific industry sectors

The measurements mentioned in the previous chapters are of general nature, i.e. they are independent of a specific industry sector or a specific host-country. However, in order to explicitly regulate and influence OFDI activities in selected countries or industries, the Chinese government (and its organizations) have announced designated measurements, as well.

As far as specific industries are concerned, the Chinese OFDI policy has targeted two of them, namely “oil and mining" and “manufacturing and processing". This shows again China’s clear motives for resource-seeking investments (oil and mining), but also for market-seeking and strategic asset-seeking (manufacturing and processing).

In this section, the regulations of the Chinese government in the scope of manufacturing and processing are described. For more information on regulations on “oil and mining", the interested reader is referred to Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 119).

5.5.1 Regulations regarding manufacturing and processing

Table 5.4 gives an overview of the most important policies related to China's OFDI activites in the sector of manufacturing and processing. As shown there, in July 1999, there have been two regulations on the overseas trade and processing of raw materials. First, a discount interest rate for loans on foreign exchanges was provided for enterprises engaged in the overseas trade of raw materials. Thereby, the so-called Central Foundation of Foreign Trade Development (CFFTD) would retain a discount rate of 2 per cent to enterprises that lend foreign exchange from domestic banks in order to finance raw material trade abroad. Second, first regulations on the provision of an approval certificate for enterprises engaged in OMPA (Overseas Raw Material Processing and Assembling) were published, aimed to "accelerate the sustainable, stable and healthy development of the Businesses of OMPA" (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 163). Based on their balance sheets, gains and losses, and export statistics, enterprises engaged in OMPA would be subject of an annual examination and certification process by the MOFTEC or local provincial agencies.

Date	**Policy**
May 1999	Administrative Regulation of the Discount Interest Rate of Loans for Working Foreign Exchanges for the Overseas Enterprises of Raw Processing Trade
July 1999	Provisional Regulations of Annual Examination of the Approval Certificate for the Overseas Enterprises of Raw Material Processing and Assembling
October 2004	Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State/Circular on Supportive Credit Policy on Key Overseas Investment Project Encouraged by the State
June 2003	Circular on Issues Relating to Simplifying the Examination and Approval Procedures for the Projects of Overseas Processing Trade and Delegating the Authority
April 2011	Notice of Special Fund for Foreign Economic and Technological Cooperation in 2011

Table 5.4: Policies regarding China's OFDI activities in manufacturing and processing. The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 160).

In June 2003, based on the principles of the “Going Global" policy, a simplification of the approval procedure of OFDI projects in the field of overseas processing trade was announced. Thereby, investments under US $ 3 million were allowed to be reviewed by so-called “local competent departments" of local provinces, thus simplifying the approval process. Only investment projects above US $ 3 million as well as projects by enterprises under control of the central government had to be authorized by the Ministry of Commerce.

Finally, in April 2011, the Special Funds for Foreign Economic and Technology Cooperation have been set up to financially support Chinese enterprises in foreign technology cooperation. Among others, a central focus was set on equipment manufacturing projects including “general equipment manufacturing, special equipment manufacturing, transportation equipment manufacturing, electrical machinery and equipment manufacturing, communication equipments, computers and other electronic equipment manufacturing, instrumentation and culture, office machinery manufacturing, handicrafts and other manufacturing" (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 109). The fund was aimed at financing consultancy costs, survey and investigation costs, feasibility studies, but also to cover expenses of transportation insurance or even patent insurance. It was combined with a formal application process, and the funds granted should not exceed RMB 30 million.

5.6 Regulations regarding OFDI in specific countries and regions

Besides specific industry sectors, the Chinese government has also issued a number of measurements related to OFDI in specific countries and regions, among them Hong Kong, Taiwan, countries in South East Asia, but also developed countries such as the USA, Canada, or Australia. Nevertheless, there is no doubt that the lion’s share of governmental attention concerning OFDI has been focused on investment projects in Africa.

The significance of African countries for Chinese OFDI has obvious reasons. First of all, Africa is rich in natural resources (among them especially in mineral and agricultural resources) and is thus a main target for China’s resource-seeking investments. Second, African countries are strongly reliant on financial and infrastructural aid, thus being significant for the strategic asset seeking intentions of the PRC. Finally, especially because of the political instability of some of its countries, Africa has not been among the typical target regions of “traditional" OFDI countries.

Table 5.5 gives an overview of the most important policies related to China’s OFDI engagement in

Africa.

Date	Policy
October 2000	First Ministerial Conference of the Forum on China-Africa Co-operation
January 2006	China's African Policy
March 2007	*China-Africa Development Fund*
September 2006	Eight-Point Plan China Pledged at Forum on China-Africa Cooperation, Beijing Summit
November 2009	Forum on China-Africa Cooperation Sharm El Sheikh Action Plan
November 2009	Eight-Point Plan China Pledged at the Fourth Ministerial Conference of the Forum on China Africa Cooperation
May 2010	Interpretation of New Measures on Economic and Trade Cooperation from 4th Ministerial Conference of the Forum on China-Africa Cooperation

Table 5.5: Policies regarding China's OFDI activities in Africa. The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 227) and partially extended by the author.

As can be seen, the first important milestone was the conduction of the First Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC), held in October 2000 in Beijing (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 227). Thereby, ministers of 44 African countries and of China set the foundation for the economic and political cooperation between the PRC and Africa. On the one hand, they conducted a thorough review of their cooperation over the previous 50 years. On the other hand, they issued a policy framework for cooperation in the fields of inter-governmental cooperation, trade and investment, engineering and infrastructure, tourism, migration, health, education, arms control, etc. Thereby, they claimed to mutually honour basic principles of cooperation, among them equality, common progress, mutual advantages, as well as pragmatism.

Since 2000, four further ministerial conferences of the FOCAC have taken place. The dates and locations of those conferences are listed in Table 5.6. Between 2000 and 2009, the number of participating African countries was increased to 49. Furthermore, besides high-level strategic goals, concrete measurements and aids have been also announced. In 2006, an eight-point plan was pledged by the Chinese government. Among others, it contained the funding of the China-Africa Development Found and the provision of "US $ 3 billion in concessional loans and US $ 2 billion in preferential export buyer's credit" (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 241).

