

# **The Compressed Development of Chinese OFDI and Its Impact on Chinese Government Investment Policies**

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**Abstract:** The Chinese government has played an important role in starting, promoting and facilitating Chinese outward foreign direct investment (OFDI) both directly and indirectly. In recent years, however, this role has changed due to time-compressed growth and the coexistence of different growth phenomena in Chinese OFDI. This phenomenon has not been well explained in the existing literature. This paper introduces the concept of “compressed development” as a framework for analysing new features of Chinese OFDI in the 21<sup>st</sup> century, and examines the challenges the Chinese state faces in dealing with these new features. The paper argues that compressed development of Chinese OFDI has not only brought the government more challenges at home and abroad but also intensified the strength of these challenges. In response to growing pressure, the state is changing the role it plays in promoting investment. Specifically, compressed development in OFDI has condensed the space available to the Chinese government to initiate direct interventions and pushed it to focus more on institutionalizing OFDI procedures, perfecting its service framework and building a multi-dimensional network to further facilitate Chinese OFDI.

**Key words:** OFDI; Economic Globalisation; Compressed Development; Government

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## Introduction

After mostly two-digit economic growth rates for over thirty years, China has recently accelerated the pace of outward foreign direct investment (OFDI). By the end of 2012, China had provided US\$531.94 billion in investment to 179 countries and territories with an annual growth rate of 41.6% (2002-2012). Chinese OFDI flows grew from a negligible level of US\$0.044 billion in 1982 to 2012's 87.8 billion US dollars, ranking third in the world. Beijing's late arrival and fast-growing global influence make it more urgent for the world to understand Chinese OFDI motivations and patterns. A large pool of research, in fact, has been dedicated to Chinese OFDI already.<sup>2</sup> From this, three main characteristics of Chinese OFDI have been widely accepted: the domination of state-owned enterprises (SOEs), a natural resource-seeking motivation and its interaction with often poor institutions in host countries.<sup>3</sup> At the same time, the decisive role of the Chinese government in starting, accelerating and forming the structure of Chinese OFDI has become a worldwide story.<sup>4</sup> However, as the pace of economic globalisation quickened in the 21<sup>st</sup> century, the last ten years have seen some new features developing in Chinese OFDI which have not gained enough attention. These features, in turn, are changing the way in which the Chinese government exerts its influence on Chinese OFDI.

Specifically, economic globalisation has not only intensified economic competition from home and abroad but also created more opportunities for OFDI and multinational enterprises (MNEs) from catching-up countries. These MNEs can now engage in the international business transactions that they previously could not and can seek untapped resources globally. MNEs from emerging markets as a whole—the so-called “second wave” emerging MNEs<sup>5</sup>— have experienced a much quicker growth rate in a shortened time without possessing much conventional “Ownership-Location-Internalization (OLI)” advantages<sup>6</sup> when compared with conventional MNEs of the 20th century. This is especially true for Chinese OFDI which is experiencing lightning growth in the 21<sup>st</sup> century.

Moreover, the structure of Chinese OFDI is becoming much more complicated. Chinese OFDI is showing a new trend in which a complicated mix of different types of investment coexists at the same time. Chinese investors are becoming much more varied and the power of non-SOE investors is greatly increasing in terms of both OFDI flows and stock value. These investors, furthermore, are not only interested in pursuing natural resources but also keen to seek strategic assets abroad at the same time. This has challenged existing knowledge of the sequential investment development

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<sup>2</sup> Documented by Wei, Y.Q., Zheng, N., Liu X.H. and Lu J.Y, “Expanding to outward foreign direct investment or not? A multi-dimensional analysis of entry mode transformation of Chinese private exporting firms,” *International Business Review*, Vol.23, No. 2 (2014), pp. 356-370.

<sup>3</sup> Stoian, C., “Extending Dunning’s investment development path: the role of home country institutional determinants in explaining outward foreign direct investment,” *International Business Review*, Vol.22, No. 3 (2013), pp.615-637; Wang, C., Hong, J., Kafouros, M., & Boateng, A., “What drives outward FDI of Chinese firms? Testing the explanatory power of three theoretical frameworks,” *International Business Review*, Vol. 21, No. 3 (2012), pp.425-438.

<sup>4</sup> Huang Y.P and Wang B.J, “Investing overseas without moving factories abroad: the case of Chinese outward direct investment,” *Asian Development Review*, Vol. 30, No.1 (2013), PP.85-107. Yao Z.Z and Li Z.M, “China’s outbound FDI: trends and policy outlook,” *International Economic Review*, No.2 (2011), pp.127-140. Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., and Voss Z, P. “The determinants of Chinese outward foreign direct investment,” *Journal of International Business Studies*, Vol. 38, No. 4 (2007), pp.499–518.

<sup>5</sup> Bonaglia F, Goldstein A, Mathews J. “Accelerated internationalization by emerging multinationals: the case of the white goods sector,” *Journal of World Business*, vol.42, No.4 (2007), pp.369–383.

<sup>6</sup> Dunning, J. H. *The Eclectic Theory of the MNC* (London: Allen & Unwin, 1981); Dunning, J. H. “The eclectic paradigm of international production: A restatement and some possible extensions,” *Journal of International Business Studies*, Vol.19, No. 1 (1988), pp.1–31.

process summarised from former investment experience. What's more, Chinese OFDI shows a greater preference towards developed countries as an investment destination. These features of Chinese OFDI are different from what has been examined previously and therefore need to be better incorporated into the study of Chinese investment abroad.

The framework of 'compressed development' is utilised here to illustrate and explain these features of Chinese OFDI. Compressed development, initially put forward by Whittaker *et al.* (2010),<sup>7</sup> is distinguished not only by the level or extent of compression of time that development might need by previous standards but also by a compression of development processes. The concept therefore includes both development speed and structural aspects that explain the new emerging characteristics of Chinese OFDI. In particular, it includes a higher and more condensed growth process. On the other hand, compressed development of Chinese OFDI has also exerted a marked impact on how the Chinese government plays a role promoting Chinese OFDI. This has not been well shown in the literature to date. To be specific, compressed development of Chinese OFDI not only brings more challenges from home and abroad to the Chinese government, but also intensifies the strength of these challenges. Therefore, the traditional way in which the Chinese government has interacted with, and exerted its influence on, Chinese investors through strong direct and indirect involvement is accordingly adjusted and moderated as development and global engagement increases.

