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CHINA'S GO OUT POLICY

A REVIEW ON CHINA'S PROMOTION POLICY FOR OUTWARD FOREIGN DIRECT INVESTMENT FROM A HISTORICAL PERSPECTIVE

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A review on China's promotion policy for outward foreign direct investment from a historical perspective[2]

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China's go out policy

A review on China's promotion policy for outward foreign direct investment from a historical perspective

Yushan Li

Abstract

China became the second largest outward investor for first ever in 2015. The dominant role of Chinese "go out" policy on such rising OFDI is agreed by a growing number of literatures. This paper presents historical view of that policy and discuss how the government is helping Chinese MNEs to invest abroad. Overall, the "go out" policy has been through four stages, from the initiation, to the formalization, to the expansion and to the new era. As breakthroughs have been made, the regulatory framework is still cumbersome. Although the central government is working on simplification and deregulation, the latest change of the framework might be seen as a signal of centralization. While several challenges ahead, the dominant role of Chinese SOEs in OFDI and the market asymmetry between China and other countries are two problems that worries foreign investors the most.

JEL: F21, F23, G18, G28, G38, P33

Keywords: China, go out policy, outward foreign direct investment, OFDI

Introduction

Long after the western countries started the industrialization and globalization, China had struggled whether to open or not. When the People's Republic of China was founded in the mid-20th century, the country still tended to have a resisted attitude towards globalization. Until the latest two decades of the 20th century did the country decide to transit to a market economy and implement open policy. By carrying out the "Go out" policy in 2001, the country also encourages firms to invest abroad. Since then, the outward foreign direct investment (OFDI) of the country has increased during the past decades and started to accelerate during recent years.

China has become the leading sources of FDI among emerging investor countries in the aftermath of the financial crisis in 2008. In 2012, China moved up to the world's third-largest outward investor with US$84 billion (UNCTAD, 2013). According to the Chinese data, for the first time ever in 2015, China became the second largest outward investor and the net exporting country with US$145.67 billion outward foreign direct investment (OFDI) flows (MOFCOM,2015). According to UNCTAD, global flows of foreign direct investment fell by 2%, to $175 trillion in 2016 and the FDI outflows from developing countries declined by 1% to $383 billion (UNCTAD, 2017). While the global FDI lost its momentum and declined in 2016, the outflows from China reached its 14th sequential increase and accounted for 13.5% of total investment flows, made it the world's second largest investment outflows (MOFCOM, 2016).

When investigating transition economies, the internationalization of domestic enterprises should also be viewed through a political lens (Child and Rodrigues, 2005). This is in line with the recent trend to incorporate the institutional factors with the FDI, including institutions in host countries as well as investor countries. A growing body of literature demonstrates the policy incentive behind Chinese growing investment outflows (Child and Rodrigues, 2005, Buckley et al, 2007, Davies, 2010). They also suggest that government policies, laws and regulations are the most significant determinants of the country's growing investment outflows. However, only a few efforts have been made to provide a comprehensive understanding of Chinese framework while the dynamism of Chinese investment in the world has already begun since the introduce of the open policy and "Go out" strategy two decades ago.

2018 is the 40th anniversary of the Chinese Opening up policy, and the OFDI policy has been through the process of "restricting—facilitating—supporting—encouraging" (Chen and Sauvant, 2014). Therefore, the following paper aims at providing a holistic review on the "Go out" strategy and elaborating how Chinese government stimulates outward investments. In pursuing these objectives, the research will focus on the shifts in the role of the Chinese state as well as the broader regulatory environment in the promotion of the country's outward investment. This paper reviews the major developments of China's regulatory framework related to OFDI since the beginning of

the "Go out" policy and analytically discuss how the government is helping Chinese investors to go abroad.

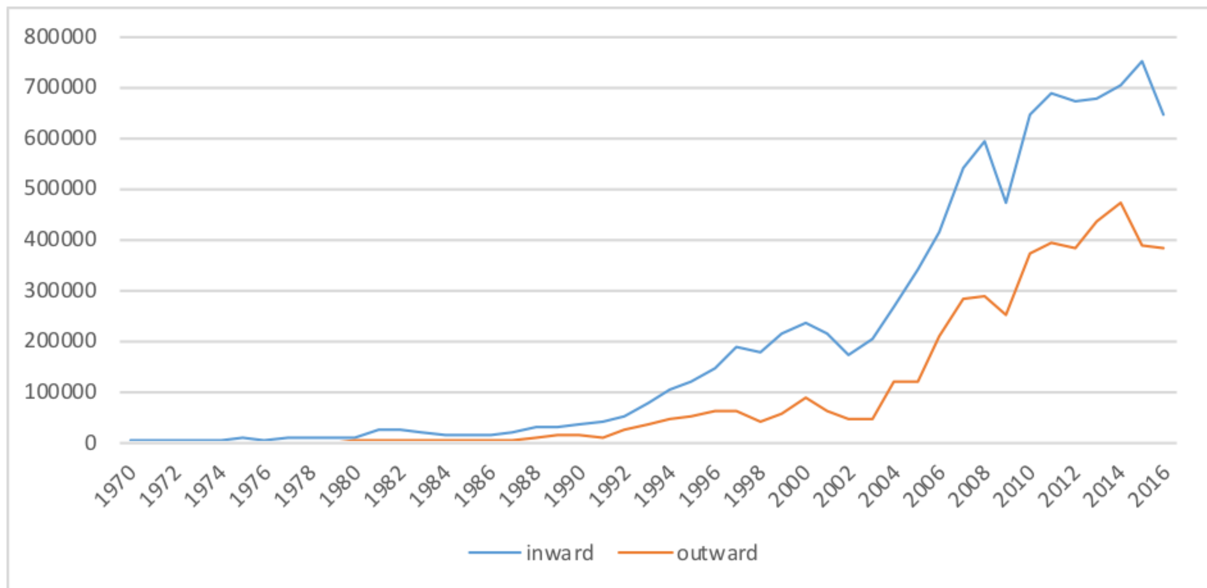
The paper is organized as follows:

After the introductory section, **Section II** reviews the literature. The general theory on FDI and FDI from developing countries is analysed in this part. A short theoretical overview is also made on how researchers think of Chinese FDI. **Section III** reviews in detail the formation of investment promotion policy from the beginning. In this part, the development of policies is divided into four phases: the initiation, the formalization, the expansion and the new era. The FDI trend in terms of geographical, sectoral and ownership compositions of OFDI in each period is also reviewed in this part. **Section IV** maps out the development of Chinese regulatory policy on OFDI up to now. Some of the institutional obstacles are demonstrated in this section. New developments of market access policies are also to be mentioned here. **Section V** concludes and takes a look at the main challenges to the development of Chinese OFDI.

Section II: Literature Review

Foreign direct investment was rising far more rapidly in the 1980s than both world trade and world output and has become an engine of global economic growth (UNCTAD, 1992). Since at that time FDI has flowed from developed countries to developing countries, or from industrialized regions to less industrialized regions (UNCTAD,1993). Recently, however, a reverse flow of OFDI from developing countries is on the rise. While developed countries still behave as the major investors and recipients of FDI flows, with a share of 71 per cent of total FDI in 2017 (UNCTAD, 2018), some emerging economies have already become rich enough to export capital to the rest of the world. The reverse FDI trend has become considerable and significant enough to capture scholar's attention: inward and outward FDI flows in developing countries are on an upward trend since 1980s, with FDI inflows increasing from US$ 7 billion in 1980 to US$ 646 billion in 2016 and with FDI outflows increasing from US$3 billion in 1980 to US$ 383 billion in 2016. The transnational investment delivered both tangible and intangible assets to the host country thus integrated the global economy through FDI.

Figure 1: FDI flows in developing countries, million USD, 1970-2016



Source: UNCTAD stat

Overall, the world has witnessed three waves of OFDI from developing countries. The first wave started in the late 1980s and early 1990s and the second wave was in the mid-1990s. Companies from developing countries took advantages of worldwide integration and built their foreign assets nearly seven times faster than the world's top 100 MNCs between 1993 and 1996 in their efforts of internationalization (UNCTAD, 1998). The world has recently witnessed a third wave of international presence of firms from developing economies: FDI from developing countries accounted for 17% of global outward investment with US$133 billion in 2015.

Such success of multinational enterprises from developing countries is not a new phenomenon, it has received a great attention ever since it appeared. Actions of developing world firms differed from those of the so-called conventional industrialized countries in terms of motivation, geographical direction, ownership advantages and overseas market behaviours. Having been recognized the new characteristic of developing investors, several attempts were made to conform their behaviours to the existing FDI theories, among which the eclectic paradigm by Dunning (1988) indicates that type, size and nature of such activity change as its national economic development proceeds. The basic model suggests five stages of a country's outward investment. Companies from both developed and developing countries share with broad similarities

when shifting from stage1 to stage2 and 3, develop ownership advantages through different means (Dunning et al, 1998). In stage three, developed countries are normally disadvantaged at natural resources and low cost while developing countries tend to acquire technologies and advanced management skills. After that a country becomes a net outward investor and enters the fifth stage when it is able to make investment decisions out of its own desires of integration (Dunning, 1988).