Conference	**Date**	**Location**
First Ministerial Conference of FOCAC	2000	Beijing, China
Second Ministerial Conference of FOCAC	2003	Addis Abeba, Ethiopia
Third Ministerial Conference of FOCAC	2006	Beijing China
Fourth Ministerial Conference of FOCAC	2009	Sharm el-Sheikh, Egypt
Fifth Ministerial Conference of FOCAC	2012	Beijing

Table 5.6: List of Ministerial Conferences of FOCAC (Own presentation)

This was followed by the Fourth Ministerial Conference of Forum on China-Africa Cooperation, which took place in November 2009. There, Wen Jiabao introduced specific measurements aimed at supporting the cooperation between Africa and the PRC. Following regulations have been announced:

- **Agriculture**: The number of so-called agricultural demonstration centres to be set up by China in African countries was announced to be increased to 20. Furthermore, China also consented to send 50 agricultural technology themes to Africa, in order to provide appropriate consulting services.

- **Health**: In the field of public health, the provision of equipment and anti-malaria materials worth RMB 500 million was announced, as well as the building of 30 hospitals and 30 malaria treatment facilities.

- **Education and HR development**: China further declared to establish 50 so-called China-Africa friendship schools and to educate personnel, among them 1,500 teachers, 3,000 doctors and nurses. Moreover, the provision of US $ 1.5 million was also announced for human resources training.

- **Energy sector**: In order to enhance energy utilization and provide clean drinking water, China announced to start 100 projects for supporting the supply of drink water and renewable energy based on bio gas, solar and hydro-power.

- **Financial help**: China confirmed to provide loans worth US $ 10 billion for infrastructure and social development projects, as well as further US $ 1 billion for the establishment of small and medium enterprises.

- **Trade**: To promote trade, the Chinese government announced to phase in the abolishment of tariffs to products of the least developed African countries that have a diplomatic connnection to the PRC. Furthermore, the establishment of an African commodities trade center in Yiwu city was announced, aimed at promoting African products to Chinese consumers.

- **Debts cancellation**: China announced to go on with cancelling debts of least developed African economies, thus supporting their efforts against poverty.

- **Financial development support**: Finally, the PRC also announced to raise the capital of the China-Africa Development Fund (a fund aimed at financially supporting Chinese enterprises investing in African countries) from US $ 1 billion to US $ 3 billion.

5.7 Financial support for OFDI

Besides regulations for the approval and verification process of OFDI projects, the Chinese government has also established means of financial support to encourage enterprises to take part in overseas investment. These means have been mainly implemented in the form of funds which are shown in Table 5.7.

Date	Policy
2004	Resource Investment Fund
2004	Special fund for overseas mining resources risk surveys
-	Outward economy and technology cooperation special fund
March 2007	China-Africa Development Fund
September 2007	China's Sovereign Wealth Fund
September 2011	Special Funds for Foreign Economic and Technology Cooperation

Table 5.7: Financial regulations targeting Chinese OFDI (Own presentation)

5.7.1 Resource Investment Fund

As already mentioned in Chapter 2.3.1.3, resource seeking has always been one of the most important determinants of Chinese OFDI. To support companies conducting foreign resource investment, the MOF and the MOFCOM issued a policy called "On implementing well funding for pre-project costs of overseas resources investment and economic and technical cooperation" in 2004 (Wenbin and Wilkes, 2011, p. 12). In this policy, special funds were allocated to support the pre-investment activities of companies. The main focus of this fund were enterprises involved in projects seeking for oil, non-metal and metal resources.

5.7.2 Special fund for overseas mining resources risk surveys

The policy called “Temporary method for overseas mining resources risk surveys" was published by the MOF (Wenbin and Wilkes, 2011, p. 12) in 2004. Its main goal was to support enterprises engaged in resource-seeking activities in the field of mining (excluding oil and gas) and to fund promising survey projects aimed at finding large reserves.

5.7.3 Outward economy and technology cooperation special fund

Similar to the resource investment fund mentioned in Chapter 5.7.1, the MOFCOM and MOF published a policy called “Management method for the outward economy and technology cooperation special fund". Its main purpose was to support enterprises investing in “overseas agriculture, forestry and fishing cooperation, outward project contracting, outward labour services, overseas high-tech research and development, and outward design and consultation" (Wenbin and Wilkes, 2011, p. 13).

5.7.4 China-Africa Development Fund

As already mentioned in Section 5.6, the so-called China-Africa development fund was established in March 2007. Aimed at financially supporting Chinese enterprises investing in African countries, it had made about US $ 4 billion investments in 35 projects by 2010 (Wenbin and Wilkes, 2011, p. 13).

5.7.5 China’s Sovereign Wealth Fund

According to the definition of Beck and Fidora (2008, p. 349), Sovereign Wealth Founds (SWFs) are “public investment agencies which manage part of the (foreign) assets of national states". In

September 2007, the Chinese government funded its SWF, the so-called China Investment Corporation (CIC) (Zhang and He, 2009, p. 101).

The CIC's main responsibility is to manage part of China's foreign exchange reserves. It was founded with a starting capital of US $ 200 billion that has been significantly increased since then. The investment strategy of the CIC is twofold. On the one hand, it aims at gaining shares of international companies conducting significant investments (IFDI) in China. On the other hand, it also conducts OFDI activities, mainly focusing on strategic asset seeking. For further information on the CIC, the interested reader is referred to Zhang and He (2009).

5.7.6 Special Funds for Foreign Economic and Technology Cooperation

The so-called "Special Funds for Foreign Economic and Technology Cooperation" has been already discussed in detail in the scope of policies targeting specific industry sectors in Section 5.5.

