



## Chinese firms “going out”: An economic dynamic with political significance

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# Chinese firms “going out”: An economic dynamic with political significance

## Analysis by Thomas Vendryes based on:

- Special issue of *Contemporary International Relations* (*xiandai guoji guanxi*, 2011, no. 8) following a meeting organised by the China Institutes of Contemporary International Relations (*zhongguo xiandai guoji guanxi yanjiu yuan*) on 9 August 2011 on the theme “Reviewing ten years of China’s ‘going out’ strategy: Successes and challenges,” containing the following articles:
- Article 1: “From an active and progressive ‘going out’ strategy to its speedier implementation,” Tao Jian, professor and director, University of International Relations.
- Article 2: “Reviewing ten years of China’s ‘going out’ strategy: successes and challenges,” Jin Canrong, professor and vice-director, Faculty of International Relations, Renmin University.
- Article 3: “Why are the political risks of China’s direct investments abroad so high?,” Mei Xinyu, researcher, Chinese Academy of International Trade and Economic Cooperation.
- Article 4: “Some salient problems linked to China’s ‘going out’ strategy,” Jiang Yong, researcher, economics department, China Institutes of Contemporary International Relations.
- Article 5: “International political economic analysis of China’s ‘going out’ strategy,” Lin Hongyu, professor and director, Department of International Politics, University of International Relations.
- Article 6: “Promoting the renminbi’s internationalisation through an autonomous strategy,” Zhao Qingming, PhD, deputy senior manager at the head office, China Construction Bank.
- Article 7: “The 3L growth method for Chinese multinationals,”<sup>(1)</sup> Fan Libo, professor and director, research centre on international companies, International and Business Economics University.
- Article 8: “Hong Kong’s role and functions in the new phase of China’s ‘going out’ strategy,” Zhang Yuncheng, researcher and director, Centre for Hong Kong and Macao-related Studies, China Institutes of Contemporary International Relations.
- Article 9: “Enterprises ‘going out’ and public diplomacy,” Li Yonghui, professor and dean of the School of International Studies, Beijing Foreign Studies University.

Three decades ago, Deng Xiaoping steered China on to the path of “reform” and “opening” to the outside world. Twenty years later, in 2001, as part of the Tenth Five Year Plan (2001-2005), Chinese authorities unveiled a strategy for Chinese companies “going abroad” (*zouchuqu* 走出去, articles 1 and 2). This was a veritable turning point in China’s relations with the world at large, in both the economic and political domains. This strategy grew in strength in the first decade of the twenty-first century: by late 2009, not only had annual exports risen to \$1,200 billion and foreign exchange reserves to \$2,400 billion, but in a sign that Chinese firms had ar-

rived on the international scene, they had by then set up more than 13,000 enterprises overseas, across nearly 180 countries. Chinese direct investment abroad totalled \$2,500 billion, and the number of people leaving China annually passed 50 million, according to Jin Canrong (article 2). While the Tenth Five Year Plan spoke merely of “going out actively and gradually” (*jiji wentuo de zouchuqu* 积极稳妥地走出去), the eleventh (2006-2010) referred to

1. According to Fan Libo, there are three strategic paths (*zhanlue lujing* 战略路径) for development, which are respectively linkage (*hulian* 互联), leverage (*ganggan* 杠杆), and localisation (*bentuhua* 本土化), hence the term “3L method.”

"going out further" (*jinyibu zouchuqu* 进一步走出去), and the ongoing twelfth (2011-2015) exhorts "speeding up implementation of the going out strategy" (*jiakuai shishi zouchuqu de zhanlue* 加快实施走出去的战略), as Jin has noted. Thus over the past decade, this "going out" phenomenon has gained increasing economic and political significance.

But this evolution has had its share of difficulties and challenges, as acknowledged in large measure by participants in a conference organised by the China Institutes of Contemporary International Relations, whose proceedings were summarised in the *Contemporary International Relations* journal. As Mei Xinyu (article 3) notes, the most important problems linked to Chinese firms "going out" are the risks of violence (*baoli fengxian* 暴力风险), in concrete terms violence aimed at enterprises and workers from China in the host countries. Both Tao Jian (article 1) and Mei Xinyu (article 3) hold that as Chinese firms are late arrivals (*houlaizhe* 后来者) on the international market, they find themselves in places (such as Afghanistan) or sectors (natural resource extraction) where violence and risk are especially high.