However, the accelerated internalization of MNEs from developing countries has challenged the ownership-based theories which worked for explaining overseas investment behaviours of conventional companies. Regardless the predominant assumption in traditional theory of competitive advantages, firms from developing economy enter the global market and start their business with relative disadvantages, such as the lack of skills and knowledge, as well as major markets and social capital. They began to use mergers and acquisitions as a central corporate strategy to overcome their drawbacks in the 1990s (UNCTAD, 1996). Therefore, they have different development patterns with companies from developed countries in both strategic and organizational innovation. However, existing theories generated from past experiences cannot help to understand investment behaviours of firms of relatively weak ownership advantages (Gammeltoft, Barnar and Mafhok, 2010). Instead of making a complement to existing theories, Matthews (2006) propose an alternative framework and indicates that the unconventional multinational strategies of MNEs from developing can be explained by LLL which stands for resource linkage, leverage and learning. Modes as joint ventures and other forms of collaborative partnership are preferred by companies from developing countries to deal with the lack of skills and knowledge in global markets(Matthews, 2006).

In line with the recent trend of understanding the determinants of MNE behaviours from an institutional perspective, supportive policies have been regarded as an important instrument by the government for promoting outward investment. "Late-comers" may use governmental sponsorship and subsidies to secure such advantages acquired through purchase and cooperation (Child and Rodrigues, 2005). The primary role of government in developing countries was already examined by (Rui et al, 1990) in the early 90s, the expansion of OFDI from developing countries is accompanied by

encouraging policies in home countries. Compare with their developed-world counterparts, investment decisions of both state-owned MNEs and private MNEs from developing countries are influenced more by their central governments (Dunning, Kim and Park, 2008).

According to researches, the success of MNEs from developing countries is owing to strong government directions in emerging economies while the government control and regulation of developed economies are decreasing. This is especially true in China. Since China is now the most active internationalizing country among developing countries, its expansion of OFDI has been paid considerable attention. It is now expanding physically and organizationally into overseas markets through a large amount of OFDI. The major change in government policy regarding outward investment is considered to be the most significant reason behind such expansion.

Although there is a multitude of factors behind the rapid expansion of China's overseas investment, the growth of Chinese OFDI is mostly regarded as a result of substantial political support from its government. Chinese government's policies are regarded as an important push factor in their overseas investment and internationalization. China started its investment diplomacy as early as 1980s, it was only until 2000s did this develop rapidly, due to the shift of government policies (Davies, 2010). The rise of Chinese OFDI has always been linked directly to China's economic reform and "open door" policy since the early 2000s. By encouraging local companies to engage in overseas investment, the government intends to take advantage of "late industrialization" and get access to advanced technology and management knowledge with a lower time cost. Additionally, investing abroad is an effective and direct way to learn international rules and experience as well as enter international markets and acquire advanced technology and management knowledge (Zhang and Edwards, 2007). Under the strong support for internationalization from the government, Chinese firms are able to reach a beneficial accommodation with the authority and can easily get access to state-fund scientific and technical research (Child and Rodrigues, 2005). This is more apparent for SOEs to which the government gives more advantages in their internationalization. Moreover, Chinese MNEs pay more attention on strategic intent in order to enjoy more government support (Paul and Benito.2017).

However, not all researchers agree with the positive effect of government intervention. Fitzgerald and Rui (2016) argue that institutional support from the Chinese government is inefficient since it is regarded as inconsistent and un-sustained by Chinese managers. They suggest that a long-term strategy and mutual support are need or Chinese companies may fail to sustain their competitiveness. The heavy intervention from government are regarded as part of China's state capitalism's globalisation strategy on power building (Andreff, 2016). And the advantage given by government to the SOEs can turn into disadvantages once they approached host markets, because host country nationals neither understand nor trust situation and they may grapple with the existence of Chinese SOEs (Oliveira et al, 2017).

Section III: Opening up stages

Since the introduction of the "Open door" policy in the late 1980s, China started to integrate to the global economy. The overall process of this policy has gone from the early "bring in" to the later combination of "bring in" and "go out". The OFDI policies incorporate in such politic frame has been through a process of "restricting—facilitating—supporting—encouraging" and the overall objective of Chinese OFDI development can be described as to increase the international competitiveness of Chinese firms and to support the country's national development (Chen and Sauvant, 2014).

The development process of OFDI policies can be divided into four phases:

1. The initiation (1978-1991)

2. The formalization (1992-2001)

3. The expansion (2002-2012)

4. 2013 onwards (2013-)

The structure of Chinese outward direct investment has its own distinct characteristics and is changing over time, along with the country's economic reform and transformation.

1. The initiation (1978—1991)

With the economic development in the late 1970s, the labour costs in Asian tiger countries increased and forced them to move labour-intensive industries to other Asian countries including China, thus providing an important opportunity for Chinese economic growth. In order to attract such industry shift with low labour and land cost, China implemented a series of policies on opening, attracting foreign capitals and stimulating export. The concept of "Open Door" started to form at that time.

The open policy started from the aspect of "bring in" to support the national economic development. It was first put forward in the third Plenary Session of the 11th Central Committee of the Communist Party of China in 1978, with the central target of economic construction. The word "open" was mentioned in several important pronouncements after that which indicated the determination of the authority on opening and reforming. In 1984, the opening policy was clearly stated in the "Decision of the CPC Central Committee on the Reform of Economic System" as a "national and strategic policy". In July 1979, the authority made the decision to establish special economic zone and approved four special economic zones including Shenzheng, Zhuhai, Shantou and Xiamen on the 15th meeting of the 5th National People's Congress Standing Committee in 1984. After the success of such establishment, the central government decided to extend this policy to other 14 coastal cities and establish economic and technological development zones in them.

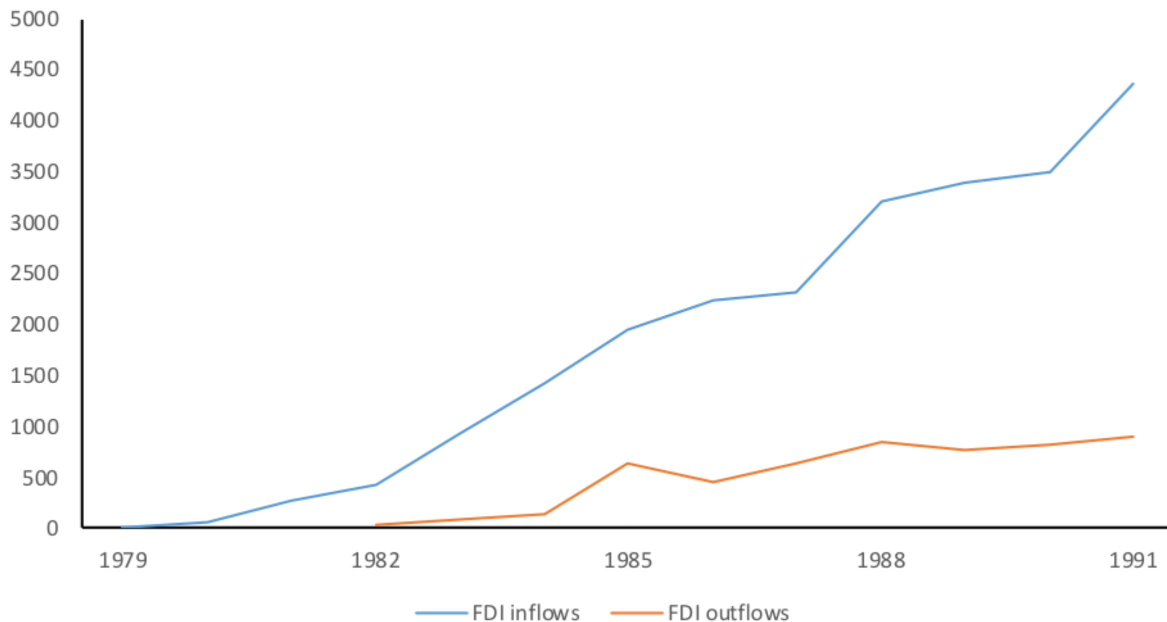
Since the FDI policy emphasized the "bring in" side in this period, the amount of Chinese outward investment was almost negligible. According to UNCTADstat, the FDI inflows to China started to rise in 1979 and increased to US$57 million in 1980 while the FDI outflows from Chine emerged in 1982 with US$44 million. Compared with inward direct investment, the outward investment had lagged behind and the size was still small afterwards. The late emergence of OFDI also affected policies: the country only released the first version of Foreign Exchange Administrative Regulations for Overseas Investment in 1989(SAFE, 1989).