5.8 Policies regarding Foreign Exchange Administration

The appropriate management of foreign exchange administration is without doubt crucial for the development of a country's OFDI strategy. Thus, the Chinese government has adjusted its foreign exchange policy almost in every phase of the PRC's OFDI history.

Table 5.8 shows the most important policies regulating foreign exchange administration. It was created based on the summary of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 258) and complemented by the author with appropriate regulations before 2002. While the so-called "foreign exchange retention system", the "dual exchange rate system", and SAFE's regulations from 1992 have already been mentioned in the Sections 3.2.1 and 3.2.2, this section provides further details about selected measurements after 2002.

An important measurement was the introduction of a joint annual inspection system for overseas investments in October 2002. In order to strengthen the governmental control and promotion of OFDI, the MOFTEC and the SAFE set up an inspection framework aimed at the annual revision of OFDI projects. Thereby, the foreign exchange management of an OFDI project had to be screened by the foreign exchange bureau of the company's location, resulting in an official appraisal of the status of the overseas investment. The result of this inspection was a certification based on a "3-grade" system. Investment projects classified as “grade 1 project" would receive preferential treatment in the following year, especially as far as foreign exchange procedures are concerned.

Date	Policy
1978	Introduction of the foreign exchange retention system
1981	Introduction of the dual exchange rate system
1990	SAFE published “Foreign exchange management method for overseas investments"
1992	Abolishment of the foreign exchange retention system
October 2002	Interim Measures for Joint Annual Inspections of Overseas Investments
June 2009	Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration of Overseas Lending Granted by Domestic Enterprises
July 2009	Circular of the State Administration of Foreign Exchange on Issues Concerning Administration of Overseas Organizations' Foreign Exchange Accounts in China
July 2009	Regulations on Foreign Exchange Administration of Overseas Direct Investments by Domestic Institutions
June 2010	Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration of Overseas Direct Investments by Domestic Banks
July 2010	Circular of the State Administration of Foreign Exchange on the Administration of External Guarantees Provided by Domestic Institutions

Table 5.8: Policies regarding Foreign Exchange Administration. The table was partially created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 258).

Another important regulation aimed at standardizing the foreign exchange management of Chinese OFDI was introduced by the SAFE in July 2009. Backed by China's “Going Global" policy, it allowed Chinese enterprises to conduct foreign investments based on self-owned foreign exchange funds, domestic foreign exchange loans, but also foreign exchange assets purchased with RMB or tangible/intangible assets (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 267).

According to these regulations, enterprises had to register their foreign exchange assets aimed at outward investments at the Foreign Exchange Administration, in order to be granted a so-called "foreign exchange registration certificate". Based on this certificate, they could officially remit foreign exchange to their overseas investment projects via designated foreign exchange banks. Furthermore, profits generated by overseas investments were allowed to be retained and reused for the purpose of further outward investment. For this purpose, these profits could be remitted to China and deposited in foreign exchange accounts, yet only under the supervision of the Foreign Exchange Administration. These regulations were further simplified in 2010. Thereby, especially the duration of the foreign exchange registration process was shortened to three working days. This significantly leveraged the conduction of overseas investments and their financing with foreign exchange.

5.9 Policies concerning environmental and social issues

The previous sections mentioned micro- and macroeconomic regulations focusing on financial, economic, and organizational aspects of overseas investment. Nevertheless, within the last decades, the rapid development of the Chinese economy has also raised up a number of social and environmental issues. The pace of industrialization of the PRC has obviously intensified both overpopulation and the demand for natural resources. Furthermore, since the lion's share of Chinese OFDI has always aimed at accessing natural resources energy sources, the appropriate environmental and social issues have often been "exported" to the host countries. Especially China's engagement in underdeveloped African countries has been intensively criticized by the international community, accusing the PRC to engage in large-scale land grabs (Zuo, 2013).

To face this problem on the governmental level, the policy makers of the PRC have realized the importance of addressing corporate social responsibility (CSR) on a broad policy level. For the definition of CSR, this thesis refers to an early and often cited work of Enderle and Tavis (1998):

Definition (Corporate Social Responsibility)**.** *"Corporate social responsibility is the policy and practice of a corporation's social involvement over and beyond its legal obligations for the benefit of the society at large." (Enderle and Tavis, 1998)*

An overview of measures concerning environmental and social issues is shown in Table 5.9. As an example, the "Guidelines to the State-owned Enterprises Directly Under the Central Government on Fulfilling Corporate Social Responsibilities" are mentioned, which were announced by the SASAC in December 2007. According to these guidelines, Chinese SOEs should:

Date	Policy
September 2006	Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies
December 2007	Guidelines to the State-owned Enterprises Directly Under the Central Government on Fulfilling Corporate Social Responsibilities
October 2006	Nine Principles on Encouraging and Standardizing Outward Investment
2007	Green Guidelines
May 2008	Shanghai Stock Exchange Notice of Improving Listed Companies' Assumption of Social Responsibilities
May 2008	Shanghai Stock Exchange Guidelines on Environmental Information Disclosure by Listed Companies
January 2009	China Banking Association's Guidelines on Corporate Social Responsibility of Financial Institutions
March 2009	Measures for Overseas Investment Management
2009	Guide on Sustainable Overseas Forests Management and Utilization by Chinese Enterprises
August 2009	Notice of the China Banking Regulatory Commission on Issuing the Guidance on Commercial Banks' Management of Reputational Risks
August 2010	Regulations on Safety Management of Overseas Chinese-funded Enterprises and their Employees
January 2011	Environmental Assessment Framework
January 2011	Resettlement Policy Framework

Table 5.9: Policies concerning environmental and social issues. The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 168)

- conduct business operations in a legal and honest way, complying to ethical and commercial rules
- improve the safety and quality of their products and services in order to meet consumer interests and to establish a good image towards them
- take responsibility in saving energy and reducing emissions by developing energy-efficient

production techniques and investing in environmental protection

- set a great store by protecting the rights of their employees, both by properly implementing work contract regulations as well as providing equal treatment or even trainings for personal development
- take part in social welfare programs, allow their employees to participate in social services, but also financially support schools or cultural institutions
- develop production techniques and strategies focusing on sustainability
- etc.

