
Moving from Open Door to *Go Global*: China goes on the world stage

Paola Bellabona

Regione Marche
Via G. da Fabriano, 9 60125 Ancona, Italy
E-mail: paolabellabona_rm@yahoo.it

Francesca Spigarelli*

Department of Studies on Economics
University of Macerata
Piazza Oberdan, 3 62100 Macerata, Italy
E-mail: spigarelli@unimc.it
*Corresponding author

Abstract: This contribution traces a relatively recent phenomenon: the development of Chinese Direct Overseas Investments. China's *Go Global* policy, which encourages Chinese enterprises to put themselves in the global competition through an active internationalisation process, was officially announced in 2000. Less known than the *Open Door* policy that led China to be one of the world's largest FDI recipients, this phenomenon, still small in comparison to the total global value, is interesting for its trend and skyrocketing growth. The paper not only sheds light on the five stages of the gradual development of Outward Foreign Direct Investment (OFDI), but also deepens several interventions launched during the entire year 2006. Relevant historical series of flows and stocks are also presented. Besides highlighting the 'Chinese Champions' of the global market, main forms of internationalisation and main reasons are discussed, as well as pros and cons of the process.

Keywords: Outward Foreign Direct Investment; OFDI; internationalisation processes; China; *Go Global* policy.

Reference to this paper should be made as follows: Bellabona, P. and Spigarelli, F. (2007) 'Moving from Open Door to *Go Global*: China goes on the world stage', *Int. J. Chinese Culture and Management*, Vol. 1, No. 1, pp.93–107.

Biographical notes: Paola Bellabona is a Sinologist with a Master in Foreign Trade. She is a Consultant at Marche Region, Italian Regional Government. Her main activities and projects are focused on internationalisation processes of SMEs. On behalf of Marche Region, she is a member of working groups in the framework of the Italy-China Governmental Committee, an institution established at the Italian Ministry of Foreign Affairs.

Francesca Spigarelli is a PhD and Researcher in Economics. She teaches Economics and Economics of Innovation at the Faculty of Law, University of Macerata. Her research projects are focused mainly on internationalisation processes and innovation. She is a member of national and international research groups studying the behaviour of small and medium enterprises.

The paper is part of a research project developed by the two authors. F. Spigarelli wrote Sections 2, 4, 5. The other sections (1 and 3) were written jointly by P. Bellabona and F. Spigarelli. A synthesis of the preliminary results of the research project was published as Bellabona and Spigarelli (2006b–c).

1 Introduction

Much has been debated and discussed on China's capacity to attract large flows of Foreign Direct Investments (FDIs)¹ since the 'opening' of the planned economy in 1978 through the *Open Door* policy (Long, 2005; Branstetter and Lardy, 2006).

If China has now become one of the principal recipients of foreign investment, it has only recently stepped into the role of active investor in foreign countries (*Outward Foreign Direct Investments* – OFDI). Some of the most resounding cases of acquisition of Western companies by Chinese enterprises² have turned the spotlights on the so-called *Go Global* policy.

Go Global! is the slogan with which the Chinese authorities, since 2000, have been encouraging local enterprises to invest abroad (Hong and Sun, 2004). Globalisation of enterprises, including those of small and medium scale, is considered a critical factor for China's further economic development (Mofcom, 2006; Siu and Liu, 2005). Having started the economic growth engine, the government now looks at raising the country's economic profile to a global standard, conquering new outlet markets for local productions and, more importantly, rapidly acquiring skills, advanced technologies and intangible high-value assets (skills and trademarks, above all). Last but not least, the investment outside the national borders should contribute to the reduction of the constant trade surplus, which has placed growing pressure on the exchange rate over the last few years (Palley, 2006; Williamson, 2005).

This paper is an explorative study on the main characteristics of the *Go Global* policy. It is part of a wide research project on *Go Global* effects and trends, with a specific focus on consequences for European countries and industrial systems (Bellabona and Spigarelli, 2006a–c).

The paper gives some highlights on the role of the OFDI in the economic development of China, going through the different phases of China's opening up to the rest of the world, focusing on objectives and main government actions.

The strategic motivations that are guiding the foreign expansion of Chinese enterprises are studied, as well as the methods used in the process of pushing internationalisation. This should help, in a further research step, in answering the question of whether China's OFDI pattern is following an established, universal pattern (Liua *et al.*, 2005) or suggests a refinement to established theories, or even their refutation.

Finally, we look at the principal risks and difficulties that are being encountered both at government and corporate levels. This could help in understanding the future need for specific actions to drive the process of Chinese companies going abroad.