The increasing pressure confronting the Chinese government, together with the increasing demand of internal political reform, tends to accelerate the process of condensing the 'breathing room' for the Chinese government to initiate further direct intervention. In response the state has strengthened its service role as a regulation maker, an information supplier and an interest coordinator. In the short run, the role the Chinese government played in its OFDI is still strong when compared with that of most Western governments due to different specific historical contexts, growth patterns and development stages. However, from a relatively longer term, the Chinese government's role faces even tighter limitations as Chinese OFDI's development becomes more and more compressed. Therefore, understanding the new emerging features of Chinese OFDI revealed at this stage will not only help us to build up a more objective view of China's ongoing worldwide purchases and enable us to examine new patterns of cross-border investment in the era of accelerated economic development and globalisation, but also helps to make sense of the role the Chinese Government plays in Chinese OFDI now and in the near future.

The rest of the paper is organized as follows. Section 2 overviews the literature on the features of OFDI from developing countries and the crucial role of government in this process. Section 3 puts forth a historical narrative of the rise and compressed development of Chinese OFDI and outlines the state's investment policies. Section 4 illustrates what challenges and pressures the Chinese government has experienced due to the compressed development of Chinese OFDI and shows how this has led to a new policy platform emerging. Finally, section 5 discusses the role of the Chinese government regulating Chinese OFDI at this new stage compressed development.

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<sup>7</sup> Whittaker, D.H., Zhu, T.B., STURGEON, T., Tsai, M.H., Okita, T., "Compressed development" Studies in Comparative International Development, Vol. 45, No. 4 (2010), pp.439-467; Bonaglia F, Goldstein A, Mathews J. "Accelerated internationalization by emerging multinationals: the case of the white goods sector," *Journal of World Business*, vol.42, No.4 (2007), pp.369-383.

## Theoretical analysis and literature review

Recent years have seen an increase in OFDI from emerging markets, especially large emerging markets like the BRICS. As they rarely possess the conventional “ownership” advantage,<sup>8</sup> the rise of newly-growing MNEs cannot be well explained using the traditional and well-established ‘Ownership-Location-Internalisation’ (OLI) paradigm that developed mainly from Anglo-American experience.<sup>9</sup> Compared with conventional MNEs, those from emerging economies are developing in a very different landscape in which economic globalisation has been the predominant background and in which the global market is dominated by Western governments, economies and firms.

Economic globalisation, fuelled by information and computer technologies (ICTs), has an uneven influence on countries and industries.<sup>10</sup> As cross-border mobility of goods and capital has accelerated, competition from home and abroad is becoming much fiercer, especially in developing countries. The once ‘passive observers’ of cross-border investment,<sup>11</sup> now have to seek markets and technology abroad to survive in this new environment.<sup>12</sup> On the other hand, economic globalisation has also generated a ‘worldwide web of inter-firm connections’ globally, multiplying the opportunities that latecomer and newcomer MNEs can take advantage of and facilitating the learning process through global value chains. Just like the ‘push factors’ it brings, economic globalisation also works as a catalyst for the now-growing OFDI from emerging economies to greatly accelerate their internationalisation processes.<sup>13</sup>

However, internationalisation of latecomer firms is not an easy or automatic process due to their great deficiency in capital, information and experience operating overseas. Therefore, as shown in the existing literature, the role of home country institutions, particularly governments, is very important in the process of developing OFDI flows from emerging economies.<sup>14</sup>

Political economy studies show that a firms’ behaviour is not only affected by their economic optimization considerations but also by the institutions in which they are embedded. Governments working as controllers, regulators and adjudicators, are the key to shaping the conditions for doing business by creating rules and a competitive regulatory environment.<sup>15</sup> By conforming to the rules,

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<sup>8</sup> According to Dunning, J.H., “Toward an eclectic theory of international production: some empirical tests,” *Journal of International Business Studies*, Vol.11, No. 1(1980), pp.9-31. Firms will choose to develop FDI when they possess the “ownership” advantages, that is firm-specific advantages including brand and proprietary technologies, and also location-specific advantages that help to pursue scarce or low-cost resources or factors in host countries (the “location” advantages) and internalisation-specific advantages to avoid high transaction cost or potential market failure (the “internalisation” advantages). This is the OLI paradigm mentioned next.

<sup>9</sup> Lopes T.D.S., “The entrepreneur, ownership advantages and the eclectic paradigm,” *The Multinational Business Review*, Vol.18, No. 2 (2010), pp.71-87.

<sup>10</sup> Dunning, J.H; Narula, R. *Multinationals and industrial competitiveness: a new agenda* (UK&USA: Edward Elgar Publishing Limited, 2004), p.15.

<sup>11</sup> Nolan, P., Sutherland, D., Zhang, J., “The challenge of the global business revolution,” *Contributions to Political Economy*, Vol. 21, No.1 (2002), pp. 107.

<sup>12</sup> Yeung, H. W. C (ed.), *The globalization of business firms from emerging economies* (UK: Edward Elgar Publishing Limited, 2000), p.12.

<sup>13</sup> Mathews J.A., “Dragon multinationals: new players in 21st century globalisation,” *Asia Pacific Journal of Management*, Vol.23, No.1 (2006), pp. 5-27.

<sup>14</sup> Luo, Y., Xue, Q. and Han, B., “How emerging market governments promote outward FDI: Experience from China,” *Journal of World Business*, Vol. 45, No. 1(2010), pp. 68–79; Peng, M.W., Wang, D.Y.L. and Jiang, Y., “An institution based view of international business strategy: A focus on emerging economies,” *Journal of International Business Studies*, Vol.39, No.5 (2008), pp. 920–936;

<sup>15</sup> Ramamurti, R., “What have we learned about emerging-market MNEs? Insights from a Multi-country project”; Boddewyn, J. B. (1988, Fall). Political aspects of MNE theory. *Journal of International*

norms and expectations, firms achieve legitimacy and exhibit a kind of ‘institutional imprinting’.<sup>16</sup> As such, well-established institutions will significantly strengthen the competitiveness of indigenous firms and promote their capabilities. This, together with ‘firm-specific advantages’, such as firms’ high production-process capabilities, generates a ‘comparative ownership advantage’<sup>17</sup> which can compensate for their initial lack of ownership advantages and help firms to invest abroad. However, in developing countries, governments are doing more than that. They offer fiscal incentives, insurance, preferential loans and sign bilateral and multilateral treaties and agreements to help firm internationalisation.<sup>18</sup> This is particularly true in the case of China where the Chinese government has been deeply involved in OFDI. Since the establishment of the Dengist reform and opening policy, OFDI regulations in China have moved from constricting to encouraging and facilitating through a holistic framework that has been built up since the 1980s.<sup>19</sup>

The central government has used direct and indirect interventions to play an important role in the growth of Chinese OFDI and to influence the willingness and ability of firms to invest abroad, as well as to shape their choice of location and type of investment.<sup>20</sup> The Chinese government has played a central, crucial and dominating role, which has not only promoted the growth of Chinese OFDI, but also partly determined the structure of OFDI. This is shown through domination of SOE activities, natural resource-seeking motivations and preference for host countries with weak institutions. Since the turn of the new century, however, economic globalisation has brought new opportunities for Chinese investment abroad. This has led to a new phenomenon of ‘compressed development’ of Chinese OFDI, which in turn has brought some gradual but important changes to the existing role of the state managing and directing Chinese OFDI.