Besides these guidelines, the SASAC also proposes appropriate measures to fulfill Corporate Social Responsibility, e.g. by the appropriate training of managers, by the enforcement of communication between enterprises, or by strengthening the role of trade unions or women's federations in corporations.

For a thorough review of governmental regulations aimed at social and environmental issues the interested reader is referred to the compilation of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 168).

5.10 Policies concerning information dissemination on OFDI

In order to reflect and supervise the actual status of Chinese OFDI, but also to provide investing enterprises with appropriate advisory data, the Chinese government has taken different measurements aimed at information dissemination. In Section 3, the "Statistical Bulletins of China's Outward Foreign Direct investment" published by the MOFCOM have already been mentioned. Table 5.10 provides an overview of further statistics and guidance catalogues.

An early measurement towards information dissemination was the establishment of an Information Database on OFDI in 2003. Rather than providing reports on statistical KPIs[18], it published information on the OFDI intentions and plans of Chinese companies. Thereby, firms intending to conduct OFDI projects with an investment amount above $ US 1 million could apply for participation in the database. Facilitating China's "Going Global" strategy, the database should leverage communication and information exchange between investing companies.

[18] Key Performance Indicators

Date	Policy
October 2002	Interim Measures for Joint Annual Inspection of Overseas Investment
annual	Statistical Bulletins of China's Outward Foreign Direct Investment
November 2003	Notice on Establishing Data Bank about OFDI Proposals / Circular on Setting up an Information Database of Outward Investment Intention of Enterprises
August 2004	Circular of Distributing Industrial Guidance Catalogue of Investment to Foreign Countries
November 2004	Obstacle Report Rules on the Investment to Different Countries
April 2005	Circular of Ministry of Commerce and State Administration of Foreign Exchange About 2005 Joint Annual Examination and Comprehensive Achievements Evaluation on Investment Abroad
September 2005	Registration System for Overseas Chinese-Invested Enterprises
November 2006	Urgent Circular of the Ministry of Commerce on Strengthening the Statistical Work of China's Outward Foreign Direct Investment
April 2011	Notice of Application of the 2011 Special Funds of Foreign Economic and Technology Cooperation
since 2009	Guides on Chinese-funded Enterprises Overseas (annual report)
December 2010	Statistical System for Outward Foreign Direct Investment
January 2011	Provisional Rules for the Pilot Program of RMB Settlement for Overseas Direct Investment
December 2012	Notice on the Issuance of the Statistical System for Outward Foreign Direct Investment

Table 5.10: Measures related to Information Dissemination. The table was created based on the data collection of Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 83)

In Section 5.4.2 the “Outbound Catalogue" issued by the MOFCOM, the MOA and the NDRC was already mentioned. Providing a list of the investment countries and industries favoured by the Chinese government, it is an important means of information dissemination for OFDI. With the so-called “Obstacle Report Rules on the Investment to Different Countries", a similar publication was introduced by the MOFCOM in 2005. Based on the experience and the information exchange of financial institutions and investing enterprises, it describes potential barriers (e.g. laws, tariffs, cost burdens, infrastructure problems, etc.) that investing companies might face when conducting OFDI.

In December 2010, the SAFE and the Chinese National Bureau of Statistics introduced the so-called “Statistical System for Outward Foreign Direct Investment". It provides annual, seasonal, as well as monthly statistics on different aspects of Chinese OFDI, among them on the basic situation of investors and enterprises, M&A activities, the imports and exports of goods conducted by overseas companies, but also on the reinvestment activities of domestic investors through overseas enterprises. Quite recently, in December 2012, this statistical system was lightly supplemented. Among others, a monthly statement on the OFDI activities in agriculture, an annual report on the situation in overseas crop cultivation, as well as a monthly report on the economic zones outside China were introduced. A comprehensive list of all statistical statements is provided by Bernasconi-Osterwalder, Johnson, and Zhang (2013, p. 90).

Chapter 6

Effects and trends of governmental influence on Chinese outward FDI

The previous chapters of this thesis gave a detailed overview of the development of Chinese OFDI as well as of the OFDI-related activities of the Chinese government. While in Chapter 3 the different phases and subphases of Chinese overseas investment were presented, Chapter 5 provided a classification of appropriate policies and regulations concerning OFDI.

Based on this foundation, this chapter is aimed at investigating the main effects and trends of governmental influence on the development of Chinese overseas investment. Nevertheless, rather than conducting a quantitative analysis, the goal of this investigation is to identify main trends, implications, and associations between governmental activities on the one hand and the development of OFDI on the other hand. Thereby, the presented findings are based on the personal perception of the author. Furthermore, expectations towards China's future OFDI strategy and possible implications for Chinese and international enterprises are formulated, as well.

The rest of this chapter is structured as follows. First, in Section 6.1, the most important trends and associations between past governmental activities and their effect on OFDI are presented. Second, assumptions and expectations concerning the future development of Chinese governmental influence on overseas investments are formulated in Section 6.2. Finally, in Section 6.3, possible implications and corresponding suggestions to the management of both Chinese firms conducting OFDI as well as firms operating in host-countries of Chinese OFDI are formulated.

6.1 Main past effects of governmental influence on OFDI

Chapter 5 presented both the main governmental actors influencing Chinese overseas investment as well as the different types of their activities. Looking at those actors and regulations, it is obvious that the role of governmental influence and control was not only essential but also inevitable for the development of Chinese OFDI. While a quantitative analysis of this influence is neither possible, nor subject of this thesis, this section recapitulates the most important measurements based on the author's opinion. These are:

- the incorporation of OFDI into China's development strategy,
- the liberalization of the approval process of OFDI,
- and the implementation of a central foreign exchange policy.

These aspects are subject of the following subsections.