2 Going abroad to find internal equilibrium

Exports and FDIs are the two fundamental drivers of the Chinese boom. This growth could be defined as *outward oriented*, for Chinese capacity to draw on vital sap from abroad (absorbing resources, skills and technologies). If the first stages of the 'opening' of the planned economy (Open Door policy) were founded on the attraction of international investments³ and on the parallel push to export (*export-push* strategy),⁴ investing abroad is proving to be the turning point of the new Chinese expansion policies.⁵

Go Global can be interpreted as one of the strategies of adjustment of the path of development carried out by the Chinese Government. The solid rise in exports, sought in the last decades in order to sustain the national growth, has in fact generated strong international tensions on a financial and industrial level (Palley, 2006; Williamson, 2005). A fixed exchange rate and a close control on the movements of capital have accompanied the gradual and guarded opening of the economy, inducing an accumulation of trade surplus and of foreign currency reserves.⁶ This, in turn, has provoked a strong pressure on the exchange rate as well as great impatience from trading partners (Otani, 2005). Further tension has been generated by the excessive influx of foreign capital, via FDI, compared with high domestic savings levels.

The policies that further encourage OFDI are considered as a possible exit from the impasse of the virtuoso Chinese growth path.

The available data shows that the quota of Chinese direct investments in relation to the global investments is still insignificant (0,59%).⁷ In 2006, the country only placed 27th on the list of global investors (China Daily, 2006). However, what makes the phenomenon interesting to monitor is the growth rate and the upward trend of OFDI (Figure 1). The latter had reached, in terms of stock, \$73.33 billion by the end of 2006, with an increase of 28.1% on 2005, having the investment flows totalled \$16.13 billion, in 2006 (Xinhua News, 2007). During 2006 an increasing number of enterprises chose to invest through M&A, thus reaching \$ 4.74 billion, up by 36.7% (Chinazone, 2007).

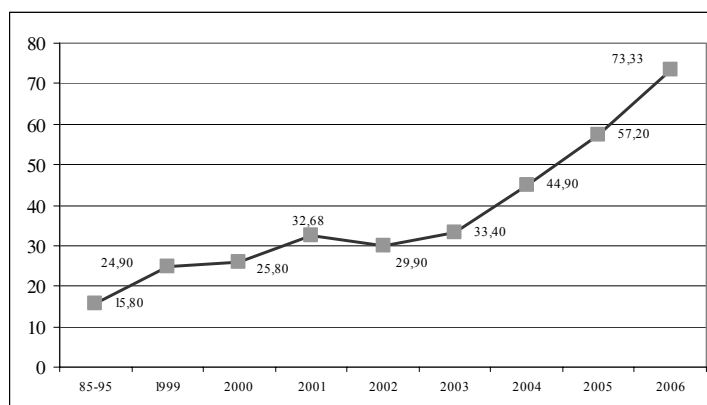
According to government statements (Chinazone, 2007), further preferential policies will be set in 2007 to further encourage Chinese companies to invest abroad.

A stronger contribution to this policy is expected from Chinese private enterprises, focusing mainly on small-scale projects of maybe only three to five years (China Daily, 2007).

At present, the most important areas of destination for the investments are Hong Kong, the USA, Russia, Japan, Germany (first among the European countries) and Australia (see Table 1). Investments are also expanding in developing countries in the Asian area and in Latin America (steel and natural resources), and a further strengthening is predicted in industrialised countries, due to the need to acquire market shares, technology and managerial skills. Still behind investment in other countries, China's FDI in Africa (natural resources) is growing and is likely to continue to grow, thanks to the China-Africa Development Fund (China Daily, 2007; Xinhua News, 2007).

This impressive data opens space for the verification of the specific initiatives undertaken by the Chinese government to firstly generate and then nurture OFDIs.

Figure 1 Chinese OFDI – Stock (billion \$)



Note: Elaborations based on sources (Unctad, Mofcom).

Table 1 China's OFDI – main areas and sectors

Africa: natural resources provider
<i>Nigeria</i> : oil exploitation, infrastructure construction, agriculture, power and communications
<i>Sudan</i> : civil infrastructures and infrastructure related to oil industry
Asia: the main foreign market
<i>Cambodia</i> : garments, tourism, light machinery, building and construction, electricity generation, cigarettes, manufacturing electronic appliances, lumber, medical services and communications
<i>Laos & Burma</i> : cement, agricultural machinery, broadcasting, coffee, tourism infrastructures, weaving, hydropower and resource extraction
<i>Thailand</i> : manufacturing, resource extraction, food processing, power generation, petrochemical and chemical plants, telecommunications, IT
<i>Vietnam</i> : electricity generation, resources, construction, machinery, electronics, iron and steel, motorcycle, medicine, chemicals and petrochemicals, communications and military supply
Europe: mainly patents and engineering expertise provider
<i>Denmark</i> : environmental protection, high technology, biotechnologies
<i>France</i> : aeronautics, automotive, equipment & metal works, energy, electronics, eco-industry, logistics, IT & telecommunications, household appliances, textiles, pharmaceuticals, R&D
<i>Germany</i> : biotechnology, electronics, logistics & trade, machinery, R&D
<i>Italy</i> : electric and household appliances, logistics & trade, IT, machinery and moulds, motorcycle, wholesale
<i>UK & Ireland</i> : software, automotive, telecommunications, financial services
<i>Norway</i> : chemicals, telecommunications, electronics, machinery, transportation, light industries
<i>Sweden</i> : ICT, electronics industry, relevant R& D
Latin America: energy sources and raw materials provider
<i>Brazil</i> : steel, telecommunications equipment, consumer electronics
<i>Peru</i> : oil, iron
<i>Venezuela</i> : energy infrastructure, oil and gas