Compressed development, originally put forward by Whittaker *et al.* (2010), is a concept used to describe the new phenomenon in the development path of catching-up countries. Compared to the ‘late development’ model that argues would-be new developers grow stage by stage but in a shortened time period due to the benefit of learning from the experiences of those that developed earlier, compressed development presents a blurring of economic and social development stages in an even more time-compressed manner in which various ‘development stages’ coexist. The coexistence of different phenomena is significant because previous theories argued they would occur in linear stages.

Compressed development has emerged in latecomer countries due to their engagement with global value chains and through facilitation from government. Compressed development is particularly prominent in China and in the case of Chinese OFDI. OFDI from China has experienced a much quicker growth rate. Structural changes in the investment types, participants and host countries show Chinese OFDI to be both accelerated and out of sequence compared to previous OFDI

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*Business Studies*, 341–363.

<sup>16</sup> DiMaggio, P. J., & Powel, W. W. (1983). The iron cage revisited: institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(20), 147–160. Cheng, J. L. C., Henisz, W., Roth, K., & Swaminathan, A. (2009). From the editors: Advancing interdisciplinary research in the field of international business: Prospects: issues and challenges. *Journal of International Business Studies*, 40, 1070–1074.

<sup>17</sup> Sun, S. L., Peng, M. W., Ren, B., & Yan, D., “A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs,” *Journal of World Business*, Vol.47, No. 1 (2012), pp. 4-16.

<sup>18</sup> Luo, Y., Xue, Q. and Han, B., “How emerging market governments promote outward FDI: Experience from China,” *Journal of World Business*, Vol. 45, No. 1(2010), p.69.

<sup>19</sup> Sauvart, K. P., Chen, V. Z., “China’s regulatory framework for outward foreign direct investment,” *China Economic Journal*, Vol.7, No.1 (2014), pp.141-163.

<sup>20</sup> Wang, C.Q., Hong, J.J., Kafouros, M., Wright, M., “Exploring the role of government involvement in outward FDI from emerging economies,” *Journal of International Business Studies*, Vol. 43, No.7 (2012), pp.655-676.

development experience. Moreover, the power of non-SOE investors is catching up to SOEs. Therefore, this paper applies the compressed development concept to analyse the new characteristics of Chinese OFDI because of these similarities between the overall compressed development experience in China and the compressed development of Chinese OFDI.

As globalisation has intensified, governments in emerging economies have played a very important role promoting their OFDI growth and compressed development. This has been widely discussed in the literature from both theoretical and empirical perspectives.<sup>21</sup> However, the impact of compressed development of OFDI on the space and instruments for government policy-making remains under-theorized. As Whittaker *et al.* (2010) argued, compressed development is not perfect. China's experience shows that compressed development of OFDI brings many unintended consequences for the domestic policymaking.

Firstly, compressed development in OFDI has deepened cross-border interdependence and integration between developing and developed economies. As economic globalisation has accelerated, the boundaries between domestic and international markets have become blurred. This means the Chinese Government cannot ignore potential responses to its own investment policies from outside of China because these will impact Chinese businesses. Secondly, governments interact closely with firms within their borders<sup>22</sup> and MNEs can exert influence government policymaking through a variety of methods. Finally, compressed development creates 'traps' for policymakers where the challenges that would otherwise appear sequentially over a comparatively longer term may present together.<sup>23</sup>

Therefore, compressed development in OFDI has brought magnified challenges that policymakers have needed to respond to. The Chinese government has adjusted investment policy to respond to increasing domestic and international pressure, from Chinese outward investor feedback and from the overall experience of compressed development that Beijing has often stressed. The next section outlines China's experience of compressed OFDI development.

### **Growth and compressed development of Chinese OFDI**

Chinese OFDI was highly constricted before 1979 when 'doing business abroad (*chuguo ban qiye*, 出国办企业)' was put forward by Deng Xiaoping and the State Council as one of the fifteen important reform measures. There were a few overseas economic projects during the first thirty years of the People's Republic of China, and most of them were small branches of domestic trade corporations used to facilitate their export processes.<sup>24</sup> A significant event in the history of Chinese OFDI since the establishment of People's Republic of China was the 1979 establishment of a joint venture between Beijing Friendship Commercial Service Corporation (now renamed as the Beijing Foreign Enterprise Service Group CO. LTD) and Japan Commercial Conglomerate in Tokyo. This

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<sup>21</sup> Sauviant, K. P., Chen, V. Z., "China's regulatory framework for outward foreign direct investment," *China Economic Journal*, Vol.7, No.1 (2014), pp.141-163; Alon, T.M., "Institutional analysis and the determinants of Chinese FDI," *Multinational Business Review*, Vol.18, No.3 (2010), pp.1-23. Buckley, P. J., Cross, A. R., Tan, H., Xin, L., & Voss, H. (2008). "Historic and emergent trends in Chinese outward direct investment". *Management International Review*, 48, 715– 748.

<sup>22</sup> Luo, Y.D., Xue, Q.Z., Han, B.J., "How emerging market governments promote outward FDI: experience from China," *Journal of World Business*, Vol.45, No.1 (2010), pp.68-79.

<sup>23</sup> Whittaker, D.H., Zhu, T.B., STURGEON, T., Tsai, M.H., Okita, T., "Compressed development," *Studies in Comparative International Development*, Vol. 45, No. 4 (2010), pp.459.

<sup>24</sup> Lu Jinyong. *China's Entry into WTO and Utilizing Foreign Capital, Overseas Investment* (Beijing: University of International Business and Economic Press,2001), p.319.

was a prelude for the growth of Chinese OFDI based on pursuing mutual benefits and seeking profit.