6.1.1 Manifesting OFDI as part of China's development strategy

As shown by the statistical data presented in Chapter 3, the amount of Chinese OFDI stock has increased from US $ 40 million in 1981 to US $ 509 billion in 2012, experiencing an unprecendented growth in the world's economic history. This required the early manifestation of OFDI as a strategic goal by the PRC's central government.

This manifestation happened in 1992, when the Fourteenth National Congress of the Chinese Communist Party officially incorporated transnational operations into the country's development strategy (see Section 3.3.1). Formerly rather a "pilot activity", overseas investment was officially recognized as a factor increasing China's competitiveness.

A further milestone of incorporating OFDI into the PRC's development strategy was the announcement of the "Go Global" policy in 1999 by Premier Jiang Zemin (see Section 3.3.2). Thereby, Chinese investors were explicitly encouraged to go abroad and conduct transnational operations. The appropriate motives of resource-seeking, market-seeking, and strategic asset-seeking have been unanimously manifested in the Tenth Five-Year Plan in 2001.

Finally, the incorporation of overseas investment into the PRC's development strategy reached its summit with China's WTO accession in 2001. As also shown by the growth of OFDI flow and OFDI stock in Figure 3.6 (see Section 3.4), this was a real turning point which significantly boosted OFDI growth in the last decade.

That is to say, the incorporation of OFDI into China's development strategy by central government has systematically paved the way for China's internationalization since 1992.

6.1.2 Liberalization of the OFDI approval process

The incorporation of OFDI into the PRC's high level development strategy was inevitable for the PRC's internationalization. However, it required the establishment and development of a number of operational measurements, as well. Thereby, the approval and verification process of overseas investment projects is without doubt the main cornerstone of OFDI. It has been subject to governmental regulations since the beginning of China's "going abroad".

Initially limited to SOEs in coastal provinces, the "permission to conduct OFDI" was gradually extended to different regions, industry sectors, and public enterprises, each step controlled by appropriate adjustments of the approval process. Typically, Chinese policy makers have preferred to conduct "test scenarios" based on pilot regions and sectors. Whenever a reform proved to be successful, it was rolled out in the whole country.

While the reforms of the approval process were in detail presented in Chapter 3 and in Section 5.4, Table 6.1 summarizes the most important milestones and their effects. As can be seen, the authorization process of overseas investment has been gradually adjusted and simplified along the following three dimensions:

(i) from SOEs to private firms

(ii) from a centralized to a decentralized approval

(iii) from projects of smaller volume to projects with large capital amounts

There is no doubt that this gradual adjustment process along these dimensions significantly affected the development of Chinese OFDI.

Date	Policy	Effect
1985	Opening the approval process for SOEs by the MOFERT	SOEs can apply for OFDI approval, OFDI is not only restricted to coastal provinces.
Early 1990's	Authorization by MOFCOM and NDRC possible	MOFCOM and NDRC may approve OFDI projects of up to US $ 30 million, all other projects are to be approved by the State Council.
2003	Pilot project for decentralizing OFDI approval	Decentralized approval of OFDI projects in pilot provinces and cities.
2004	Decentralization of OFDI approval	Local approval of OFDI projects under US $ 10 million (or US $ 30 million in the oil and mining sectors). Approval by NDRC and MOFCOM between US $ 10 million and US $ 50 million (or between US $ 30 million and US $ 200 million in the oil and mining sectors). Approval by the State Council above US $ 50 million (or US $ 200 million in the oil and mining sectors).
2006	Focus shift on private firms	Provision of state support to the OFDI activities of privately owned enterprises, among others regarding their approval process.
2013	Further liberalization	Central NDRC approval only necessary for projects above US $ 1 billion, as well as projects in sensitive regions and industries. Projects below US $ 1 billion require only a filing with the NDRC or a local DRC.

Table 6.1: Significant milestones in the liberalization process of OFDI approval (Own presentation)

6.1.3 Strict foreign exchange management

The access to foreign exchange is crucial to overseas investment. Starting as a practically closed economy in the late 1970's, the establishment of OFDI in the PRC's development strategy has brought a number of challenges to China's foreign exchange administration. As in the case of OFDI approval, Chinese policy makers had to conduct a step-by-step liberalization in this field, too.

The "foreign exchange retention system" of the early 1990's proved to be beneficial for the Chinese economy, allowing the SAFE to accumulate a significant amount of foreign exchange reserves. Similarly, the focus on SOEs and the introduction of the "dual exchange rate system" provided an artificial devaluation of the RMB and thus a significant boost for both exports and OFDI. As a consequence, the US $ reserves of the PRC have significantly increased (Jungbluth, 2013, p. 23), paving the way for liberalizing the access to foreign exchange assets for state-owned and private firms.

Backed by China's "Going Global" policy, the acquisition of foreign exchange for OFDI has been significantly simplified, allowing the utilization of self-owned assets, the acquisition of domestic foreign exchange loans, but also the (controlled) purchasing of foreign exchange assets with RMB or tangible/intangible assets. Furthermore, the separate approval of OFDI projects by the SAFE was abolished, thus requiring firms only to obtain a "foreign exchange registration certificate".

Future challenges of China's foreign exchange management policy, especially within the scope of the internationalization of the RMB will be subject to Section 6.2.4.

6.2 Future expectations

The previous section dealt with the most important "past" effects of governmental measurements on Chinese OFDI. Nevertheless, while the PRC's OFDI history has already covered about 35 years, the significance of overseas investment in the Chinese and the world economy is still expected to increase. Therefore, this section deals with future expectations towards both Chinese OFDI and appropriate governmental regulations. Thereby,

- the increasing role of innovation management,
- the expected "focus sectors" of Chinese OFDI,
- the growing significance of CSR,

- as well as expectations towards China's foreign exchange management

are discussed in detail.

6.2.1 Innovation management

The technology strategy of the PRC has been subject of a steady development in the past decades. In the first years after China's "opening to the world", it was clearly characterized by the intention to attract foreign technology in the form of inward FDI. That is to say, the focus was on the efficient utilization of China's strategic asset of low-cost labour force, especially in low-tech industries.