3 The steps of the Go Global policy

In the last few years the Chinese Government has intensified the actions carried out to support the opening up of the country to the global markets. The recent interventions are nothing else but the last phase in a vast programme commenced at the end of the 1970s, characterised by gradual actions and experimentations. The same strategic motivations for the ‘opening’ have evolved and matured in time, with a gradual progression. From the exclusive dynamics of political interests, the government has moved to pursuing economic and commercial targets. From the mere focalising on natural resources, the government has looked more and more to the research of resources, markets and technologies (Zhang, 2005b).

There are at least five fundamental steps that have distinguished the government interventions, leading to the creation of current policies that actively support internationalisation (Hong and Sun, 2004; Zhang, 2005a) (see Table 2).

Table 2 The *Go Global* main steps and government acts (1979–2005)

<i>Phase 1 (1979–1983) Case-by-Case approval</i>
<i>Phase 2 (1984–1992) Towards standardisation of approval procedures</i>
<ul style="list-style-type: none"> • Notice about principles and the scope of authority for examination and approval of establishing nontrading enterprises in foreign countries, HK and Macau • Interim regulations on the administration and approval of establishing nontrading enterprises abroad
<i>Phase 3 (1993–1998) Tightening of management of overseas investment</i>
<ul style="list-style-type: none"> • Regulations on the administration of the overseas enterprises • Measures for the administration of overseas trading companies and their representative offices
<i>Phase 4 (1999–2002) Encouraging overseas projects in processing trade</i>
<ul style="list-style-type: none"> • Some suggestions on encouraging enterprises to develop overseas business in processing and assembling the supplied materials
<i>Phase 5 (2002–2005) Implementation of the Go Global strategy</i>
<ul style="list-style-type: none"> • Decision on reforming the investment system • Interim measures for the administration of the examination and approval of the overseas investment projects (by NDRC) & provisions for the examination and approval of investments to run enterprises abroad (Mofcom) • Statistical system of direct overseas investment (National Bureau of Statistics of China), measures for overseas investment comprehensive performance evaluation and joint annual inspection & the prophase reporting system for the overseas merger and acquisition-related matters of enterprises (SAFE), internet registration system of exploring overseas mineral resources (Ministry of Land and Resources)

In the first phase (1979–1983), there were no specific norms and regulations. Investments overseas were limited to state-owned enterprises and controlled case by case, regardless of the amount of capital to be invested abroad. Later, in the second phase (1984–1992), corporations, not just on a central but also on a local level, were pushed to acquire

technology and market shares abroad. The standardising of approval procedures commenced. Numerous enterprises opened in partnership with companies in Hong Kong that aimed at investing again in their Mother Country, thus also benefiting from the incentives to invest in China (round tripping).

In the third phase (1993–1998), in order to test the internationalisation policy, a selection of state-owned enterprises in the most strategic sectors were supported (mining, energy, automotive, electronics, chemical, construction and transport were privileged). Incentives and special rights regarding autonomy in decision making and management were guaranteed. At the same time, tighter controls began on OFDIs, in order to avoid speculation and further losses for state-owned enterprises. In Phase 4 (1999–2002) projects in light industries were encouraged (textiles, machinery and electronics), aimed at establishing processing industries abroad. The State Council started to grant reductions on customs duties, assistance in the purchase of currency as well as financial aid to enterprises that used raw materials or Chinese components, thus increasing Chinese exports. Reputation, creation of trademarks, innovation and technology became strategic factors.

In the fifth phase (2002–2005), the role of the government changed: from being responsible for the approval of the project, it became the supplier of information and assistance services and the promoter of incentives, simplification of administrative procedures and reductions in investment risks. Specific guidelines were published for 67 countries and numerous industrial sectors. Aided loans were given for the retrieval of natural resources, export of technology, goods and equipment, opening of advanced centres of R&S and new M&A.

More recently, in the 11th Five Year Plan (2006–2010), foreign expansion has been seen as one of the central themes. As a consequence, in 2006 many actions were carried out to push the internationalisation process a step forward. *Go Global* became more concrete and imminent through a series of provisions, as summarised in Table 3. Thanks to such actions, following the government's projections, by 2010 the OFDIs should reach \$60 billion, with a yearly growth rate of 20% (Xinhua, 2006).

Table 3 The *Go Global* actions in 2006

March

- Sustained growth, with aimed facilitation of 30–50 ‘sample enterprises’ for inclusion in the Fortune 500 list within the year 2010 (the list now has only 20 ‘Chinese’). The facilitation concerns the rates of investments, the access to sources of information and the reduction of tax quotas.
- The Ministry of Commerce released a foreign market access report, explaining the trade and investment environment for Chinese firms in the nation's 25 major trading partners.