Generally, the total outward investment in the first years was not significant and the entities attempted (also allowed) to invest was a few big state-owned companies which dealt with foreign trade. It was until the late 80s had the country's OFDI experienced a

rapid development. The investment entities spread from foreign trade firms to industrial firms, technology firms as well as financial and insurance firms. Investment areas also spread from commercial service industry to agricultural, energy, transportation and construction. Neighbouring regions such as Hong Kong and capital-intensive industries, such as contracting project, resource development and transportation were most favoured.

According to Dunning (1988), in the second stage of the Investment Development Path (IDP) model, a developing country becomes a net recipient of capital as the economic structure and government policy improves. This stage applies to China for the first years when the notion of opening up was first formed. In the beginning, the major task was to attract foreign capital for economic construction purpose. Ever since then China has become a net importer until recent years.

Figure 2: China's FDI inflows and outflows, million USD, 1979-1991



Source: UNCTADStat

2. The formalization (1992-2001)

The external environment was a huge challenge in this period, both economically and politically. The dissolution of the Soviet Union and transitions happened in Eastern Europe integrated those countries in the global economy. Meanwhile, Asian countries such as Thailand and the Republic of Korea were stricken by the financial crisis in the second half of 1997 after continued to prosperous for several years.

After the experiments in the first stage, China benefited from the open policy and decided to stick on it. Deng Xiaoping's south tour speech in early 1992 showed the determination of the central government and boosted the confidence of Chineses businessmen.[4] Since then the overseas investment was stressed in several important occasions and documents. The report of the 14th National Congress indicated that the country should "actively expand investment overseas and multinational operation" and "actively exploit the overseas market and develop the outward-oriented economy" (CPC,

[4] In early 1992, Deng delivered a series of speeches during his tour to southern Wuchang, Shengzhen, Zhuhai and Shanghai. In order to solve domestic misunderstanding and confusion about reform and development, Deng stressed new opinions on a series of crucial issues, including the core of socialism, market economy and how to emancipate and develop productivity. Deng insisted on opening up and reform in his speech and also outlined a path for China's further reform and opening up.

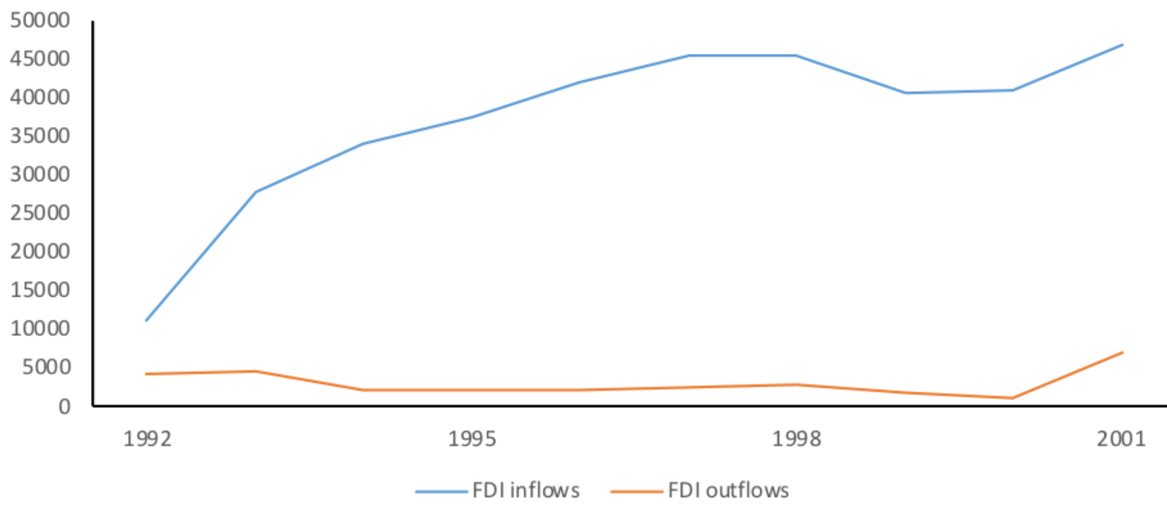
1992). The National Foreign Investment Conference in 1997 indicated that the government should combine "bring in" and "go out" together in order to "facilitate investment of capable firms and utilize local markets and resources" (CPC, 2006). The 15th Central Committee of the Communist Party of China stressed again the importance of "two markets and two resources" and indicated the need of supporting capable firms to invest abroad (CPC, 1997). In order to deal with the Asian financial crisis in 1997, the authority released the Opinions on Encouraging Overseas Processing Trade and Assembly Operation by Chinese Enterprises. It induced firms with competitive advantages to engaging in overseas processing trade and assembly operation to expand export (State, Council, 1999).

The formalization of investing overseas strategy also evolved from a series of government pronouncements and policy documents. Most important among them were the third session of the 9th National People's Congress and the "10th Five-Year Plan on Economic and Social Development (thereafter the 10th Five-Year Plan). The former raised the strategy to a national level and the latter explained the aim of this strategy as "to encourage OFDI into areas in which China has competitive advantages and to expand the scope, channel and mode of international economic and technological cooperation" (NPC, 2001). Both of them can be regarded as the official formalization of the idea of OFDI facilitation. The "10th Five-Year Plan on Inward and Outward FDI (hereafter the 10th FDI Five-Year Plan) released by State Planning Commission (SPC) in 2001 officially proposed the purpose of Chinese OFDI, that is, "to facilitate Chinese OFDI in order to nurture the international competitiveness of Chinese firms and to use OFDI for China's overall development" (Chen and Sauvant,2014).

Albeit the institutional change, Chinese OFDI did not grow significantly in the 1990s. Not only the external political environment and Asian financial crisis in 1997 slowed down this development, but also the tightening of approval procedure of OFDI which was led by the overheated economic development, the unreasonable investment structure and inflation at home. Chinese OFDI flows declined while the economy continued growing. While outward FDI flows from China reached more than US$4 billion in one year in 1992, the total number in 1993-2000 was only 18.4 billion (Lu,2012). The situation continued until 2001 when the government has documented "go out" policy in

the "10th Five-Year Plan" and regarded it as one of the three pillars of the open economy, where the other two were foreign trade and utilization of foreign capital. By the end of 2001, Chinese outward investment expanded to over 160 countries and regions (Sang, 2016).

Figure 3: China's FDI inflows and outflows, million USD, 1992-2001



Source: UNCTADStat

During the perod of second stage, Chinese companies integrated into the global value chain and made efforts to fertilize the growth of the domestic market by internalizing through original equipment manufacturing and joint venture partnership. The overseas investment began with a small number of companies on learning advanced technology and management system, as well as the international expansion of resource firms in the 1990s, such as the acquisition conduct by China National Petroleum Corporation (CNPC) in Kazakhstan, Sudan and Venezuela (Fitzgerald and Rui, 2016).

By doing this both the government and entrepreneurs have built up their capability and desire for "going out". In the next stage, the policymaker shifted their focus towards "go out" policy and emphasized more on China's outward investment.

3. The expansion (2002-2012)

The "go out" strategy was officially documented in the report of the 16th People's Congress in 2002, the year after the country joined the World Trade Organization (WTO). This strategy in 2001 has changed the official attitude and policy direction

towards OFDI fundamentally, leading the country's regulatory framework on OFDI shift from restricting to facilitating and supporting. By this time the content of "go out" strategy and utilizing OFDI has been clearly formulated and thereby started the "golden decade" for the Chinese economy as well as OFDI.

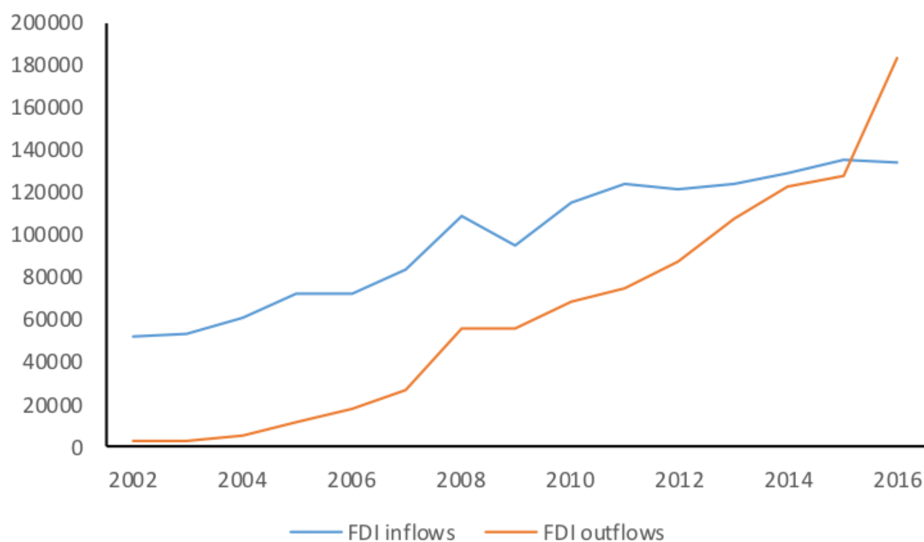
After the release of such strategic policy, a number of subsequent policies guiding OFDI was published in order to support it. The State's Opinions on Encouraging and Regulating Foreign Investment and Cooperation by Chinese Enterprises in 2007 explicitly indicated the guidelines, objectives, principles and main tasks of "go out" policy, vis to better utilize resources and markets, both domestic and international; promote the international competitiveness of Chinese enterprises; facilitate cooperation with OFDI partners with fairness and equality; promote the structural reform and development of Chinese economy (State Council, 2007).