Practical problems confronting China during that period frustrated efforts to establish investments abroad. On the one hand, a thirty-year (49-79) implementation of de-capitalisation and politicization in nearly all fields meant that China was seriously lacking in essential knowledge of capital and global markets. On the other hand, constant political and ideological campaigns at home and the long-term isolation from outside world had severely harmed the Chinese economy. In 1979, China's gross domestic product (GDP) was only US\$263.19 billion in total and US\$271.21 per capita, ranking 9<sup>th</sup> and 162<sup>nd</sup> respectively out of 183 main countries and districts.<sup>25</sup> Foreign exchange reserves in China were also suffering an acute shortage with only US\$0.84 billion in 1979. These remained constantly below US\$10 billion throughout the whole 1980s.<sup>26</sup> Therefore, the government's main investment policies and priorities during the 1980s and the early years of the 1990s focused on FDI. The Chinese Government also controlled and limited OFDI during this early period. This resulted in sporadic and small-scale growth of Chinese OFDI.<sup>27</sup>

A turning point in the history of Chinese OFDI development was the establishment of the 'going global' (*zou chuqu*, 走出去) policy. This shifted government policy away from strictly restricting Chinese OFDI to encouraging it as a way of further modernising the Chinese economy. The earliest indication of the 'going global' strategy came in mid-1992 during the lead-up to the Fourteenth Party Congress. A big surge in Chinese OFDI followed that year. OFDI was again discouraged during the Asian financial crisis before the 'going global' policy was formally regarded as a national strategy in 2000 and officially launched in 2001.<sup>28</sup> This policy had both international and domestic drivers. Since the 1990s and especially after 1995, global economic integration has sped up as both developing and developed economies expand.<sup>29</sup> This has created good conditions for the development of cross-border investment. From 1996 to 2000, the average annual growth rate of the world's OFDI reached 40%. OFDI from developing countries increased over sevenfold in the ten years from 1990 to 2000.

China's market-oriented reforms also created the need for a more liberal OFDI policy. The 'socialist market economic system' was put forward formally in 1992 after more than a decade of rapid growth and development. This development created a stronger economic base but also unleashed more challenges for policymakers. For example, China's trade surplus grew from US\$-1.898 billion in 1980 to US\$8.746 billion in 1990 and then US\$24.109 billion in 2000. Foreign exchange reserves reached US\$165.574 billion in 2000, 14.93 times the level in 1990. FDI in China increased from US\$4.366 billion in 1991 to US\$40.715 billion in 2000. This not only brought new information and technology but also fiercer competition for Chinese businesses.

Another challenge came from the Chinese economic structure. China began to depend on imports of natural resources, especially minerals, energy, copper and oil, from 1993. Imports of these resources grew rapidly. Because resources were crucial for China's double-digit economic growth Beijing

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<sup>25</sup> All data comes from UNCTAD website, <http://unctadstat.unctad.org/TableViewer/tableView.aspx>.

<sup>26</sup> Data from State Administration of Foreign Exchange, <http://www.safe.gov.cn/>

<sup>27</sup> For a more detailed discussion of Chinese OFDI development and related policies during this period see Yang, X. and Stoltenberg, C. "Growth of made-in-China multinationals: an institutional and historical perspective", in Alon, I. and McIntyre, J.R. (Eds), *Globalization of Chinese Enterprises* (New York: Palgrave Macmillan Ltd, 2008), p. 61-76.

<sup>28</sup> David Shambaugh. *China goes global—the partial power* (UK&USA: Edward Elgar Publishing Limited, 2004), p.175.

<sup>29</sup> Dunning, J.H; Narula,R. *Multinationals and industrial competitiveness: a new agenda* (UK&USA: Edward Elgar Publishing Limited, 2004), p.14.

became very concerned with resource supply security issues. During the 1990s, therefore, the government carefully managed Chinese OFDI and put the focus on SOE and resource-seeking OFDI. With the introduction of the 'going global' policy in 2001, and especially after 2003, Chinese OFDI enjoyed unprecedented growth and diversification. From point on, China's OFDI experienced a highly compressed development.

China is not the first country in Asia to achieve time-compressed development after World War II. Japan spent only four decades to fully achieve advanced economy status and became the world's biggest OFDI investor for the first time in 1989.<sup>30</sup> However, the compressed development of Chinese OFDI has a much broader meaning. First, Chinese OFDI development is even more time-condensed. According to Dunning's investment development path theory, a country's investment status will go through five stages as their national income per capita increases.<sup>31</sup> In the case of China, it took eighteen years for China to grow from stage two to stage three (GNP per capita moved from US\$400 to US\$2000 during 1989-2006), but only five years to enter the fourth stage (GNP per capita moved from US\$2000 to US\$5000), which is much shorter than the previous standard of around 10 years.

At each stage, China's OFDI flows have shifted to a higher level. Take the third stage for example. When first stepping into the third stage, Chinese OFDI had reached US\$19,502million (2006), while Japan had only US\$1,095 million outward FDI flows when it first entered the third stage in 1970. The UK had US\$14,073 million (1970)and Taiwan US\$139 million (1980). Therefore, compared with other forerunners, China's OFDI needed less time to reach a higher investment level.<sup>32</sup>

Second, the type of Chinese OFDI does not conform to the conventional investment paradigm. According to Zhao and Jiang (2010), a country's OFDI as a whole tends to move from natural resource-seeking OFDI to market seeking and efficiency-seeking OFDI and then to the strategic asset-seeking investments in an overlapped but sequential manner.<sup>33</sup> For example, before the 1980s OFDI from Japan mainly focused on seeking natural resources and markets and then gradually moved to efficiency-seeking OFDI between the 1980s and 1990s. Strategic assets have become the main target of Japanese OFDI since the 1990s. However, this type of sequential investment paradigm has been blurred with Chinese OFDI. In the 1990s there was a dominant role of natural resource-seeking policies but since then OFDI from China has actively engaged in market, high technology, strategic asset-pursuing activities. The start of this century saw a simultaneous boom in

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<sup>30</sup> Ozawa, T., *Institutions, industrial upgrading, and economic performance in Japan -- the "flying-geese" paradigm of catch-up growth* (UK&USA: Edward Elgar Publishing Limited, 2005), p.139.

<sup>31</sup> Dunning, J.H., "Explaining the International Direct Investment Position of Countries: Towards a Dynamic or Developmental Approach," *Weltwirtschaftliches Archiv*, Vol. 117, No. 1 (1981), pp.30-64. Specifically, on the first stage, a country with a GNP per capita of US\$400 or less will have little inward or outward FDI flows; When GNP per capita reaches between US\$400 and (about) US\$1500, the country may step onto the second stage where inward FDI begins to surge. On the third stage where a country's GNP is ranging from US\$2000 to US\$4750 per capita, outward FDI will quickly develop and the difference between the value of inward and outward FDI flows rapidly decreases and the stage four (GNP per capita is from US\$2600 to US\$5600) will witness a continuous increase of outward FDI which will finally surpass the inward FDI. Stage Five describes a more balanced situation with high inward FDI and outward FDI.

<sup>32</sup> All the data has been calculated by taking into account consumer price index based on 2000.

<sup>33</sup> Zhao w., Jiang, D., "ODI and Home Country's Industrial Upgrading: Experience of Pioneering Countries and Their Hints to China," *Zhejiang Social Sciences*, No.6 (2010), pp.2-10; 52. Dunning, J. H., *Multinational Enterprises and the Global Economy* (US: Addison Wesley Publishing Company, 1992), p. 66-95; Dunning, J. H., "Location and the Multinational Enterprise: A Neglected Factor?" *Journal of International Business Studies*, Vol.29, No.1 (1998), pp.45-66.