May

- Declared openly for the first time the Position of International Investments (PII). It shows the growing interest regarding internationalisation and the greater integration of China into the global economy.

June

- Abolished foreign currency restrictions for enterprises that want to invest abroad
-

Table 3 The *Go Global* actions in 2006 (continued)

July

- The *China Council for the Int'l Investment Promotion* (CCIP) was set up in Chengdu in order to focalise activities of the existing promotional agencies, encouraging investment to and from China. The CCIP is responsible for managing the flow of communication on two channels, supplying the territory with relevant information on norms and regulations relative to international investments but at the same time collecting requests.
- New directives for monitoring investments of the 166 principal State-Owned Enterprises (SOEs). The *State-owned Asset Supervision and Administration Commission* operates to avoid investment errors and inefficient financial management of SOEs, with the aim of increasing the volume of Chinese companies abroad.

August

- Inaugurated in Beijing the *Overseas Business Service Center*, an information and service centre aimed at solving problems encountered by enterprises in their process of internationalisation

September

- New regulations were issued to encourage insurance companies to expand their activities in foreign markets, also in support of Chinese enterprises that have gone through the process of internationalisation. The principal insurance enterprises have opened branches in Europe, the USA and the Asian Southeast, but the main objective is to open 50 branches within 2006.

December

- SAFE declares that the government is considering allowing individuals to invest overseas; OFDI will be further encouraged, in particular M&A by major companies.

In progress

- The Mofcom started the creation of a database of laws and regulations regarding business on a global level. There are versions in Chinese, English and other languages. The database will be available online and will be completed within 2010.
- UNIDO has declared a wish to open a Centre for the South-South Industrial Cooperation in order to empower Chinese investments and commerce towards the PVS (in particular Africa, Algeria, Nigeria, South Africa, Sudan, Zambia).
- The government starts signing agreements with some Western countries for reciprocal investment promotions. The aim is to create both a preferential channel of attraction of FDIs as well as an impetus for the Chinese OFDIs.

To reach this goal, the government is continuing, even in 2007, its *Go Global* strategy with more and more specific solutions.⁸ This process is not giving just good results to China. The fact that the government is guaranteeing greater attention to quality and risk management is due to the fact that Chinese companies are encountering a lot of problems when entering international markets. To better understand these aspects, we will delve into a more detailed analysis of the internationalisation processes of Chinese enterprises, starting from the concrete motivations behind the 'opening' to the world, in order to be able to better examine such difficulties.

4 Chinese companies going abroad

The 'active' internationalisation of Chinese companies is a too-recent phenomenon to be comprehended in its complexity. Still, some recent surveys have shed light on motivations, benefits and difficulties of the strategies that seem to have matured coherently with the different stages of the *Go Global* policy.

A first study is by the China Council for Promotion of International Trade (CCPIT) in collaboration with the Asia Pacific Foundation of Canada (Zhang, 2005a).⁹ A second study is by the Foreign Advisory Service and by the Multilateral Guarantee Agency, in collaboration with the University of Beijing and the World Bank (Battat, 2006; Jiang, 2006).¹⁰ A third study is by the IBM Institute for Business Value (Beebe *et al.*, 2006).¹¹

Considering the main results of those surveys, it is important to notice, first of all, the motivation for going abroad. The interests of Chinese companies go over and beyond the sources of energy and the raw materials necessary in maintaining the rhythms of such a strong economic expansion. Even though the operations in such areas have a strong political and economical clout and employ mainly state-owned enterprises, the same do not exhaust the participation of Chinese enterprises in the initiatives of internationalisation.

Seeking new markets for growth is still one of the main reasons for going abroad, followed by acquisition of advanced technology and management skills, facing strong domestic competition, as well as diversification of risks.

Another important finding that helps in understanding the goals of going abroad is related to the *mode of entry*. The preponderant formula results in the creation of *joint ventures* (JVs), compared to *greenfield* and *M&A* initiatives. Many enterprises reach agreements with foreign enterprises that are already partners in the Mother Land, giving birth to new JVs.¹² Some proceed to direct acquisitions,¹³ so as to have direct access to production, managerial skills and technology, thus compensating for the not yet adequately understood dynamics of foreign markets, in particular those of the West.

The acquisition of internationally recognised brands¹⁴ is also very important. The exploitation of new incentives tied to the *Go Global* policies and the initiatives of attractiveness of the markets of destination act as a flywheel to these experiences.

As for sectors, the telecoms, research, manufacturing (typically textile, clothing and shoes) as well as mechanical and automotive sectors are particularly active in internationalisation.

The main players of this process are not only the state-owned enterprises and big companies. Even SMEs of different sectors are spreading their wings to international markets. The size of the enterprises has a strong role in the choice of internationalisation. Even if big Chinese companies are more disposed to undertake a strategy towards a global market, this factor has not slowed down the SMEs from undertaking their own path¹⁵ (see Table 4 for a list of the principal players of *Go Global*).