As already discussed in Section 4.1, this strategy has been changed in the years after China's WTO accession. Rather than concentrating on low-technology sectors, the focus has been shifted towards high-technology sectors, necessitating to "absorb" appropriate know-how from leading technological actors in the USA, Europe, and Japan. This strategy has been mainly implemented by intensifying OFDI in the high-end sector.

Today, China's technology policy is clearly focusing on establishing the PRC as one of the world's innovation leaders. Among others, this intention of active integration into the global innovation system was manifested in the Twelfth Five-Year Plan (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 12).

Besides the State Council and the NDRC (see Section 5.1.3), the main governmental actors of China's innovation policy are the following institutions:

- The **Ministry of Science and Technology** (MOST[19]) is responsible for the scientific and technological policy of the PRC. Before 1998, its tasks have been covered by the State Science and Technology Commission.

- The **National Natural Science Foundation of China** (NSFC[20]) is responsible for the conduction of basic research and applied research in the field of natural science in the PRC. Founded 1986, it under direct control of the State Council.

Thus, it is expected that these institutions will have a more significant role in forming China's future OFDI policy. Their influence might increase the amount of governmental support in establishing R&D centres abroad, but also the investment into appropriate research in China.

[19] As of July 2014, the MOST is headed by minister Wan Gang.

[20] As of July 2014, the NSFC is headed by Prof. Yang Wei.

6.2.2 Sectoral expectations

In the previous section, the innovation strategy of the PRC and its manifestation in the Twelfth Five-Year Plan were mentioned. According to this, Chinese OFDI is expected to be intensified in a number of industry and service sectors. Among the most important ones the following should be mentioned:

- One of the most important sectors of future OFDI will be the field of “New IT", comprising mobile appliances, broadband networks, internet infrastructure, and information security (Schüller, Meuer, and Schüler-Zhou, 2012). Besides the technical infrastructure and the production of devices, this sector also covers software solutions for network management, e-commerce, and mobile applications, i.e. also effecting the service sector.

  Among investment activities in this field the recent cases of Huawei, Lenovo, and ZTE can be mentioned. These companies have established broad R&D networks in France, Germany, Italy, and Scandinavia, i.e. in developed countries with a significant “track record" of IT innovation. On the other hand, the overseas production facilities of Chinese IT and telecommunications companies are often established in Eastern European countries with lower labour costs. As mentioned by Schüller, Schüler-Zhou, and Peterskovsky (2010, p. 3-4), these Chinese firms are backed by a strong governmental support, following appropriate national strategies.

- Another sector expected to grow significantly is the exploitation of regenerative energy. To ensure the PRC's economic development and to face the environmental problems caused by the intensive usage of traditional energy sources, the Chinese government will have to intensify its support for the production of renewable energy, but also for projects aimed at energy-saving, energy conservation, and efficient energy management. Furthermore, as also announced by the State Council (Bernasconi-Osterwalder, Johnson, and Zhang, 2013, p. 158), this reforms should go hand in hand with a strong international cooperation in energy, with China as an important coordinating member.

  It is important to mention the importance of this sector for developed countries. As shown in Figure 6.1, Chinese OFDI in the field of alternative energy has had a strong focus on Europe, North America, and Australia, recently. The reason for this is the fact that the renewable energy sector requires high-technology solutions backed by intensive research. Representative investment activities have been conducted in this field by the companies Goldwind and Suntech focusing on the wind and solar energy industry. Especially in Germany, one of the key host countries of Chinese OFDI in the wind and solar industry, these enterprises managed to

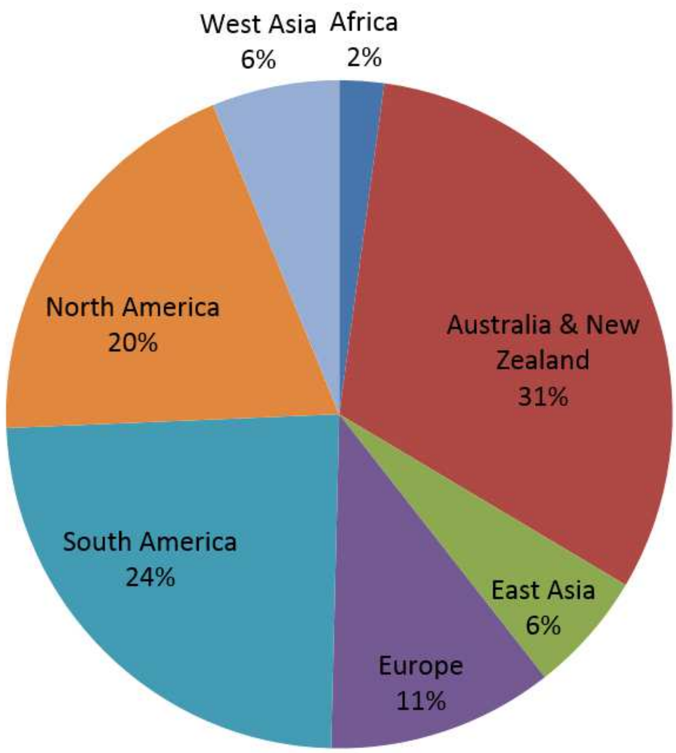


Figure 6.1: Chinese OFDI in the alternative energy sector since 2010 (Own presentation based on information available from the China Global Investment Tracker (CGIT, 2014))

acquire stakes in a number of firms and thus access to appropriate technology (Tan, Zhao, Polycarp, and Bai, 2004, p. 12). One of the consequences of this development was a transfer of German technological know-how to Chinese companies.

Besides regenerative energy, significant efforts are foreseen in the context of “green transportation", as well. In order to cope with the growing demand for private and public transportation on the one hand and to linger the environmental effects of this development on the other hand, appropriate investments in the field of clean energy vehicles are necessary.