Chinese OFDI in almost the full range of types of OFDI. This is the key to the compressed development of Chinese OFDI.

Detailed categorical data collected by Wang (2013) shows that among 293 large outward investment programs with a total value of US\$99.43 billion, 41% was natural resource-seeking, 30% market-seeking and 27% strategic asset-seeking. In the manufacturing industry alone, nearly 46% of overseas investment was for strategic assets abroad, 34% natural resource seeking and 27% market seeking.<sup>34</sup> Whether analysing large OFDI as a whole or just OFDI in the manufacturing industry, the dominance of natural resource-seeking OFDI shares its position with other types of OFDI. Therefore, the conventional sequential process of investment development has been compressed in China.

Third, Chinese OFDI shows the coexistence of various participants and actors. The coexistence of SOEs and non-SOEs is the most profound. The last ten years have witnessed a great increase of power from non-SOEs as they catch up in terms of both investment flows and stock. According to the Ministry of Commerce, out of China's total US\$77.73 billion non-financial OFDI flows in 2012, SOEs accounted for less than 50%. Compared to 2006, their share of Chinese non-financial OFDI stock has reduced by 20% to 59.8%.<sup>35</sup> The dominance of Chinese SOEs has greatly changed and will likely decrease more in the near future.

Finally, Chinese OFDI targets both developing and developed countries where previously the focus was mainly on developing countries. Developed countries, especially OECD countries, have begun to show more attraction to Chinese OFDI<sup>36</sup> and exert more influence toward Chinese investment policies. In 2012, seven out of the top ten destination countries (regions) for Chinese OFDI were developed economies. Wang (2013) compiled detailed data that shows developed countries such as Australia, America, Germany and Canada have been the main targets of large Chinese overseas investment, accounting for 52.75% of total OFDI by value and 60.07% by quantity.<sup>37</sup>

Therefore, the last thirty years have witnessed two very different stages of Chinese OFDI growth. The early years conformed to the traditional investment paradigms in both types of investment and the role of government in investment choices and promotion. From the turn of the century, however, Chinese OFDI has experienced compressed development and been supported by the 'going global' policy. China's OFDI is therefore highly linked up with the requirements of the Chinese economy. As the Chinese economy is entering into the mid-to-late stage of industrialisation, structural adjustment and industrial upgrading in domestic China has become more urgent. The thirty-year's of 'export-oriented' development and strategy of 'inviting in' various actors in the world economy have brought about a big surge in Chinese productivity and created a 'lock-in effect'<sup>38</sup> on domestic development and the industrial structure. This low value-added, low technology and high resource-

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<sup>34</sup> Wang, B.J., "How Chinese outward FDI promote domestic economic upgrading", pp. 134-156. Chapter 7 of *Rebalancing and Sustaining Growth in China* (China: Social Sciences Academic Press) Huw Mckay and Linggang Song ed.

<sup>35</sup> Detailed data came from "2012 Statistical Bulletin of China's Outward Foreign Direct Investment"

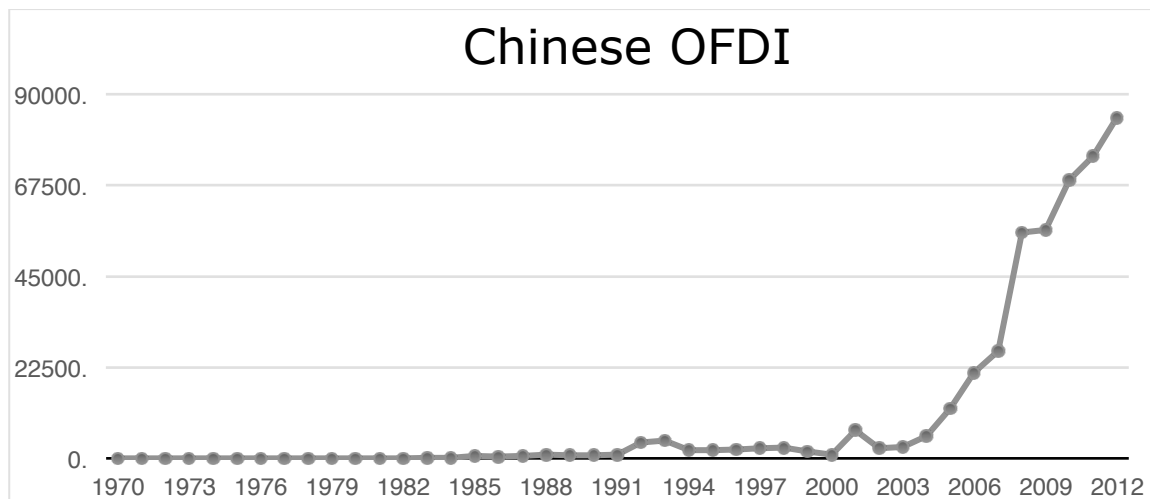
<sup>36</sup> Milelli, C., Hay, F. and Shi, Y. (2010), "Chinese and Indian firms in Europe: characteristics, impacts and policy implications", *International Journal of Emerging Markets*, Vol. 5 No. 3, pp. 377-397.

<sup>37</sup> Wang (2013) "How Chinese outward FDI promote domestic economic upgrading".

<sup>38</sup> Arthur W.B., "Competing technologies, increasing returns, and lock-in by historical events," *The Economic Journal*, Vol.99, No.394 (1989), pp.116-131. Chen F.X., Yu Z.Y., Ju L., "The lock-in effect and the evolution of China's industrial structure: 1992-2006" *Economist*, No.5 (2010), pp.54-62. The "lock-in effect", according to Arthur (1989), means "increasing returns can cause the economy gradually to lock itself into an outcome not necessarily superior, not easily altered and not entirely predictable in advance."

consuming development model tends to lock China into the low-end of the value chain. This not only plays a big role in China's serious environmental pollution problem and severe resource shortage but also leads to a major shortage of well-known global brands coming out of China. On the other hand, the third technological revolution and the post 2007 global economic crisis has provided China with new opportunities to access higher value-added processes. This means the Chinese economy still has one segment of the economy locked into traditional industries but also has another stepping into a new era.