Another important finding is related to difficulties encountered in implementing the *Go Global* strategy. The main obstacles involve the destination markets as well as the Chinese bodies and institutions. With respect to the exogenous factors, reference is mainly made to the high costs of production, the difficulty in accessing credit and contacts with the local government. When referring to the typical internal barriers, the overly complicated and expensive procedural process for the approval of foreign investments, the limitation on the use of foreign currency, and the reduced financial facilitated resources that are available are mentioned.

Table 4 Principal players of the *Go Global**

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

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

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

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

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

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

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

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

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

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

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

Note: *Foreign M&A are indicated in brackets, reporting the acquired company and the corresponding country. The financial sector is not considered.

Chinese enterprises are making 'mistakes' similar to those made by Western investors in Chinese territory. Some difficulties encountered are based purely on managerial issues, amongst which the access to human resources is critical. There is a frequent lack of managerial skills and experience.¹⁶ China is finding obstacles in the 'war of talents': the non-Chinese multinationals benefit from the preferences of human resources, considering prestige and earnings offered.

There is also a lack of knowledge of the destination markets, in particular the more mature ones, with reference to distribution, taxation, legal and accounting systems. The Chinese enterprises have to measure up to the different cultural and linguistic aspects, the diverse approaches to human resources as well as style of management. The heterogeneous managerial capacity, in particular, is one of the most critical factors in the Chinese enterprises, as they greatly lack experience in transnational investments and *risk management* systems.

These difficulties in globalisation processes are backed by some very interesting data. A recent survey from the World Bank reports that 1/3 of the JVs have failed. Eighty-five percent of managers indicated the differences in styles of management among the principal causes of this (Tan, 2005). Maybe because of this, the Chinese *CEOs*, even

though able to take inspiration from the Japanese and Korean experiences of the 1980s and presenting a strong entrepreneurial spirit, flexibility and a definite sense for profit, turn to managerial training at Western universities (Hong and Sun, 2004).

5 Looking to *Go Global* effects: some conclusions

At the end of this exploratory study on the *Go Global* policy, some first comments can be made. *Go Global* seems to be a very interesting research topic, both on a macro and on a microeconomic perspective, looking both to China (pushing OFDI) and to Western economies (attracting FDI).

Focusing on China, from a macroeconomic perspective, encouraging the international growth through the OFDIs is considered coherent with the Chinese trade surplus and with the positive *gap* between savings and investments that characterises the national accounts (Wong and Chan, 2003). The successes of the gradual and controlled *Open Door* and of the recent aggressive and extended *Go Global* should make us reflect on the risks which the Chinese system is running to follow international exposure. In relation to the weaknesses and criticisms of the country, the following derail its journey towards growth and development: inefficiency of state-owned enterprises, frailty of financial institutions, regional imbalances, degradation and pollution of the environment, strong social inequalities, *etc.* Central institutions will have to properly combine the promotion of exposure abroad with the measures of dealing with and neutralising risks that do and will assail a globally exposed economy (Yao, 2006).

In a more microeconomic view, the importance of internationalisation through direct investments is justified by the necessity to rapidly acquire high-value resources to increase Chinese competitiveness: technologies, skills, brands and image on a world scale. Shopping for such resources abroad is putting Chinese companies on the world stage, where they are acting as *late entrants*, in a situation of disadvantage with respect to their competitors who have been operating for decades in the global context (Wu, 2005a). Searching for strategic *assets*, Chinese enterprises could find obstacles because of the protectionist activities adopted by foreign governments. Furthermore, operating abroad through operations of acquisition presupposes the possession of high management skills and capacity for integration and coordination. The incapacity of coping with the post acquisition phases could have fatal repercussions on the Mother company, not only from a financial point of view (Tan, 2005).

Shedding light on the ‘other side’ of the *Go Global* policy means looking at the consequences on the economic development of West economies. As Chinese companies are acquiring famous brands, technologies, capabilities and market share, some authors argue on the effects of these investment flows on the industrial and economic development of Western economies, Europe first of all. In particular, looking at the European dimension of *Go Global*, it is interesting to understand in which sectors Chinese companies are playing a major role and what consequences *Go Global* is having on national and regional economic development.

It should be interesting to understand the consequences of Chinese companies operating in Western economies on competitive advantage and on the ‘stock’ of distinctive capabilities each country has. Another important question is related to the impact of *Go Global* on competitive strategies carried out by Western companies: they have to compete, in their own Mother Land, with the new Chinese players and defend themselves from a massive and aggressive acquisition campaign.

Besides all these, some authors point out that *Go Global* is a 'win-win' process (Wu, 2005b, p.20): the exporting of capital abroad for direct investments can bring benefits not only to China but also to countries affected by the Chinese policies of expansion.

For developed countries, Chinese investments represent an opportunity to protect employment and to give new strength to *assets* no longer of strategic importance for internal development, in stagnant or declining sectors. For developing countries, China offers the possibility to grow, bringing them financial, technological and skills resources.