- While not being a central focus of past Chinese OFDI activities, the Twelfth Five-Year explicitly mentions the health sector as a focus field. Especially, it foresees a restructuring of the PRC’s pharmaceutical sector as well as the promotion of biotechnology. The reason for these activities is obvious, given the aging society of China as both a societal problem and at the same time a huge market for the health care industry. Between 2012 and 2015, the government has planned a budget of RMB 12 billion for appropriate research and development activities (KPMG, 2011, p. 11).

  As a matter of course, the promotion of the pharmaceutical and biotechnology sector is not possible without appropriate OFDI efforts. Both fields require a high-technology infrastructure, but also a highly-skilled and educated labour force. Recently, Chinese OFDI in the health care sector was mostly targeted to the US. As prominent examples BGI Shenzhen's purchase of the company Complete Genomics and as well as the stakeholding of Shanghai Fosun Pharmaceutical in Saladax Biomedical can be mentioned (Hanemann, 2013). However, an increasing amount of OFDI flow is expected in this field in the future.

According to this, it can be expected that the Chinese government will establish measurements aimed at intensifying OFDI in the sectors of regenerative energy, telecommunication, and health care. These could be introduced in a similar manner as the sector-specific measurements introduced in Chapter 5.5.

6.2.3 The increasing significance of Corporate Social Responsibility

As already mentioned in Section 5.9, social and environmental issues as well as a growing international pressure on the PRC have put the topic of Corporate Social Responsibility into the focus of the Chinese government, recently. Especially as far as overseas investment projects within African countries are concerned, there were first reforms and policies announced in this field, providing broad guidelines regarding safety management, employee protection and environmental issues (see Section 5.9 for more details).

It should be further noted that the significance of CSR in China has a much stronger governmental impact than in the rest of the world. The reason for this is that Chinese enterprises conducting OFDI are either strongly related to or even explicitly controlled or owned by the PRC's government. Especially in the case of SOEs, the concept of CSR is quite synonymous to "governmental social responsibility". Furthermore, since China is still a developing country with a relatively low-cost labour force, huge social differences and significant environmental problems, the aspect of CSR is not only an OFDI-related topic but also a "local issue".

According to this, Corporate Social Responsibility is expected to play an important role in the future activities of the Chinese government. As also communicated in a recent press release of the MOFCOM (MOFCOM, 2013), there is still much room for the improvement of Chinese CSR activities, especially as far as the alignment with local laws and regulations, the introduction of a formal supervisory system, and the integration into the local society are concerned.

6.2.4 Expectations towards foreign exchange and currency management

As discussed in Section 6.1.3, the strict management of the PRC's foreign exchange system has played a significant role in the development of Chinese OFDI. Appropriate policies, such as the dual exchange rate system or the foreign exchange retention system (see Section 3.2) had a significant effect on overseas investment, allowing the SAFE to strongly intervene on a financial level. Furthermore, the PBoC has kept the dollar exchange rate very stable throughout the whole history of Chinese OFDI, thus leveraging a significant trade surplus based on an undervalued RMB. These practices has been often criticized, leading to a so-called "China bashing" (McKinnon and Schnabl, 2014, p. 1).

On the other hand, there are first "signs of efforts" from the Chinese government in order to develop the RMB to a convertible currency as well as to allow unrestricted foreign currency exchange. In September 2013, the Shanghai Pilot Free Trade Zone has been established as a testing ground for new economic reforms, also permitting RMB convertibility and free exchange (Song, 2014, p. 13) within the borders of the zone. Looking at the history of the Chinese economy, it is often the case that successful pilot programs are rolled out to the entire country on a "step-by-step" basis.

The establishment of a convertible RMB might have a fundamental effect on the world economy. In a long-term scenario, it could not only reduce China's dependence on the dollar for international payments, but also set the yuan as the most important currency. Nevertheless, on a mid-term scale, the internationalization of the renminbi would also lead to a lower exchange rate against the dollar that again could negatively effect exports and outward investment. Thus, a further strong control of foreign exchange management by the SAFE remains very possible.

6.3 Implications for Chinese and international actors

The previous sections discussed past effects and future trends of (governmental influence in) Chinese OFDI. In this closing section of this chapter, possible implications of Chinese overseas investment for both the Chinese enterprises and the receiving host country companies are dealt with.

6.3.1 Implications for Chinese enterprises

The significant influence of governmental activities on Chinese OFDI has a number of implications on Chinese companies aimed at conducting overseas investments.

- First of all, Chinese companies conducting OFDI need to maintain intensive affiliations to the Chinese government or the Chinese Communistic Party. This requires both strong personal relationships to government representatives or even their presence in the company's top management. Furthermore, both the central government and local authorities have to be concerned.

- Second, Chinese enterprises dealing with overseas investments also need to cope with a number of bureaucratic hurdles. Looking at the governmental actors influencing OFDI (see Section 5.1), it is obvious that OFDI is still depending on a number of ministries, commissions, banks, etc., each defining specific approval or authorization processes. As discussed in Section 6.1, the Chinese government has made efforts to simplify these bureucratic burdens throughout the last decades. Still, even today, appropriate relations and significant lobby work is necessary to successfully engage in OFDI.

- Third, the strong governmental influence in Chinese OFDI might also lead to negative publicity in the host countries, especially in the USA and the EU. In these host regions, Chinese enterprises still tend to have a bad reputation regarding product quality and CSR, but also in respect to their handling of intellectual property rights. Therefore, as mentioned by Cui and Jiang (2013, p. 5), Chinese firms and especially SOEs must engage in “consistent and coordinated image-building to maximize their benefits". Within the scope of this “image-building", they have to present in a compelling way that:

  - the amount of state-influence is not a threat for the host countries' economic and national security
  - the quality of products and services would not suffer after a Chinese company takeover
  - the aspects of CSR are sufficiently addressed by Chinese regulations
  - intellectual property rights of Western companies are “handled with care"
  - companies in Chinese hands are attractive for the host countries work force

  It should be noted that the latter issue of “image-building for attracting local work force" becomes more important as Chinese OFDI shifts its focus on high-technology sectors. Furthermore, the aspect of image building can significantly benefit from central image-building campaigns supported by the Chinese government.