**Figure 1: Growth of Chinese Overseas Foreign Direct Investment (1970-2012; USD Million)**



**Source:** UNCTAD statistics available at <http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx>

This kind of domestic development overlap is reflected in China's OFDI behaviour. Chinese investors pursue natural resources abroad to sustain their existing growth, for example in energy, but at the same time they also look to enlarge their overseas investment in high-tech products and strategic assets in order to advance domestic economic development towards a more technology-intensive pattern of economic activity. Compressed development of Chinese OFDI is therefore a reflection of requirements in the current economy and promotion of the development of high-tech industries. As the next section shows, the compressed development of Chinese OFDI has also generated many challenges for Beijing. This has been followed by major changes in the state's role in the promotion and regulation of Chinese OFDI.

### **Challenges brought about by the compressed development of Chinese OFDI**

The first challenge from the compressed development of Chinese OFDI is the rapid increase in the government's supervision and management costs as Chinese OFDI soared in both number and value. At the end of 2012, more than 16,000 Chinese domestic investors had established overseas enterprises, nearly 4.52 times the number in 2003. In 2012, Chinese OFDI accounted for 6.3% of the world's total investment flows and 2.3% of the world's investment stock, far higher than the corresponding 0.45% and 0.48% in 2003. This trend will likely continue to be maintained. By the end of 2014, China is expected to achieve the rank of net OFDI country and become one of the leading OFDI powers in the world.<sup>39</sup> Therefore, the sudden surge of Chinese OFDI over the past ten years has placed great pressure on the government's cumbersome investment management and policy-making processes. This has led to greater demand for further facilitating overseas investment procedures and paperwork.

<sup>39</sup> UNCTAD, World Investment Report 2014 [http://www.jjckb.cn/2014-06/25/content\\_509978.htm](http://www.jjckb.cn/2014-06/25/content_509978.htm).

Another challenge facing the Chinese government comes from the coexistence of different types of investors and different types of investment. As Chinese investors are spreading their interest in both natural resources and strategic assets all over the world, fears and doubts began to grow in both developing and developed countries. They are afraid that China's keen desire to access natural resources will lead to resource scarcity, competition and ever-higher commodity prices which other countries will have to bitterly digest.<sup>40</sup> Even in resource abundant countries, criticism about poor labour conditions, weak social responsibility and even allegations of bribery activities are commonplace.<sup>41</sup>

On the other hand, Chinese strategy asset-seeking OFDI, especially from SOEs, has always been criticized due to its close relationship with government and the belief that this destroys equal international competition. Growing hostility in developed countries has led to the halting of many big programs, such as the failure of China National Offshore Oil Corp's attempt in 2005 to acquire the US energy firm Unocal, Haier's 2005 withdrawal of its bid for Maytag and Huawei's difficult experiences in the US and Australia after being labeled 'a proxy for Chinese military and intelligence agencies'.<sup>42</sup>

The difficulties and discrimination confronted by Chinese SOEs and other big enterprises abroad have pressed the Chinese government to rethink its role in Chinese OFDI. At the same time, the role of non-SOEs in Chinese OFDI is growing as they try to make themselves heard and exert more pressure on government policies through the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC).<sup>43</sup> For example, Li Dongsheng, president of the Chinese firm, The Creative Life (TCL), called for more equal treatment of Chinese private enterprises and recommended providing them more resources, information and facilitation of their OFDI during the 2013 NPC and CPPCC sessions.<sup>44</sup> Therefore, the Chinese government has to handle far more pressure "with fewer resources" due to the various requirements of different OFDI types and participants characteristic of the compressed development of Chinese OFDI.<sup>45</sup>

Third, compressed development in Chinese OFDI has not been accompanied by good performance abroad. On the contrary, the performance of most Chinese OFDI has been far from satisfactory. According to data from the Ministry of Commerce, over 22% of Chinese non-financial overseas enterprises failed and suffered great losses in 2011.<sup>46</sup> This has provoked grave concerns in China towards Chinese investors going abroad, especially state-owned enterprises, coupled with a fear of corruption, national asset transfer and waste in the process of investing abroad. For example, a recent corruption scandal in the overseas projects of China's biggest energy company -- China

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<sup>40</sup> Ecomomy, E.C., Levi, M. *By all means necessary* (US: Oxford University Press, 2014), p. 24-25.

<sup>41</sup> Ecomomy, E.C., Levi, M. *By all means necessary* (US: Oxford University Press, 2014), p. 76-83.

<sup>42</sup> Shane harris and Isaac Stone Fish. "Accused of Cyberspying, Huawei is 'Exiting the U.S. Market'". [http://complex.foreignpolicy.com/posts/2013/12/02/accused\\_of\\_cyberspying\\_huawei\\_is\\_exiting\\_the\\_us\\_market](http://complex.foreignpolicy.com/posts/2013/12/02/accused_of_cyberspying_huawei_is_exiting_the_us_market), December 2, 2013.

<sup>43</sup> Sauvant, K. P., Chen, V. Z., "China's regulatory framework for outward foreign direct investment," *China Economic Journal*, Vol.7, No.1 (2014), pp.142.

<sup>44</sup> Xinhua Finance. "Li Dongsheng put forward five proposals to discuss how to achieve 'Chinese Dream'". [http://news.xinhuanet.com/fortune/2013-03/04/c\\_124413612.htm](http://news.xinhuanet.com/fortune/2013-03/04/c_124413612.htm). March 04, 2013.

<sup>45</sup> Whittaker, D.H., Zhu, T.B., STURGEON, T., Tsai, M.H., Okita, T., "Compressed development," *Studies in Comparative International Development*, Vol. 45, No. 4 (2010), pp.439-467.

<sup>46</sup> Jinhui Guo. "Ministry of Commerce: 22.4% of Chinese overseas investment suffers losses in 2011". <http://finance.sina.com.cn/roll/20120831/015513005129.shtml>. August 30, 2012.

National Petroleum Corporation (CNPC),<sup>47</sup> revealed an astonishing misappropriation of national assets in the process of developing new oil fields, project tendering and purchasing overseas. This confirmed public perceptions and created strong pressure from domestic actors towards Beijing for supplying cheaper money directly to big SOEs without sufficient supervision.

Furthermore, as the Chinese economy is experiencing a painful structural adjustment and reform domestically, the domestic growth rate and corresponding governmental fiscal revenue in 2013 dropped to a historically low figure. This trend, however, is not a short-term fluctuation, but a “new normality”,<sup>48</sup> which has put further large-scale cheap money supply from government under greater restriction. Unwilling or unable, the space for the Chinese government to carry out further direct fiscal support for Chinese OFDI will be compressed in response to domestic challenges.

Lastly, compressed development in Chinese OFDI has deepened China’s further integration into the global economy, which in turn intensified the pressure coming from international institutions and norms towards the Chinese government. As a member of the WTO, the World Bank and the International Monetary Fund, China recently accelerated its pace in joining bilateral and multilateral trade negotiations. By the end of 2013, China had signed nine free trade agreements (FTAs), two Closer Economic and Partnership Arrangements (CEPA) and one Economic Cooperation Framework Agreement (ECFA), involving thirty-one economies in total. Moreover, China signed 128 bilateral investment treaties (BIT)<sup>49</sup> by the first half of 2013. The hugely significant Sino-EU and Sino-US BIT negotiations are currently underway. These bilateral agreements further support China’s interest as an OFDI country and its relationship with developed countries.