After the first years of trials, the development of OFDI has become clearer and more specific. In accordance with the aim of promoting the overall competitiveness of Chinese enterprises, the country has connected OFDI-specific policies to technology and innovation. It seeks to encourage FDI into particular industries and activities through political guidance. The government work report of 2010 presented to deregulate approval process and support capable firms on overseas merger and acquisition (NPC, 2010). The 12th Five-Year Plan on Industrial Reform and Upgrading (thereafter the 12th Industrial Five-Year Plan) also indicated encouragement on capable and capital-rich big companies for M&A investment, international registration of intellectual property rights, global resource configuration and value-chain integration. It also encouraged construction of R&D centres in technology-intensive countries and corporation with foreign R&D institutions and innovation enterprises (State Council, 2012). In line with those two documents, the 12th Five-Year Plan on Inward and Outward FDI (there after the 12th FDI Five-Year Plan) that guides the OFDI policies between 2011 and 2015 set out the blueprint of OFDI development in selective countries and particular industries. It indicated the clear direction on supporting capable firms to conduct overseas merger and acquisition (NDRC, 2012). Not only can M&A bring back intellectual assets to parent companies at home, but also provide another mode of market entry. It helps Chinese

enterprises with relative lower competitiveness to enter the overseas market and enhancing their competitiveness at the same time.

There has been a spectacular rise of outward foreign direct investment from China and a slow process of narrowing the gap between inward and outward FDI after the introduce of "Go out" policy in 2001. The major shift occurred after the Millennium when the release of such policy has changed both the economic and political paradigm in terms of the OFDI regulations and facilitated Chinese firms to integrate into the global economy. The policy shift was also reflected in the OFDI data with a sharp rise of OFDI in 2004. Contrary to what happened to OFDI from developed countries, the global financial and economic crisis in 2008 seems to have a positive impact on Chinese OFDI. According to MOFCOM, the year-on-year growth rate reached a record of 122.9 per cent in 2005 and continued growing by 110.9 per cent in 2008 (MOFCOM, 2006; 2009). By the end of 2012, more than 16,000 Chinese firms had invested in 179 countries (regions) and established about 22,000 overseas enterprises. Chinese OFDI flows reached a record level of US$87.8 billion and became the world's third-largest outward investor in 2012(MOFCOM, 2013). In the World Investment Report 2013 published by UNCTAD, the OFDI from developed countries declined by 23 per cent while outflows from China continued to grow and remain the leading source of FDI among emerging investor countries. China's outward FDI flows and stock in 2012 accounted for a share of 6.3 per cent and 2.3 per cent globally. China ranked 13th in terms of stock due to the late start (UNCTAD, 2013).

Figure 4: China's FDI inflows and outflows, million USD, 2002-2012



Source: UNCTADStat

Starting from the energy sources, gradually moved to minerals, transportations and commercial service industries, the structure of China's outward FDI had also changed over time while he resource-intensive growth model made the country tempting to look for resources in the early years. In 2003, 48.4 per cent of outflows went into mining industry while the commercial service industry only accounted for 9.8 per cent (MOFCOM, 2004). The number was completely opposite in 2010 where the commercial service industries accounted for 44 per cent while the mining industry was only 8.3 per cent of total outflows (MOFCOM, 2011). The declining trend continued in 2012 with a year-on-year growth of 6.2 per cent of mining industry while the scientific research and technical service received US$1.48 billion, with a year-on-year increase of 109.2 per cent (MOFCOM, 2013). In 2012 the main recipients of China's OFDI flows were leasing and business service (26.74 per cent), mining (13.54 per cent) and wholesale and retail trade (13.05 per cent) while the bulk of Chinese OFDI went into mining (48.4 per cent), manufacturing (8.67 per cent) and wholesale and retail trade (12.6 per cent) in 2003(MOFCOM, 2004;2013). The change illustrated at least three facts of Chinese OFDI: firstly, a smaller group of industries was responsible for most of the country's outward investment in 2003; secondly, the outward investment was more concentrated in 2003 than it was in 2012; thirdly, the country's overseas investment has been gradual shifts into the tertiary sector.

The rapid accumulation of foreign currency reserves in China has given the country willingness and capability to invest abroad even before the global financial crisis in 2008. Notwithstanding the suffer from the export, China's outward investment remained strong, due to the government stimulus package. Although the majority of Chinese outward FDI still went into developing countries, the financial and economic crisis of 2008-2009 and the sovereign debt crises thereafter provided Chinese companies opportunities to increase their investment globally, especially in developed countries such as the United States and European countries. While outward FDI into Europe and North America accounted for only 5.3 per cent and 2 per cent respectively in 2003 (MOFCOM,2004), the outflows into the European Union and the United States increased by 101 per cent and 44 per cent respectively in 2010 (MOFCOM,2011). In 2011 Chinese outflows into Europe reached a third sequentially growth and accounted

for 11.1 per cent of total outflows this year (MOFCOM, 2012). Although a few pieces of research discuss statistic difference of data from different databases (Clegg et al, 2012; Szunomar, 2014), the increasing trend is noticeable--Chinese OFDI expanded to over 160 countries and 44% of it went to production industry (Sang, 2016).

While more and more Chinese firms are investing in developed countries, there also a trend towards more mergers and acquisition (M&A) projects. Most of Chinese OFDI chose the United States as the main destination for M&A while others went to Europe due to the less competitive environment. According to MOFCOM, M&A accounted for 18 per cent of total outward investment in 2003 while the number was 43.2 in 2010, increased by 54.7 per cent from the year earlier (MOFCOM 2004;2011). Regions such as Hong Kong are used as a platform for conducting M&A in Europe (MOFCOM 2013), so the actual number could be even higher than the one officially reported.

Along with the rising amounts, state-owned enterprises (SOEs) are another reason for concerns and rising protectionism in developed countries. SOEs have always been the dominant players in Chinese outward FDI and the rapid growth of the OFDI size is led by SOEs mainly. The proportion of private companies invested overseas was only 1.5 per cent in 2003 (MOFCOM, 2004). To deal with this situation, both of the 12th Five-Year Plan on National Economic and Social Development (thereafter the 12th Five-Year Plan) (NPC, 2011) and 12th FDI Five-Year Plan encouraged capable private enterprises, especially small- and medium-sized companies to engage in overseas investment (NDRC,2011). The share of OFDI stock by SOEs was 66.2 per cent in 2010 while it declined to 59.8 per cent in 2012 (MOFCOM, 2011; 2013). This is also a result of the interplay between the authority and influential entrepreneurs.

Chinese central government was heavily involved in encouraging and directing outward investment through official pronouncements and documents. In contrast of the control and limitation on Chinese OFDI, the government has been a sponsor and fund-provider for Chinese MNEs since the turn of the century.

4. New era (2013 to present)

Since 2013, the Chinese economy is facing new challenges and its economic strategy is transforming. As the post-crisis environment provides more resources and opportunity for economic growth, the government has renewed the geographic layout and emphasized on "opening to the West". The increasing effort on "opening" is not only a result of the development itself, but also coming from the pressure on the government by local entrepreneurs (Chen and Sauvant, 2014).

In this stage, the objective of promoting outward investment evolved from a series of government pronouncements and policy documents. Most influential among them is the "The Belt and Road Initiative" (thereafter the OBOR Initiative) which was originally proposed by Chinese president Xi Jinping in 2013， when visiting Central and Southeast Asia. Later in March 2015, The Vision and Action on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (thereafter the Vision) were jointly released by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China. According to this official document, the OBOR Initiative is aiming at promoting the regional economic cooperation and integrate the development strategies of the countries along the Belt and Road. According to the cooperation priorities, this strategy covers every aspect of a country's development, such as policy, facility, energy, trade, investment and financial integration, even tourism and cultural cooperation are included (NDRC et al, 2015). The government has once put this strategy to the national level to show its great effort on outward development.

Along with the propose of OBOR Initiative, the government stressed the importance of the combination of "bring in" and "go out" again on the third Plenary Session of the 18th Central Committee of the CPC in 2013 (CPC,2013). The overseas investment in China reached a high tide after that. In the first two years after 2013, the main task was encouraging OFDI through streamlined administration and decentralised policies, especially on overseas merger and acquisition. In 2014, a sequential of policies was released in order to support the OBOR Initiative and to improve the level of foreign M&A facilitation, such as the State Council's Opinions on Optimizing Market Environment on Enterprises Mergence and Reconstruction (State Council,2014) and the Approval

Measures and Filing System for Investment Project Overseas (NDRC,2014) in 2014 (The latter was updated in 2018 and will be discussed next section), and the Regulations on the Centralized operation and Management of the Foreign Exchange Funds of MNCs (SAFE,2015). Those measures and regulations further deregulated the approval process and reduced the time and cost of the majority of Chinese overseas investment.