On the Chinese front, the domestic enterprises have the duty/possibility to adjust to the Western standards of management, to the rules of *corporate governance* and *disclosure*. The necessary change in the mentality and style, difficult but possible in the medium term, represents a fundamental *asset* that the Chinese enterprises can acquire by 'contagious contact' with the Western world.

Further studies are needed to understand deeply the Go Global scenario.

References

- Accenture (2005) *China Spreads its Wings – Chinese Companies Go Global*, www.accenture.com.
- Battat, J. (2006) *China's Outward Foreign Direct Investment*, FIAS, World Bank Group.
- Beebe, A., Hew, C., Yueqi, F. and Dailun, S. (2006) *Going Global. Prospects and Challenges for Chinese Companies on the World Stage*, IBM Institute for Business Value.
- Bellabona, P. and Spigarelli, F. (2006a) 'Corporate China va in Italia', *Il Sole 24 Ore*, 21 November.
- Bellabona, P. and Spigarelli, F. (2006b) 'Go Global: le politiche di internazionalizzazione attiva della Cina', *Economia Marche*, No. 3.
- Bellabona, P. and Spigarelli, F. (2006c) 'La dimensione transnazionale dell'economia cinese', in M. Abbiati (a cura di) *Propizio è intraprendere imprese*, Venezia, Cà Foscarina.
- Bjorvatna, K. and Eckel, C. (2006) 'Policy competition for foreign direct investment between asymmetric countries', *European Economic Review*, Vol. 50.
- Blomstrom, M., Konan, D. and Lipsey, R. (2001) 'FDI in the restructuring of the Japanese economy', Working Paper 7693, National Bureau of Economic Research, <http://www.nber.org/papers/w7693>.
- Branstetter, L. and Lardy, N. (2006) 'China's embrace of globalization', Working Paper 12373, National Bureau of Economic Research, <http://www.nber.org/papers/w12373>.
- China Daily (2006) *China Sets Up Special agency to Promote Int'l Investment*, 26 July.
- China Daily (2007) *Private Firms "New Force" in Overseas Investment*, 7 February.
- Chinatzone (2007) *Huge Growth of China's Overseas Investment*, 29 January.
- Economist Intelligence Unit (2006) *World Investment Prospects*, The Economist, London.
- Economist Intelligence Unit (2007) 'China', *Country Profile*, www.eiu.com.
- Greenaway, D. (1998) 'Does trade liberalisation promote economic development?', *Scottish Journal of Political Economy*, Vol. 45.
- Hale, G. and Long, C. (2006) 'What determines technological spillovers of foreign direct investment: evidence from China Federal Reserve Bank of San Francisco', Working Paper Series: 2006-13.
- Hess, W. (2006) *Going Outside, Round Tripping and Dollar Diplomacy: An Introduction to Outward Direct Investment*, Global Insight Inc.

- Hong, E. and Sun, L. (2004) 'Go overseas via direct investment. Internationalization strategy of Chinese corporation in a comparative prism', Discussion Paper 40, Center for Financial and Management Studies, SOAS University of London.
- Jiang, W. (2006) 'Survey: firms achieve goals abroad', *China Daily*, 14 June.
- Khawar, M. (2005) 'Foreign direct investment and economic growth: a cross-country analysis', *Global Economy Journal*, <http://www.bepress.com/gej/vol5/iss1/8>.
- Liua, X., Bucka, T. and Shub, C. (2005) 'Chinese economic development, the next stage: outward FDI?', *International Business Review*, Vol. 14, No. 1.
- Long, G. (2005) 'Does foreign direct investment promote development?', *China's Policies on FDI: Review and Evaluation*.
- Mofcom (2006) *Outward Direct Investment Steady*, 25 January.
- OECD (2002) 'Foreign direct investment for development', *Overview*, OECD.
- Otani, I. (2005) 'On China's exchange rate flexibility and stability: the more flexible against the U.S. dollar, the more stable in effective terms', *China and the World Economy*, No. 6.
- Palley, T. (2006) 'External contradictions of the Chinese development model: export-led growth and the danger of global economic contraction', *The Journal of Contemporary China*, No. 46.
- People's Daily (2006) *Investment Overseas and Imports a Priority*, 8 December.
- Roy, A.G. and Van den Berg, H.F. (2006) 'Foreign direct investment and economic growth: a time-series approach', *Global Economy Journal*, Vol. 6, <http://www.bepress.com/gej/vol6/iss1/7>.
- Siu, W. and Liu, Z. (2005) 'Marketing in Chinese Small and Medium Enterprises (SMEs): the state of the art in a Chinese socialist economy', *Small Business Economics*, Vol. 25.
- Tan, W. (2005) 'Culture conflicts in Sino-foreign ventures', *Beijing Review*, 23 June.
- Williamson, J. (2005) 'The choice of exchange rate: the relevance of international experience to China's decision', *China and World Economy*, No. 13.
- Wong, J. and Chan, S. (2003) 'China's outward direct investment: expanding worldwide', *China: An International Journal*, Vol. 1, No. 2.
- Wu, F. (2005a) 'China Inc.: How Chinese companies have discretely internationalized their operations', *International Economy*, Fall.
- Wu, F. (2005b) 'The globalization of corporate China', *NBR Analysis*, Vol. 16, No. 3.
- Xinhua (2006) *China's Overseas Investment Becomes Potential Source of South-South Cooperation: UN Official*, 11 September.
- Xinhua News (2007) *China Launches Trade, Investments Fund Targeting Africa Continent*, 27 June.
- Yao, S. (2006) 'On economic growth, FDI and exports in China', *Applied Economics*, Vol. 38.
- Zhang, K. (2005a) *China Goes Global – A Survey of Chinese Companies' Outward Direct Investments Intention*, Asian Pacific Foundation of Canada.
- Zhang, K. (2005b) *Going Global. The Why, When, Where and How of Chinese Companies' Outward Investment Intention*, Asia Pacific Foundation of Canada.