In turn, there is international pressure for China to maintain higher standards and meet higher requirements in its OFDI activities. Take the 2008 China-New Zealand Free Trade Agreement for example. As China’s first FTA with a developed country, the China-New Zealand FTA represents a further step in Beijing’s comprehensive opening up policy. This clearly demonstrated China’s willingness to limit the subsidies or grants supplied by government and in the chapter on mutual investment to provide easier market access. Also, during the last six years, China’s thirteen-rounds of BIT talks with the United States has created pressure for a higher degree of investment liberalization, wider market access, greater intellectual property protection and more limitations on SOEs in China’s investment policy-making.<sup>50</sup> Because of the compressed nature of the development of Chinese OFDI, taking advantage of and adapting to international regulations and norms is more urgent for the Chinese government.

Therefore, the compressed development of Chinese OFDI has brought about not only an inspiring growth rate in OFDI but also all kinds of challenges. These challenges, whether from home or abroad, put the Chinese government in a more difficult situation. Unlike most of the conventional MNEs from developed countries that grow larger as they internationalize, most Chinese MNEs have

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<sup>47</sup> Bingning Wang. “Corruption in China National Petroleum Corporation’s overseas investment is Serious”.[http://finance.ifeng.com/a/20140525/12404602\\_0.shtml](http://finance.ifeng.com/a/20140525/12404602_0.shtml). May 25, 2014.

<sup>48</sup> “China’s Economic Growth transformed into a ‘New Normality’”.<http://money.163.com/14/0627/00/9VN5SN5600253B0H.html>. June 27, 2014.

<sup>49</sup> All the detailed BIT information is included in the following website:  
<http://unctad.org/SearchCenter/Pages/results.aspx?sq=1&k=bilateral%20investment%20treaty%20signed%20by%20china>

<sup>50</sup> Liqin Guo. “The Impact of China-U.S Bilateral Investment Agreement Equals that of China’s Accession to the WTO”.<http://news.sohu.com/20140626/n401388121.shtml>

to internationalize in order to grow larger and gain further competitiveness.<sup>51</sup> During this process, the Chinese government needs to and should play a crucial role promoting the rise of Chinese OFDI. However, compressed development in turn presses the Chinese government to change its behaviour continuously and withdraw from direct intervention and investment promotion. The difficulty therefore is for the Chinese government to figure out just what type of role it can play.

Moreover, as Chinese OFDI develops, different challenges from home and abroad have been unbalanced. That is, challenges from abroad, host countries and international organisations, have tended to play a bigger role than those from domestic sources. Even in the domestic sphere, state-owned and some big non-state-owned MNE interest groups have tended to have a larger influence. Therefore, in the early stages of OFDI growth in particular, the Chinese government was able to give an *ex post facto* and tinkering reaction to the most intensive challenges and to seek to change the regulations that were comparatively easier to be changed.<sup>52</sup> However, as Chinese OFDI has grown larger and become more compressed and as the conflicts of interest within Chinese OFDI have become more frequent and fiercer, this has greatly increased the difficulties and complexities of managing Chinese OFDI. As such, a detailed and well-planned investment policy is a priority.

### **The role of the state in Chinese OFDI at the new stage**

In 1978 the third Plenary Session of the 11<sup>th</sup> Communist Party of China Central Committee (CPC) put forward the famous “reform and opening” policy. This bold step also started the Chinese economic transition from a planned economic system to a market economic system. Since China lacked knowledge and experience of this transition, “crossing the river by feeling the stones underfoot” (*mozhe shitou guohe*, 摸着石头过河) became the main guideline for the Chinese government. This is how it has handled new situations over the last thirty years, including OFDI policies. This “seeing-how-things-are-as-we-go” model has played a crucial role in starting and promoting compressed development of Chinese OFDI.

However, as the Chinese economy has developed, the landscape has changed greatly. Foreign exchange reserves, once in a dire shortage, had grown to US\$3.82 trillion by the end of 2013, ranking first largest in the world. The value of the Renminbi (RMB), China’s official currency, had appreciated by nearly 24.38% to the US dollar from 2005 to early 2014. The outside world is no longer a mysterious concept for Chinese businesses, because China has become deeply embedded in global production value chains and successfully transformed to become the largest exporter, the second largest importer, the second-largest FDI receiver and the third-largest OFDI contributor in the world. Chinese OFDI, as well as the Chinese economy, is stepping into a very different stage with more capital, more information and more challenges.

In this stage, the “crossing the river by feeling the stones” principle is no longer adequate. The “river” is now too deep and the “stones” are mostly invisible. In particular, the compressed development of Chinese OFDI, as discussed above, has put more pressure on Beijing and made its challenges bigger and more urgent. This places a higher requirement on the government to handle the now extremely complicated, interest intertwined and ever-changing OFDI landscape in China.

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<sup>51</sup> Bonaglia F, Goldstein A, Mathews J. “Accelerated internationalization by emerging multinationals: the case of the white goods sector,” *Journal of World Business*, vol.42, No.4 (2007) pp.369–383.

<sup>52</sup> Also, the National Development and Reform Commission (NDRC)’s *Interim Administrative Measures for Approving Investment Projects Overseas* in 2004 and the 2009 *Administrative Measures for Overseas Investment* enacted by the Ministry of Commerce reduced the cumbersome regulations by decentralizing the authority to approve proposed OFDI, simplifying the approval process and shortening the time for approval in order to cope with the fast growing demand for investing abroad.

Therefore, besides this down-to-up principle, Beijing at this new stage needs to form another up-to-down investment policy design and to strengthen its abilities to guide, facilitate and institutionalize Chinese OFDI rather than direct administrative intervention in order to respond better to increasing pressures.

The pressure from compressed development has eroded the Chinese government's ability to directly intervene in Chinese OFDI. This was especially evident in 2010, when Chinese OFDI flows reached nearly US \$70 billion and ranked the fifth largest in the world. The government simplified all kinds of approval procedures for outward investment and emphasized strengthening firm investment autonomy in the government work report (2011). They also removed the strategic purposes of OFDI from the *Twelfth Five-year Plan*, previously promoting exports, seeking scarce resources and improving technology.<sup>53</sup> More recently, the 2013 Third Plenary Session of the 18<sup>th</sup> CPCCC, which passed the *Decision on Major Issues Concerning Comprehensively Deepening Reforms* put forward for the first time the concept that the market would play the decisive role in the allocation of resources.