The recent economic slowdown also forced the government to alter the direction of Chinese OFDI form exported-led to consumption-driven growth and diversified FDI acquisitions to a variety of strategic assets across sectors. The principal task in this new era shifted to the development of the technology industry and facilitated a rapid climbing on the technological ladder. Thus, M&A is regarded as a significant means for getting access to intangible resources that are directly related to China's development effort, including technology, brand name and so on. The Chinese government encourages overseas M&A, in particular, to meet the growing demand at home and transfer advanced technologies back. This development objective is reflected in the fact that technology-oriented OFDI is encouraged by the government through following policies in this particular industry and activity.

A series of policies was released in 2015, the year before the starting point of the 13th Five-Year Plan， to encourage firms to go global by engaging in the technology industry. The fifth Plenary Session of the 18th Central Committee of the CPC in 2015 proposed the vision of innovation, coordination, green, open and shared development which put the change to the first place and emphasised on the public and a shared economy. The State Council's Opinions on Building an Open Economy introduced in the same year indicated the objective of integrating into the global economy through outward FDI thus leading to higher level of openness (State Council, 2015a). According to the State Council's Opinion on Promoting International Cooperation on Production Capacity and Equipment Manufacturing, the cooperation should focus on areas of advanced technology (State Council, 2015b). The Administrative Measures on Assessment of Economic and Trade Zone Overseas enacted by the Ministry of Commerce of China on 14 August 2015 added "the cooperating zone of technology and research" as support focus (MOFCOM, 2015).

Another document that elaborates on this overall direction of the country's OFDI support is the "Made in China 2025" strategy released by State Council. It reiterated to

increase the level of openness by actively utilising the global resources and markets and realise the value-chain upgrading and integration through new competitive advantages (State Council, 2015). This strategy is also regarded as a response to the "Industry 4.0" proposed by Germany.

More recently, the most general and official guiding policy were set out in the 13th Five-Year Plan on Economic and Social Development (after that the 13th Five-Year Plan). The 13th Five-Year Plan has put "innovation" to a more prominent position and reiterated the importance of value-chain upgrading and integration. It has also suggested the future directions for OFDI support by promoting value chain integrating and encouraging individuals to invest abroad (NDRC, 2016). Another document, the 13th Strategic Emerging Industry Five-Year Plan, laid out four priorities that have potential implications for OFDI:

1) Facilitate technology absorbing and reinventing by promoting corporation on international capacity and R&D;
2) Build a global corporation platform by encouraging leading enterprises to establish industrial parks overseas and participate in a multilateral corporation and recognition system;
3) Support collaboration of strategic emerging industry and develop international corporation and innovation centre overseas by guiding social capital to invest and M&A of strategic emerging industries.
4) Integrate into the global value chain by optimising resources in areas such as high-end equipment and information technology through various paths in different locations (State Council, 2016).

Due to the above-mentioned documents, the emphasis of Chinese OFDI has shifted to the technology industry. As a result, Chinese enterprises conducted outward 579 mergers and acquisitions in 2015. The information transmission/ software and IT services sector ranked second among 18 industrial categories, with a year-on-year increase of 135.6 per cent (MOFCOM, 2016). Overseas M&A in the technology industry has gradually become the common theme of Chinese OFDI.

The current framework for opening up policy gives the same priority to "bring in" and "go out". The destination of the country's OFDI has shifted from developing economies to developed ones and the main content of "bring in" has shifted from capital to technologies and human resources. The major objective of overseas M&A of Chinese firms has also shifted from resource-seeking to asset-seeking under the guidance of the present framework. It is also mentioned by the 13th Five-Year Plan on Strategic Emerging Industry that advanced capital and technologies acquired by "go out" activities should be brought back home to support the domestic development and form new competitive advantages (State Council, 2016). The "13th Five-Year" period (2016-2020) is regarded as a critical time for the transformation of competitive advantage, and the country is using M&A as a means for value-chain integrating and upgrading. The "go out" policy actually serves for the "bring in" policy within which M&A is being used to nurture national economic structure balance and development.

Since the 1980s, Chinese companies have been investing abroad for a long time, and the investment has gradually become sizeable. The country is now a significant player in the global investment market. In 2013, Chinese OFDI continued to grow under the weak global economic condition and exceeded US$100 billion for the first time (MOFCOM, 2014). China's outward investment achieved a historic breakthrough, with US$145.67 billion, ranked second in the world in 2015. It was the first time for Chinese outward FDI to exceed the level of inward direct investment. The country experienced net capital outflows for the very first time (MOFCOM, 2016). Under the effect of post-crisis development and the "OBOR Initiative", outward Chinese investment to developed economies achieving a dramatic increase: 72.3 per cent from the previous year in 2014 with the OFDI flow into North America, and Europe rose by 88 per cent and 82.3 per cent respectively (MOFCOM, 2015). Chinese outward investment continued to grow in those two areas while the outflows to Africa decreased by 19.4 per cent from the previous year in 2015 (MOFCOM, 2016).

As a newcomer to the global investment market, the size of Chinese outflow is rising rapidly while the stock falls behind. In 2014 the stock of Chinese OFDI was US$ 882.6 billion and ranked 8th among all countries. It was the first time for the nation to enter the top ten concerning outward FDI stock (MOFCOM, 2015). By 2012 China's OFDI had

covered all sectors of national economy, among which seven sectors accounted 92.4 per cent of China's total outward FDI, reflected a relatively concentrated investment. The data was declined in 2016 with a percentage of 79.6 per cent of the top five sectors.

Nowadays, the government tends to increase the outward internalisation and international competitiveness of Chinese MNEs by supporting outward investment, especially overseas acquisition and organic expansion abroad. The country regards OFDI as a vital instrument for realising the structural reform of domestic economy as well as the upgrading of the global value chain. Moreover, the OBOR national strategy acts as an excellent engine for the acceleration of Chinese OFDI.

From the discussion above, it can be seen that the policy towards Chinese OFDI, the scope of investment and main characteristics have changed over various stages. These four stages are briefly presented in Table 1.

Table 1: Stages of Chinese OFDI

Stage of OFDI	Government Policy	Characteristics	Scope of Investment
The initiation (1978-1991)	Open Door Policy	Emerged in early 1980s	OFDI lagged behind with a small amount.
The formalization (1992-2001)	Promote OFDI development strategy to a national level.	The growth of OFDI slowed down in the 1990s.	Chinese outward investment expanded to over 160 countries and regions.
The expansion (2002-2012)	Go Out Policy	The government connected OFDI-specific policies to technology and innovation.	Gain access to advanced technologies and management skills through overseas M&A.
New era (2013 to present)	One Belt One Road Initiative	Promoting the comprehensive development of OFDI.	China's overseas investment flows ranked second in the world for the first time in 2015.

5. Distribution of China's OFDI

With the development since 2001, the distribution of China's OFDI is changing overtime, both sectorally and geographically.

Sectoral Distribution of OFDI

The gradually shift mentioned in stage two continues with the bulk of China's OFDI now goes into the tertiary sector. Compare to the early greenfield investments in developed countries (Zhang and Edwards, 2007), Chinese companies now target more on service and technology industry which is a striking feature for a developing country.

Leasing and commercial services accounted for 33.5 per cent of total outflows and 34.9 per cent of total stock respectively by 2016. The secondary sector came second, the mining, manufacturing, construction and production and supply of electricity gas and water comprised 23 per cent of total stock in 2016 while the number was 72 per cent in 2003. The primary sector is relatively a minor component since the beginning, making up on 1 per cent for more than a decade. After nearly two decades of rapid development, China's OFDI tends to be less concentrated and covers more industries in the national economy, with new industrial areas, such as culture, sports and entertainment and lodging, and catering service keeps emerging. The sectoral distribution of Chinese OFDI has remained stable in recent years. In the future, Chinese companies may diversify towards tertiary industry more directly, especially to service industry and technology industry.