Bibliography

- Areddy, J.T., Karmin, C. and Phillips, M. (2006) 'China eases investment ban', *Washington Post*, 14 April.
- Blomstrom, M. and Sjöholm, F. (1999) 'Technology transfer and spillovers: does local participation with multinationals matter?', *European Economic Review*, Vol. 43.
- Buckley, P.J. (2004) 'The role of China in the global strategy of multinational enterprises', *Journal of Chinese Economic and Business Studies*, Vol. 2, No. 1.

- Choi, C. (2004) 'Foreign direct investment and income convergence', *Applied Economics*, Vol. 36.
- Chuang, H., Chuang, Y-C. and Hsu, P-F. (2004) 'FDI, trade, and spillover efficiency: evidence from China's manufacturing sector', *Applied Economics*, Vol. 36.
- Dunning, J. (1992) *Multinational Enterprise and the Global Economy*, Workingham: Addison Wesley.
- Economist Intelligence Unit (2006) 'World investment prospects', *The Economist*, London.
- Frost, S. (2004) 'Mainland outward direct investment in ASEAN: a new form of regional bilateralism', SEARC, City University of Hong Kong, Working paper, No. 67.
- Goldstein, A., Bonaglia, F. and Mathews, J. (2006) 'Accelerated internationalization by emerging multinationals: the case of white goods', OECD Paper.
- Jacobs, S. (2002) 'An OECD perspective on regulatory reform in China', *China in the World Economy: The Domestic Policy Challenges*, OECD.
- Janicki, H.P. and Wunnava, P.V. (2004) 'Determinants of foreign direct investment: empirical evidence from EU accession candidates', *Applied Economics*, Vol. 36.
- Jensen, N. (2003) 'Democratic governance and multinational corporations: political regimes and inflows of foreign direct investment', *International Organization*, Vol. 57.
- Li, A. (2005) 'The internationalisation of Chinese enterprises compared with Japanese enterprises', Master Thesis – Master Programme in Asian Studies, Center for East and South-East Asian Studies, Lund University.
- Love, J.H. (2003) 'Technology sourcing versus technology exploitation: an analysis of US foreign investment flows', *Applied Economics*, Vol. 35.
- Low, B. (2006) 'Huawei Technologies Corporation: from local dominance to global challenge?', *Journal of Business & Industrial Marketing*, Vol. 22, No. 2.
- Schüller, M. and Turner, A. (2005) 'Global ambition: Chinese companies spread their wings', *China Aktuell*, No. 4.
- Shi, G. (2002) 'Speech in the 16th National Congress of the Communist Party of China', *People's Daily*, 13 November.
- Wang, M.Y. (2002) 'The motivation behind China's government-initiated industrial investment overseas', *Pacific Affairs*, Summer.
- Woo, Y.P. and Zhang, K. (2005) 'China goes Global: the implication of Chinese outward direct investment for Canada', *Paper discussed at 40th Annual Meeting of the Canadian Economics Association*, 25–28 May.

Notes

- 1 A wide analysis of the benefits of OFDI for development is proposed in OECD (2002). On a theoretical level the literature demonstrates, through many contributions, the positive role of the investments for economic growth. For deeper studies on the role of the FDIs in developing countries, look at Greenaway (1998). For a recent analysis on the specific role of the FDIs regarding the growth of the economy, see Khawar (2005). As for the policy of attracting direct investments, see Bjorvatna and Eckel (2006). With reference to technology transfer see Roy and Van den Berg (2006) and for a specific analysis on technological *spillover* in the Chinese context, see Hale and Long (2006).
- 2 Among the cases that have raised strong media interest there is the acquisition in 2004 by Lenovo of the PC division of IBM (see Wu, 2005b, pp.26–29).
- 3 In 2005, China was one of the main recipients, on a global scale, of direct investments: the first among the *developing countries* and the third in absolute terms. In particular, the FDIs directed at China in 2005, according to *Ministry of Commerce* (Mofcom) amount, to \$72.4 billion, whilst according to the *State Administration of Foreign Exchange* (SAFE), to \$85.5 billion. The quantitative differences between the two are due to different methods of calculation (see Unctad, WIR, p.52).¹⁷ In 2006 China maintained its leading position as one of

the world's top destinations for FDI, even if a 4% decline had been registered. As a result, the overall FDI totalled \$69.5 billion. A change of trend appeared in 2007, as in the first half, statistics released by Mofcom show that FDI totalled \$31.9 billion, up to 12.25% for the same period of the previous year (2006).