6.3.2 Implications for enterprises in host countries

The governmental influence on OFDI has a number of consequences for enterprises in the host countries of Chinese overseas investment, as well. Thereby, not only firms being subject to Chinese M&A activities, but also enterprises engaged in economic transactions with Chinese multinationals are concerned.

Basically, the implications for Chinese companies mentioned in Section 6.3.1 are also relevant in this context. However, they have to be considered from the opposite point of view. That is to say, managers of host country companies involved in FDI activities from China have to cope with the situation that Chinese MNEs:

- strongly depend on the PRC's government,
- have often government officials in their management,
- are subject to a number of bureaucratic regulations from China and thus have only limited decision-making competencies,
- require in general a different cultural and managerial intercourse than “classical" Western MNEs.

Moreover, especially in the USA and Western Europe, the label “Made in China" is still associated with a lower service and product quality, which necessitates appropriate marketing and image-building activities. Furthermore, as also investigated by (Einarsson, 2013, p. 55-57), the public opinion sees in the internationalization of Chinese enterprises economic and even national security threats, at least as far as certain industry sectors (e.g. telecommunication and energy) are concerned.

Nevertheless, the internationalization of Chinese companies has brought a number of chances and potentials for companies in the host countries, as well. Among those benefits, the following have to be mentioned:

- Based on the motive of strategic asset seeking, Chinese OFDI has often targeted SMEs in US and Europe in the high-end sector. While providing access to advanced technology to Chinese enterprises, these firms also strongly benefited from both the incoming investment capital and the possibility to expand to Asian markets. Furthermore, as mentioned by Jungbluth (2013, p. 76), especially German SMEs took advantage of the often practiced work sharing principle of “High-tech in Germany - Low-tech in China".

- Besides access to the Asian market, Chinese OFDI has also helped host country companies to cope with the consequences of the recent global economic crisis. Since Chinese OFDI was only marginally tangent to the crisis, the capital injection into Western companies allowed to save production facilities and a number of jobs in the US and Europe (Backaler, 2014).

- According to Jungbluth (2013, p. 76), Chinese companies tend to keep a part of the management of the companies they take over, in order to reduce interventions on the operation level. What is more, they often integrate the management of “bought" enterprises into the management of the parent company, thus trying to benefit from local management experience. This is very different compared to the M&A strategies of anglo-american enterprises.

To sum up, Chinese OFDI brings numerous benefits, but also challenges to managers of host country companies. In order to cope with these implications, cultural openness, significant marketing efforts, as well as appropriate managerial skills and means of education are required.

Chapter 7

Conclusion

This master's thesis dealt with the role of governmental influence on Chinese overseas investments. Based on an extensive literature research, it focused on the investigation of whether and to what extent the activities of the Chinese government have affected and shaped the development of Chinese outward foreign direct investment.

The goal of this final chapter is to reflect on the results of this thesis. After recapitulating the main contributions of the previous chapters, it discusses possible topics for future research work.

7.1 Summary of the Chapters and their Contributions

While Chapter 1 introduced the background and motivation of this work, the role of Chapter 2 was to provide necessary background information for the reader on OFDI. It stated central definitions of overseas investment and gave a summary of appropriate theories, motives, and determinants. Its contribution is a compact introduction to the topic of outward foreign direct investment.

Based on this theoretical foundation, Chapter 3 gave an overview of the development of Chinese OFDI since 1978. Thereby, different phases and subphases of Chinese overseas investment were discussed from a governmental perspective. That is to say, the contribution of Chapter 3 is a thorough presentation of Chinese OFDI history based on existing research literature.

In Chapter 4 the (development of) motives and determinants of Chinese OFDI throughout the previously presented phases and subphases were investigated. Furthermore, specific characteristics of Chinese OFDI have been discussed, as well. The results of this chapter are the own contribution of the author.

Chapter 5 provided a thorough classification of OFDI-related policies and regulations of the Chinese government and government-related institutions. Thereby, different types of measurements have been presented and discussed based on relevant examples. The contribution of this chapter is an extensive literature overview on a topic that has not been subject to significant research, yet.

Finally, Chapter 6 evaluated the most important past effects of governmental influence on Chinese OFDI. Furthermore, it discussed future trends of Chinese OFDI as well as possible implications for both Chinese and Western enterprises. Again, the results presented are the own contribution of the author.

7.2 Future Work

The results presented in this thesis provide different possibilities for further work. Thereby, an interesting research question is whether it is possible to further quantify the influence of governmental regulations on the development of Chinese OFDI. Based on available statistical data as well as the time line of different types of governmental activities, statistical approaches could be utilized to determine the relevancy of selected measurements.

Another interesting research topic is the investigation of the governmental activities of the receiver countries (host countries) of Chinese OFDI. In order to attract or distract inward FDI from China, the lawmakers of the USA, the European Union, but also of a number of African and South East Asian countries have approved governmental measurements in the recent years (Nelson, 2013). However, appropriate research work on this topic is hardly available.

Finally, as the significance of Chinese OFDI is still expected to increase, a further important research field is a more thorough analysis of its possible implications on the governmental actors and the enterprises of Western countries. Based on such an investigation, appropriate guidelines and directives, but also educational activities for stakeholders and managers of Western companies involved in Chinese OFDI activites could be formulated.

Declaration of Honor

I herewith declare that I am the sole author of the current master thesis according to the regulation of Bremen University of Applied Sciences and that I have conducted all works connected with the master thesis on my own.

Furthermore, I declare that I only used those resources that are referenced in the work. All formulations and concepts taken from printed, verbal or online sources by they word-for-word quotations or corresponding in their meaning are quoted according to the rules of good scientific conduct and are indicated by footnotes, in the text or other forms of detailed references. Support during the work including significant supervision is indicated accordingly.

The master thesis has not been presented to any other examination authority. The work has been submitted in printed an electronic form.

I am aware of the legal consequences of a false declaration of honor.

Zoltán Fiala

August, 2014

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