Table 2 China's Sectoral Distribution of OFDI by Economic Sector and Industry 2003, 2012, 2016 (Per cent of Total Outflows and Stock)

SECTOR / INDUSTRY	2003		2012		2016	
	Flow	Stock	Flow	Stock	Flow	Stock
Primary						
Agriculture, forestry, husbandry and fishing	3%	1%	1.7%	1%	1.7%	1.1%
Secondary						
Mining	48.4%	18%	15.4%	14.1%	1.0%	11.2%
Manufacturing	21.8%	6%	9.9%	6.4%	14.8%	8%
Construction	1%	2%	3.7%	2.4%	2.2%	2.4%
Production and supply of electricity gas and water	1%	2%	2.2%	1.7%	1.8%	1.7%
Tertiary						
Leasing and business service	9.8%	6%	30.4%	33%	33.5%	34.9%
Wholesale and retail trade	12.6%	20%	14.8%	12.8%	10.7%	12.5%
Transport, storage and post	3%	6%	3.4%	5.5%	0.9%	3.1%
Information transmission, computer services, and software		33%	1.4%	0.9%	9.5%	4.8%
Finance			11.5%	18.1%	7.6%	13.1%
Real estate			2.3%	1.8%	7.8%	3.4%
Scientific research and technical service			1.7%	1.3%	2.2%	1.4%
Residents service, repair, and other services				0.7%	2.8%	1.2%
Culture, sports and entertainment				0.1%	2.0%	0.6%
Lodging and catering services				0.1%	0.8%	0.3%

Source: (MOFCOM, 2003; 2013; 2017)

Geographical Distribution of OFDI

Unlike the sectoral distribution, the geographical distribution of China's OFDI remains remarkably stable as the unbalanced continental distribution stays. The bulk of China's OFDI goes to Asia since the beginning, and the number is still increasing. Half of the Chinese outward investment went into Asian countries in 2002, it achieved rapid growth and accounted for 73.8 per cent in 2012. Although the number declined to 66.4 per cent in 2016 with nearly USD64.78 billion, Asia is still the biggest recipient of China's outward FDI, and the most important region among them is Hong Kong which accounted for nearly 80 per cent of China's total outward investment to Asia during all these years. This is due to the round-tripping phenomenon and the use of Hong Kong as a platform for overseas investment into other countries, especially in developed areas (Agnes, 2014). The significant status of Hong Kong is likely to increase due to the government's desire for further internationalization of RMB. In the recent document, the government is taking advantage of the city's position as the hub of global offshore yuan business and encourages the city to exert its location advantage and participate in program construction under OBOR Initiative (NDRC, 2018).

Pictures are different between Latin America and North America with the share of total OFDI decreasing in the former while increasing in the latter. The United States received USD4.05 billion, with an increase of 123.5 per cent in 2012, thus making it the second largest destination for China's OFDI. Although OFDI to developing countries remains a larger share of total investment, this changing pattern still reflects the country's engagement in developed regions. This trend continues in 2016 with a total outward investment of USD36.84 billion into developed economies. Encouraged by recent policies, Chinese companies have regarded developed countries as their most favourable destinations for investment.

Table 3 China's geographical distribution of OFDI, 2003, 2012, 2016 (USD billion)

Region/Country	2003		2012		2016	
	Flow	Stock	Flow	Stock	Flow	Stock
Total	2.85	33.22	87.80	531.94	196.15	1357.39
Asia	1.51	26.60	64.78	364. 41	130.27	909.44
Hong Kong	1.15	24.63	51.24	306 .37	114.23	780.74
Macau	0.03	0.45	0.02	2 .93	0.82	6.78
Singapore	-0.003	0.17	1 .52	12 .38	3.17	33.45
Latin America	1.04	4.62	6 .17	68 .21	27.23	207.15
The British Virgin Islands	0.20	0.53	2 .24	30. 85	12.29	88.77
Cayman Islands	0.81	3.69	0.83	30 .07	13.52	104.21
Africa	0.075	0.50	2.52	21. 73	2.40	39.88
North America	0.06	0.55	4. 88	25. 50	20.35	75.47
Canada	-0.007	0.05	0.80	5 .05	2.87	12.73
United States	0.07	0.50	4.05	17 .08	16.98	60.58
Europe	0.15	0.49	7. 04	36. 98	10.69	87.20
Denmark	0.07	0.07	0.005	0.05	0.13	0.23
Germany	0.03	0.08	0.80	3 .10	2.38	7.84
United Kingdom	0.002	0.08	2 .77	8 .93	1.48	17.61
Oceania	0.03	0.47	2 .42	15. 11	5.21	38.24
Australia	0.03	0.42	2 .17	13 .87	4.19	33.35

Source: (MOFCOM, 2003; 2013; 2017)

Structure of Local Investment Entities

The structure of Chinese overseas investment entities started with an unbalanced status with state-owned enterprises occupied nearly half of it. This structure is improving with the development in following years. The proportion of the state-owned company reduced to 26 per cent in 2006. Its first place was replaced by limited liability companies in 2006 and only accounts for a small amount in recent years.

Although the structure of investment entities is improving recently, the dominant place of investment from state-owned companies has not changed much. The majority of

China's OFDI comes from state-owned enterprises since the start of outward investment. It continued to grow afterwards, increased from 43 per cent of the total amount in 2003 to nearly 80 per cent in 2006 (MOFCOM, 2013). After the government has issued documents on investment entities diversification and encouraging engagement of non-pubic enterprises, this concentrated phenomenon has been improved with the share of state-owned enterprise reduced by 20 per cent compared with that in 2006. However, the dominant role of state-owned enterprises has not changed much as it still accounted for more than half of total overseas investment in 2016.

Table 4: China's investment entity distribution of OFDI, 2003, 2012, 2016

Entity	2003	2006	2012	2016
State-owned Enterprise	43%	26%	9.1%	5.2%
Limited Liability Companies	22%	33%	62.5%	43.2%
Incorporated Company	11%	11%	7.4%	10.1%
Joint-stock Private Company	10%	12%	8.3%	26.2%
Foreign-Invested Enterprises	5%	4%	3.4%	4.8%
Cooperative Enterprises	4%	9%	3.4%	2.0%
Collective Enterprises	2%	2%	0.8%	0.5%
Hong Kong, Macau and Taiwan-invested Enterprises	2%	2%	2.2%	3.2%

Source: (MOFCOM, 2003; 2013; 2017)

Entity	2003 (net investment)	2012 (stock)	2016 (stock)
Public Enterprises			
State-owned Enterprise	43%	59.8%	54.3%
Collective Enterprises	2%	0.2%	0.3%
Non-public Enterprises			
Limited Liability Companies	22%	26.2%	17.8%
Incorporated Company	11%	6.6%	8.6%
Joint-stock Private Company	10%	2.2%	8.7%
Foreign-Invested Enterprises	5%	1.1%	3.5%
Cooperative Enterprises	4%	2.9%	0.7%

Collective Enterprises	2%	0.2%	0.3%
Hong Kong, Macau and Taiwan-invested Enterprises	2%	0.3%	3.5%

Source: (MOFCOM, 2003; 2013; 2017)

From the analysis above, the major features of China's OFDI can be summarized as follows:

Firstly, the predominant role of the state. Most of China's OFDI comes from the public department while OFDI from private companies accounts for a relatively small amount. The growth of China's OFDI is well connected with government interferer as the central government is using policy as a well-functioning instrument for guiding OFDI into preferred industries. Secondly, the bulk of China's OFDI is located in neighbouring areas, such as Hong Kong and other Asian countries. Thirdly, unlike in the past, Chinese MNCs are now primarily investing in service and technology industry. This reflects an incentive shift from market-seeking to strategic assets seeking, however, such shift is mainly motivated by corresponding to China's strategic needs where companies are searching for commercially viable technology rather than core research content (Andreff, 2016).

The pressure from overcapacity has made the facilitation of outward direct investment an imperative for the Chinese Government, leading it to adopt the "OBOR" Initiative in 2013. After that, the country has taken concrete measures to promote the OFDI and the internationalization of Chinese enterprises. Against this background, the strong growth in Chinese overseas investment should continue in the coming years and the country is likely to become a more important source of FDI in the near future.

The stages above together provide a comprehensive view on the process of China's opening up policy and the government's attitude towards such strategy, down to specific phases. From the early part of 21st century, the government has been taking important steps to actively encourage domestic companies to invest abroad with the objectives of nurturing both of the Chinese companies and its domestic economy. The government gives assistance in many ways and lays the most significant foundation for the development of OFDI as well as helps to overcome handicaps of Chinese MNEs.

The shift of governmental strategy from importing and exporting to investing helps OFDI receive deregulation on the administrative process and supporting policies on the other side. The next section discusses how the regulations developed to encourage Chinese firms on OFDI.

Section IV: The development of Chinese regulatory policy on OFDI

In the first stage, every proposed OFDI projects must be submitted to the State Council for approval, due to the shortage of foreign exchange. In 1982, the former Ministry of Foreign Trade and Economic (which is now called the Ministry of Foreign Trade and Economic Cooperation (MOFTEC)) was authorized for individual OFDI project approval and enterprises supervision. After the Draft of Approval Measures and Management Approach on Starting Non-Trade Enterprises Overseas and the Opinions of Enhancing Management of Overseas Investment project was released by former Ministry of Foreign Trade and Economic and former State Planning Commission (which is now the National Development and Reform Commission) in 1985, the approval procedure shifted from individual reviewing to evaluation criteria. Those two documents had initially formed the regulatory framework of Chinese OFDI on approval, management, and monitoring.