As for 2006, the phenomena is further growing. "Statistics show that the first month of 2006, a total of 12.639 foreign funded companies were set up in China, with the FDI up 5.7% to \$18.8 dollars over the same period last year. [...] the foreign funded companies have accounted for 57.3 percent of China's overall export in 2005 and they took a share of 87.89 percent of the total high-tech product export. Accounting for only 3 percent of China's overall companies, the foreign-funded companies have taken up 28.5 percent of the country's total industrial added value and 20.5 percent of the tax revenue [...]" (cfr.<http://www.china-embassy.org/eng/xw/t257288.htm>). The FDIs in China should exceed \$80 billion by the end of 2006 (Economist Intelligence Unit, 2006).

- 4 For an in-depth study on the impact of the Chinese Government's policies promoting exports and FDIs on the economic performance of the country, look at Yao (2006).
- 5 Direct investments towards the West have historically carried out a determining role in the development of some nations, as in the case of Japan (Blomstrom *et al.*, 2001).
- 6 China had a trade surplus of US\$177.47 billion in 2006, \$75.5 billion more than in 2005, up at 74%, but the trade surplus is constantly expanding. In the first six months of 2007: \$112.5 billion, with an increment of 83% over the same period the previous year. Moreover, June registered a new record: \$26.9 billion, showing that exports rose 21.7% to \$179.6 billion, while imports grew by 14.2% to \$76.4 billion. The commodity trade surplus has been the leading source of the fast expansion of foreign exchange reserves, thus FOREX reached \$1.0663 trillion at the end of 2006, increasing by 30.22% over the end of 2005 (<http://au.china-embassy.org/eng/xw/t288297.htm>).
- 7 The statistical data are very different according to the source: Unctad, OECD and Mofcom. Those of the Chinese authorities tend to be underestimated, as they take into consideration only the investments for which the regular and conclusive procedure for approval has been started. Other differences in the Chinese sources are due to errors and omissions caused by the relatively new subject. On difficulties related to Chinese data, see the Economist Intelligence Unit (2007, p.37).
- 8 During the Central Economic Work Conference for 2006, held in Beijing on 7 December 2006, the officials expressed the intention to redouble efforts in the expansion of imports and overseas investments. Balancing international payments is to become one of the government's top priorities (People's Daily, 2006).
- 9 Even though the sample analysed involved just 300 enterprises, and the research looked mainly at the collaborations between China and Canada, interesting information emerges regarding the process of internationalisation of Chinese enterprises, their size, sector and geographical origins and destinations. More than half of the companies investing abroad are private and come from the coastal areas of China.
- 10 The study involves a sample of 150 companies, located in eight cities from different Chinese provinces, including Dalian, Beijing, Shanghai, Shenzhen and Xian. Those companies confirmed the growing interest in foreign markets. Sixty percent declared they were planning to carry out further investments abroad.
- 11 The study was developed in partnership with the School of Management at Fudan University. It concerns a sample of 40 interviews, conducted among Chinese companies, M&As and global market issue experts. The study analysed deeply the key factors driving China's integration into the global economy and the most favourably positioned Chinese companies to become global players.
- 12 The objective of joint ventures is that of acquiring managerial and technical *know-how* directly from the countries in which the skills are noted, even through the creation of research centres as happened in Denmark, Germany and Sweden. By the end of 2005, 37 centres for research and development were already in operation abroad, more than half situated in developed countries (Hess, 2006).

- 13 The acquisitions must be read as a fast track to internationalisation, in order to immediately obtain consolidated foreign brands and distribution channels apart from quickly modernising the industrial base. Sometimes the acquisition price of companies abroad is too high for the Chinese investors. This is why many of them turn their attention to insolvent companies. Alternatively, the attention is placed on SMEs, in order to reduce the initial investment volume.
- 14 No Chinese companies appear among the first Top 100 Brands of the Business Week-Interbrand (Accenture, 2005). The acquisition of well-known trademarks allows Chinese enterprises to raise their international profile very rapidly, thus obtaining immediate access to new markets. This strategy aims at avoiding delays in acceptance in the international market owing to the fact that Chinese brands are normally associated with low-quality standards.
- 15 In the survey reported by Zhang (2005a), it is stated that even though the internationalisation has involved only 14% of the sample, about 25% of the companies intend to increase their expansion process in the near future, in order to further expand it in the next two to five years.
- 16 China will need 75.000 directors with international experience in the next five years. At present there are 5.000 (Accenture, 2005).
- 17 Unctad, *World Investment Report*, several years.