Violence also comes from other countries, especially Western ones, which complain of the "neo-colonialist" nature (*xin zhimin zhuyi* 新殖民主义) of China's "going out" strategy (article 2). Chinese scholars consider these reproaches and fears to be baseless and unjust. They are baseless because, say almost all scholars and especially Jin Canrong, the process of Chinese firms' "going out" is motivated by economic dynamics and not political ones, and is carried out through contracts and exchanges for which Chinese entities are accepted by host countries, creating "win-win" (*shuang ying* 双赢) solutions. Finally this process simply and naturally meets the stage of economic development that China has reached. In Lin Hongyu's description (article 5) of the gradual dynamic of insertion in the world at large, Chinese firms first ventured abroad for direct sales (*zhixiao shi* 直销式) before positioning themselves overseas to bag contracts (*hetong shi* 合同式), often for infrastructure building, and now the "going out" process is taking the form of direct investment abroad (*touzi shi* 投资式).

Fears and reproaches directed against China are deemed baseless, as it has merely followed the path traversed by Western countries and later by developed Asian ones (Japan, South Korea, etc.). And the reproaches and fears are unjust because, as Jin Canrong has noted, Western countries' "going out process" was helped along by their gunboats (*jianchuan lipao* 坚船利炮), and when firms from developed Asian countries set out on international markets, they enjoyed the attentive care of their governments – unlike Chinese firms. Moreover, China today is more open, especially to foreign investment, than most of its partners that accuse it of neo-colonialism, Jiang Yong has noted (article 4). In Jin Canrong's view, such criticisms seem to stem from China having now become the world's number two economic power, and it faces the same criticisms as previous challengers of American might, such as Japan. The fears are exacerbated by the cultural gap between China and its partners, especially Western ones, but also because China is a socialist state, a point also made by Lin Hongyu (article 5).

This does not mean China's going out strategy is all smooth sailing: quite the contrary. First of all, although it is an economic dynamic, this "going out" by Chinese firms has highly political consequences. Such politicisation must be kept in sight and the strategy honed accordingly. Li Yonghui (article 9) dwells at length on the links needed between the companies and official diplomacy, the firms becoming, in a way, diplomatic agents and the government supporting their "going out" through its programmes. The aims of this trade diplomacy are clear, in the view of all the scholars: to smooth the context in which China's "going out" takes place.

Many solutions have been suggested. Transparency has to be infused into Chinese firms and their motivations clarified (Jiang Yong), and they must be engaged in local development, for instance by financing development projects (Li Yonghui). They must also bring China and the host countries closer, by spreading Chinese culture and by training Chinese people to get acquainted with the host people (*dangdi tong* 当地同), Tao Jian and Li Yonghui have suggested. Li also calls for strengthening multilateral cooperation, especially at the regional level, and by working with non-governmental organisations as well as civil society. Finally, despite the peaceful nature of China's "going out," there is a need to put in place a real military force projection capacity (*wuzhuang liliang de yuancheng toufang nengli* 武装力量的远程投放能力), not to threaten other countries but to protect Chinese nationals where necessary, as for instance in Libya, says Tao Jian (article 1).

Apart from this political and diplomatic dimension of the "going out" strategy, which remains crucial, the scholars identify three other elements: the management of Chinese enterprises', Hong Kong, and internationalisation of the renminbi.

While a facilitating political strategy is necessary, Chinese firms themselves also need to change, creating conditions for becoming high-performing multinationals and improving their position in the global value chain (*quanqiu chanye jiazhi lian* 全球产业价值链), Fan Libo (article 7) avers. And Zhang Yucheng notes that Hong Kong continues to fulfil its traditional roles, that of an interface with the rest of the world and of an advanced place on international capital markets. This implies not only the development of its economic capacities but even more its special and autonomous administrative and political status, which give it the means to keep its international position and incidentally contribute to ameliorating the PRC's global image.

As for the renminbi, Zhao Qingming (article 6) goes against the current of dominant opinion, arguing that its internationalisation will be more a gradual result of, rather than a necessary condition for, Chinese firms "going out." Other countries' experiences show that if these firms, rather than the Chinese government, could gradually boost their use of renminbi in their transactions with foreign entities, it would be unnecessary to attempt forced internationalisation through off-shore centres using the currency. Besides, the main obstacle to the renminbi's internationalisation is something that often seems like China's greatest strength at present: its trade surplus. The imbalance in China's economic relations with the rest of the world precludes the renminbi from becoming a stable currency: it is subject to speculation and cannot be a currency of reference. A significant increase in its use worldwide would be predicated upon resolving the Chinese economy's internal and external imbalances.

Chinese enterprises' "going out" has clearly been such a major development over the past decade that it has emerged as a veritable political phenomenon and has to be seen as such. Experts at the conference were unanimous that the main concern has to be to ensure that the process takes place in a peaceful atmosphere.

■ Translated by N. Jayaram