In 1999, along with the issue of the Opinion on Encouraging Overseas Assembly Business by Chinese Enterprises, the State Council released a series of supportive documents in order to facilitate and promote the decentralization of regulatory framework on Chinese OFDI. Since then, the framework has gradually developed into two sides, the regulatory side and the promotion side. With the development of OFDI, the government continues in decentralization through a broader economic strategy on both sides.

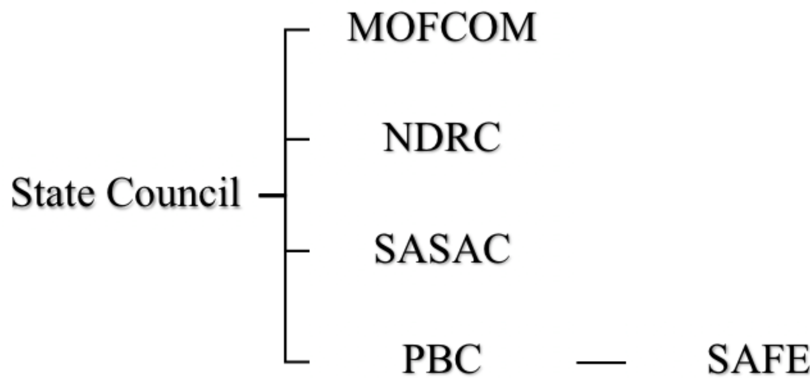
Investment Regulation

The regulation of Chinese OFDI is subjected to three layers of hierarchical supervision. The first is the State Council which designs overall development of OFDI by enacting general guidance. The second layer consists of the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM), the Stated-owned Assets Supervision and Administration Commission (SASAC), the People's Bank of China

(PBC) and regulators of financial industries, i.e. the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC). The NDRC is responsible for releasing administrative measures for overseas measures while the MOFCOM is responsible for approval and supervise OFDI projects under the guidance documents of NDRC. The SASAC is responsible for managing and monitoring state-owned assets of non-financial enterprises. While all overseas direct investment projects, whether state-owned or not, receive approval from the NDRC and the MOFCOM, the SASAC is only responsible for investment projects undertook by central state-owned companies. Similarly, PBC and three financial industry regulators are mainly responsible for approval and supervise OFDI undertook by financial companies. The third layer is the State Administration of Foreign Exchange (SAFE) which surveys and monitors the sources of capital and the legality of OFDI payments, and also manages overseas foreign exchange accounts. Annex 1. shows more detailed information about the approval process of each department.

The country has been working on easier and simpler procedures for OFDI approval in which only large (over US300 million) and sensitive projects require approval, however, the current process is still cumbersome. There are still two independent ministerial agencies for implementing OFDI policies and regulations, and it turns to three when it comes to SOEs. These overlapping procedures may cause potential delays due to bureaucracy. Moreover, the latest regulation of MOFCOM and NDRC linked all potential projects directly to the central government. Although this change simplified the approval process by removing the preliminary examination of local authorities, it may well be seen as a sign of centralization. OFDI of Chinese MNEs would serve better for the strategic goals of central government under the direct guidance.

Figure 5: Hierarchical supervision of Chinese OFDI



Investment Promotion

The Chinese government supports OFDI through policies, the establishment of the free trade zone and overseas economic cooperation zones, as well as financial and fiscal measures.

Promotion policy

Besides the significant role in the approval process, the MOFCOM has developed its function to be more service-oriented and continues its role of negotiation bilateral and multilateral investment agreements, such as bilateral investment treaties (BITs) and free trade agreements (FTAs). Moreover, the MOFCOM introduce foreign markets to domestic companies by regularly publishing Foreign Market Assessment Reports, Foreign Market Assessment Report on Processing Trade Overseas, Foreign Investment Cooperation Report and Foreign Investment Guidance on Industry. It also hosts exhibitions for outcomes and international conference, as well as staff training to promote the popularity of going global and related policies. In apply with the objective of building a comprehensive and complete database on OFDI, the MOFCOM revised and released Statistical System on Overseas Investment in December 2016 (MOFCOM, 2016).

Free trade zone and Economic cooperation zone

The free trade zones and economic cooperation zones are regarded as an essential platform for industry agglomeration and global cooperation in production capacity. China has already established an economic cooperation zone with 16 countries, including Australia, Korea, Switzerland, etc.

Financial and fiscal support

In April 2018, the NDRC released Opinions on Guiding Healthy Development of Foreign Investment and Financial Fund (after that the NDRC 2018 Opinions) to support OFDI. The NDRC Opinions states to optimise the funding methods by broadening channels for social capital, promoting the engagement of domestic institutions and enhancing corporations with international organisations (NDRC, 2018a). Moreover, the NDRC released Guidance of Enhancing Credit System Construction of Foreign Economic Corporations in the same year and indicates to construct a comprehensive credit system of investment and trade entities (NDRC, 2018b).

Furthermore, the PBC is working on promoting the internationalisation of Renminbi and has started the pilot program of OFDI settling accounts in RMB since 2009. In 2011, The PBC released Notice of Investment Overseas Settlement Accounts in Renminbi and added 12 regions into the list supporting Renminbi Settlement in cross-border trade, with the coverage expanding to the whole nation (PBC, 2011). In December 2015, Renminbi was officially joined the IMF's basket of reserve currencies which is referred to as the SDR.

State-owned financial institutions such as China Development Bank, Exim Bank of China and China Export and Credit Insurance Corporation has set investment fund and a special fund to provide financial support for overseas investment. They also offer fast approval processes, more flexible terms and low lending rates for OFDI projects. Besides, the State Administration of Taxation provides a series of tax reductions and exemptions to support Chinese OFDI.

Risk Management

The risk of Chinese OFDI consists of two areas, the foreign investment risk of enterprises from the micro perspective and national financial security from the macro perspective. The former was highlighted during the early stages of Chinese OFDI. Federal department such as the MOFCOM has regularly detection on hotspots to issue early alerts and help firms to make a correct judgment. Additionally, Chinese overseas investment can also receive protection from China Export Credit Insurance Corporation (SINOSURE), a state-funded and policy-oriented insurance company. It provides various

insurance products and services, including mid- and long-term export credit insurance, overseas financial leasing insurance, foreign investment insurance, short-term credit insurance, bond guarantee and other businesses.

With the relaxing of foreign investment regulation, the problem of national financial security is increasingly apparent. To deal with such new challenges, the NDRC 2018 Measures expands the regulatory coverage to investment from foreign affiliates, which was once a blind spot for the former regulatory framework (NDRC, 2017a). The Opinion on Further Guiding and Regulating Directions of Investment Overseas released by NDRC in 2017 divides overseas investment into three categories of encouraged, limited and prohibited to better guide them from the macro level (NDRC, 2017b). Those two documents together have constituted the new guidance for overseas investment. In addition to the regulation issued by NDRC, the Regulation of Behaviours on Overseas Investment of Private Enterprises was enacted by NDRC in the same year to prohibit capital transfer through bogus cross-border investment (NDRC, 2017c). The comprehensive supervision mode is introduced by the MOFCOM 2018 Measures to detect the actual destination of investment funds (MOFCOM, 2018). Moreover, the MOFCOM is now actively promoting the constituting of the Law of the Overseas Investments.

Section V: Conclusion

This article provides a review of the development of Chinese OFDI and the regulatory framework that governs the country's overseas investment. It is clear that China now has an economic development strategy that fully integrates OFDI into it. The sophisticated array of instruments by the central government also plays a significant role in facilitating, supporting and encouraging OFDI. With the development in no more than two decades, China has become one of the most crucial home countries and the second largest foreign investor in the world in 2012. Despite all the advancements in the past four decades, such as the country's rising economic power in overseas investment, the way ahead is still challenging.

The rapid rise of China in the world FDI market is creating both anxieties and opportunities. The principal anxiety comes from the suspect of China's intention of

dominating the world market generated since the release of the OBOR Initiative. China has a different ideology from the west when it comes to the policymaking: it tends put forward the general idea first, then fill in it with details through practice. There is only principles and framework of the OBOR Initiative in the first official document, The Vision and Action on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, which was released in 2015. Specific plans and measures are gradually released in the Action Plan of OBOR Initiative which are published every two years. Therefore, it is not surprise that the first impression of the Initiative was opacity and impenetrability. It takes time for foreign governments to understand such cooperation while the suspects keep accumulating. To reduce such suspect and fears, the central government has changed the "OBOR National Strategy" to the "OBOR Initiative". The Xinhua News Agency has listed the phase "OBOR National Strategy" as forbidden word in an article in 2016.