The *Administrative Measures for Approving and Registering Overseas Investment* was enacted in 2014. This shifted requirements for Chinese OFDI under US\$1 billion from an approval process to a registration process. This not only reduced the government's power of direct checking and decision-making in the OFDI approval process but also quickened the process by clearly stipulating the maximum time required during each stage. These changes show that Chinese investors can now, at least in theory, freely decide what to buy, where to go and how to accomplish their cross-border investment. According to the *2014 World Investment Report*, China will become a net OFDI country by the end of 2014 and the growth trend of Chinese OFDI will be maintained into the future.<sup>54</sup> The rapid growth and compressed nature of OFDI from China means a direct interventionist role for the state is now highly limited.

However, this does not mean the role of the government in Chinese OFDI is no longer important. As structural problems within Chinese OFDI have grown an important regulatory role coordinating different investment participants, especially SOEs and non-SOEs, responding to different host country requirements, and integrating OFDI policy considerations into overall economic planning has emerged for the state. Managing the relationship between SOE investors and the Chinese government remains of central concern as the close relationship between them has deprived many non-SOEs, especially the small and medium investors, of equal opportunities to access important resources at home. It has also frightened potential partners and the public in host countries and incurred a lot of criticism from the public in China as well as coming up against limitations in international organisations and treaties. Therefore, SOE reform is not only important for improving the efficiency of the domestic economy it is also a necessity for promoting further internationalization of Chinese investors.

China also lacks clear laws for OFDI and should therefore promote institutionalization and legalization of Chinese OFDI policy. SOEs should be put through a systematic supervision process with strong checks to avoid huge losses and the waste of national assets. Clear boundaries between the government and SOE investors and the big powerful non-SOE investors should be clarified in

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<sup>53</sup> After the establishment of the “going global” policy, “promoting exports”, “seeking scarce resources” and “improving technology” were set up to be the initial objectives of Chinese OFDI. These became vague in the “eleventh Five-year Plan” in 2006 and finally disappeared after 2011 due to increased pressure from overseas suspicions and fears towards Chinese OFDI.

<sup>54</sup> “The World Investment Report said China Might be a Net Outward Foreign Direct Investment Country This Year”. [http://intl.ce.cn/sjjj/qy/201406/25/t20140625\\_3033645.shtml](http://intl.ce.cn/sjjj/qy/201406/25/t20140625_3033645.shtml). June 25, 2014.

law. Non-SOEs, especially small and medium sized private firms seeking to go global, should be supported, encouraged and guided more through clear regulations and policies.

The development of a formal mechanism to encourage the participation of social and industrial organisations in OFDI is also important. Increasing pressure from host countries that have criticized improper investor behaviour and have been sceptical of the motivations of Chinese investors is often due to information failures or asymmetry. Chinese investors often lack sufficient knowledge of domestic economic policies in their host country. Many people in host countries also misunderstand Chinese OFDI. The Chinese government, together with associated agencies, have produced some work in this area. Examples include the *Catalogue of Countries and Industries for Guiding Investment Overseas*, released in 2004, 2005 and 2007 by the Chinese Ministry of Commerce (MOFCOM) and *Series Reports of Countries/Regions for Promoting Chinese OFDI to Invest In* released by MOFCOM and the Ministry of Foreign Affairs from 2007 to 2012. These provide detailed information on the investment environment, policies and opportunities in the host economy.

Equally important is the *Analytical Report of National Risks* released by SINOSURE, which is focused on the “political risks”, “economic and trade risks”, “business and investment risks”, “legal risks” and “aggregate risks” of countries that share a close relationship with China. Yet this information is far from enough considering the explosive growth of Chinese OFDI. Also, a lot of information supplied by Beijing is not in exhaustive or integrated that is key for Chinese investors planning.

Moreover, there is little comprehensive and reliable information and data to help host countries to understand Chinese OFDI so rumours and misunderstandings often occur. Few studies in host countries have been completed to create an objective picture of the impact of Chinese OFDI on host economies. Therefore, introducing and guiding more independent social and industrial organisations, research centres and universities to give more specific research or information on Chinese OFDI, encouraging independent assessment and analysis towards Chinese OFDI would be a great help and supplement to the government’s current information services.

Furthermore, the government’s role in Chinese OFDI at this new stage should be multi-dimensional. The Chinese government should play a more active role facilitating Chinese investment abroad by engaging more in the international system and extending China’s economic and political influence in the world. Specifically, China should participate more in international and bilateral investment treaties as they can press Chinese OFDI to meet a higher international standard and create more space for further development, an idea presented as “reform through openness”.<sup>55</sup> Bilateral investment treaties like the China-EU and China-US agreements, multinational treaties like the Trans-Pacific Partnership Agreement (TPP), the Trans-Atlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP) can facilitate Chinese investment abroad.

Diplomacy is also another indirect way to facilitate Chinese OFDI. Good bilateral diplomatic activity will benefit bilateral investment.<sup>56</sup> For example, Premier Li Keqiang’s June 2014 visit to Europe resulted in China obtaining trade deals worth £14 billion (US\$23 billion) and won Chinese companies a unique opportunity to play a decisive role in Britain’s energy and transport

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<sup>55</sup> Xinhua Net. “Li Keqing: Promoting Structural Reform to Stabilize Chinese Economic Development and Benefit Our People”. [http://news.xinhuanet.com/politics/2014-03/28/c\\_126325577.htm](http://news.xinhuanet.com/politics/2014-03/28/c_126325577.htm). March 28, 2014.

<sup>56</sup> Zhang J.H., Jiang, J.G., Zhou C.H., “diplomacy and investment- the case of China,” *International Journal of Emerging Markets*, Vol. 9, No.2 (2014), pp. 216-235.

infrastructure, especially in the field of nuclear power stations and high-speed rail investment.<sup>57</sup> Diplomacy also plays an increasingly important role protecting Chinese OFDI abroad if political instability in a host country appears. This was well illustrated during the May 2014 anti-Chinese riots in Vietnam and the ongoing civil wars in Iraq and Ukraine.

In summary, the Chinese government still plays an important role promoting the further development of Chinese OFDI but the space for its direct interventions is increasingly condensed due to the growing pressure put on it by the compressed development of Chinese OFDI. The indirect role of the Chinese government in elaborating China's outward investment institutionalisation, improving service quality and building up a more multi-layered facilitation framework will therefore be strengthened and become the main task for the state in the near future.

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<sup>57</sup> Nicholas Watt. "China Wins Stake in British Nuclear Power and High-Speed Rail". <http://www.theguardian.com/world/2014/jun/17/china-stake-british-nuclear-power-li-keqiang-hinkley-beijing>. June 17, 2014.