Another facet of Chinese OFDI that has generated worries is the dominant role of Chinese SOEs. Since the majority of corporations is related to infrastructure construction in the first stages of the OBOR Initiative, it requires extensive support and input from the central government. The characteristic of an infrastructure project, such as the massive capital demand, the lengthy construction cycle and the high standard for technical require the participant of SOEs. State-owned firms often follow Chinese national strategies and make investment decisions based on government strategies rather than commercial viability. They are also regarded to be strategically important and facing less pressure to maximise profits. Moreover, they enjoy other benefits such as better access to public equity and protection from the authorities (Rui et al., 2017). Such behaviours are often regarded as state capitalism's globalisation strategy of national power-building (Andreff, 2016). Although China now has a regulatory framework in place that enables private firms to go abroad, the SOEs accounted for the majority more than half of the total Chinese outward investments. This phenomenon has been seen as a threat to fair market competition by many foreign companies (He and Wang, 2014).

Although the Chinese companies have enjoyed increasing competitiveness derived from the outward FDI, they are facing competitive pressure in the global market as newcomers to the world investment. This pressure is utilised by the central government

as a forced reform opportunity. The Chinese government is also regarding OFDI as a means for forcing reform of state-owned enterprises. The notion of "forced reform" has been mentioned in several essential speeches. To survive and grow in an open economy, Chinese SOEs with overseas investment have to accept reform and improve competitiveness for their own sake.

However, forcing reform and enhancing competitiveness though OFDI is not an easy task. It goes beyond the immediate benefits arising from the market expansion and cost-cutting, and includes technology upgrading and brands building as well as learning new management skills and moving up through global value chain (UNCTAD, 2006). Even firms invest abroad tend to be more competitive than their domestic peers; they do not necessarily endow such capability to compete in international markets. Even SOEs which operate in the developed markets still rely heavily on local management. The original intention of acquiring advanced management knowledge is more or less fail due to the limited effect on "reverse diffusion" (Zhang and Edward,2007). Very few Chinese companies are well known to global consumers, not to mention they have to deal with the disadvantages of being foreign, and additional transaction costs caused by unfamiliarity with local culture, social and institutions. Chinese MNEs are now facing challenges of increasing market share, upgrading technology, adjusting to international rules under the circumstances of global constructing and strategic positioning. The "forced reform" introduced by the central government is a more intricate development policy agenda and asks for long-term efforts.

Another question which worries foreign companies is the market asymmetry. While Chinese companies can easily get into overseas energy and infrastructure markets, foreign companies donot receive the same welcome in Chinese market. To solve this problem, the central government has made promises on several aspects of the country's future opening up in the latest report on the work of the government on 5th March 2018. In terms of the market asymmetry, new developments such as open the general manufacturing industry in an all-round way and enlarge the open of telecommunications, medical care, education, pension and new energy vehicles are included. It is also said to ease or lift restrictions on the share of foreign-owned equity in companies in sectors including banking, securities, fund management, future and

financial asset management. Such promises release signals of further opening up and might well help to ease the tensions and push the negotiation of the Bilateral Investment Treaty (BIT) with European Union, but the practical results still remain to be seen.

As a current result of the proposed simplification process, the current regulatory framework of OFDI enables more feasibilities of their investment projects. This has, of course, diminished the directing ability of the government in line with its development priorities. The increasing proportion of investment projects undertook by private companies has also risen the risk of capital flight which would exercise adverse effects on national financial security. A series of policies was released in recent years by governmental departments for risk control, yet they are also enacted in line with domestic development priorities. A trend of more centralised intention can be seen behind those measures. The challenge of having risk control and simplified process simultaneously remains.

Annex 1: China's major approval process of OFDI

The blueprint from State Council

The principal development of the regulatory framework of Chinese OFDI is to simplify its approval procedures. One of the major breakthroughs was the State Council's Decisions on Reform of Investment System, which marked the shift from examination approval system to registration system and granted enterprises greater independence in decision-making (State Council,2004). Since then, the State Council has enacted an array of documents supporting OFDI, notably the 2006 Opinions and the 13th Five-Year Plan. Beijing aims at further liberalizing OFDI regulation and make the promise to facilitate OFDI by improving the regulatory framework to which based primarily in registering and requires approvals in only a small number of cases (the 13th Five-Year Plan). The 13th Five-Year Plan also elaborates the steady apply of the negative list approach in order to relax restrictions on overseas investment and relax restrictions on remittance and overseas capital operations of Chinese MNEs.

MOFCOM approval process

The Administrative Measures for Overseas Investment enacted by the Ministry of Commerce of China in 2009 (hereafter the MOFCOM 2009 Measures) decentralized the

authority to approve proposed foreign investment projects under US$100 million to local departments of commerce, except for projects to countries with no diplomatic relations (MOFCOM,2009). It also simplified the MOFCOM's approval procedures by reducing application form to one and no more than 15 business days for approval. Moreover, the MOFCOM released the 2014 Administrative Measures for Overseas Investment (thereafter the MOFCOM 2014 Measures) which enable investors with more feasibilities and responsibilities for their OFDI projects (MOFCOM, 2014). The MOFCOM 2014 Measures further decentralized the authority to approve proposed OFDI projects to local departments of commerce except for those related to sensitive regions and industries. It also simplified the process by promising no more than three business days for approval. Recently, the Interim Measures of Registration (Authorized) Report of Overseas Investment released by MOFCOM in January 2018 (thereafter the MOFCOM 2018 Measures) established a series of specific measures on OFDI management:

1) The MOFCOM measures specified responsibilities for different departments, including People's Bank of China (PBC), Stated-owned Assets Supervision and Administration Commission (SASAC), China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (SIRC). Therefore, establish a comprehensive measure for before-, in-, and post-process supervision that covers the whole process of any investment.

2) In order to further decentralized, the MOFCOM facilitates OFDI by actively implementing negative list approach on the basis of the registration approval process.

3) The committed investment by a Chinese investor over US$300 million needs to be approved by the central office (MOFCOM, 2018).

The official claim of MOFCOM 2018 Measures is to further decentralization, however, such level and classify management and joint disciplinary scheme by each department is established under the increasing risk of tax evasion and crime laundering. This MOFCOM 2018 Measure is enacted out of the aim of strengthening supervision and safeguarding financial security from the source to the final destination of Chinese capital flows.

NDRC approval process

The 2018 Administrative Measures for Overseas Investment (thereafter the 2018 Measures) revised and enacted by NDRC in 2017 designate NDRC as the administrative department for OFDI guidance and monitoring (NDRC, 2017a).

This document laid out three major changes, viz. to:

1) Abolish the system of projects information report. According to the former Measures, investment entities needed to report details of investment projects over US$ 300 million before they participated in M&A and biding, the NDRC approval process would take up seven days for confirmation. The 2018 Measures simplified such before-process management in order to reduce institutional cost.

2) Cancel the preliminary examination and deliver part of the local DRCs. The central office of the NDRC needed to be informed before local approval was granted in the past. From 1st Match, 2018, local enterprises can submit an online application directly to NDRC, there is no need for preliminary examination of local authorities.

3) Relax the deadline for approval and registration form before contracting to implement which allows investors to assess more feasibilities of their proposed OFDI projects.

4) Reduce categories that needed approval from NDRC. Only special projects, including investment in a country without diplomatic relations with China, war zones, countries under international sanctions, as well as investment related to weapons, cross-border water utilization and news media (NDRC,2017a).

The approval process is stated to take no more than 20 business days, and a maximum of 10 business days if an extension is needed.

SASAC Approval Process

The State-Owned Assets Supervision and Administration Commission of the State Council released the Supervision Measures of SOEs Investment Overseas in 1st January 2017. Through this new policy, the SASAC seeks to ensure the operations of SOEs overseas cooperate with their domestic business and consistent with the objective of

promoting innovation capability and international competitiveness. SOEs are required to deliver their reports on financing and risk management of the proposed investment projects. Quarterly reports in every year and investment performance assessment are required in the process of and after the projects. A difference of this policy compared to previous ones is that SOEs required to maintain and appreciate the value of State's assets (SASAC, 2017).

Not only does this new document further strengthens the SASAC's capacity for monitoring and regulation, it also indicates profit as one of the principals for state assets management. While this may be seen as a feedback to the criticize of being overly politicized, it still remains to be seen whether this may slow down the future OFDI by Chinese SOEs and increase its profit.

SAFE approval process

The SAFE is responsible for investigating the source of the foreign exchange in investors' domestic account. Applicants are also required to present approvals of their abroad investment received from the NDRC and the MOFCOM before transferring foreign exchange through SAFE. The purchase of foreign exchange should be consistent with the amount approved by NDRC and the MOFCOM. The remittance of preinvestment fee through SAFE should not exceed 15% of total OFDI value approved. If an investment is not approved after six months of the remittance, all foreign exchange remaining in the bank account abroad need to be transferred back to the domestic account in China (SAFE,2009). The regulation has been revised twice since the release in 2009, in 2012 and 2015 respectively. The 2012 version simplified the process of open a foreign exchange account and the process of issuing a remittance permit for a preinvestment fee (SAFE, 2012). The revision in 2015 further simplified the approval process for remittance and allows companies to choose banks for remittance. It also stressed the importance of monitoring by banks (SAFE, 2015)

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