



Capital Mobility Research Paper Series No 3

**Preliminary Report on China's going Global Strategy:
A Labour, Environment, and Hong Kong Perspective**

Au Loong Yu and Kevin Li
Globalization Monitor, Hong Kong

Asia Monitor Resource Centre

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***Globalization Monitor** is a non-profit organization based in Hong Kong. It was founded shortly before the big Seattle protest against the WTO in 1999. Its editorial board members are activists from trade unions, the green movement, regional groups and grassroots organizations. It has been the chief organization in Hong Kong to dedicate itself to promoting awareness of the negative effects of globalization.*

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Capital Mobility Research Paper Series is a collaborative work carried out by AMRC and the researchers of Asian TNC Monitoring Network (ATNC). This collaborative research is one of ATNC's programmes that develop the model of Asian 'Triangle Solidarity' which intends to deal with the changing shape of Asian capital and its impact on workers across Asia. This work is carried out by bringing together unions and labour organizations in the region, taking up a collaborative work that equips them with better strategies to cope with the trend of capital mobility. For further information about the work, please visit http://amrc.org.hk/taxonomy/term/issue_2/49

Asia Monitor Resource Centre

The Asia Monitor Resource Centre is an independent non-governmental organization focusing on Asian labour concerns. The Centre provides information, research, publications, training, labour networking and related services to trade unions, labour groups, and other development NGOs in the region. The Centre's main goal is the support democratic and independent labour movements in Asia. In order to achieve this goal, AMRC upholds the principles of workers' empowerment and gender consciousness, and follows a participatory framework.

ATNC Monitoring Network

Asian Transnational Corporations (ATNC) Monitoring Network is an Asian regional network of trade unions and labour organizations, which arose in 2002 to monitor the working conditions and management strategies in Asian transnational corporations. The Network now focuses on building up the organizing and educational capacities of its members, to monitor their own workplaces on the basis of their collective power, and carry out joint research and campaigns on the common labour issues of its members. Presently the Network has three main sectoral focuses: garments, automobiles and electronics. For more information about ATNC Monitoring Network, please visit its website: www.atnc.org or contact the Coordinator at coordinator@atnc.org.

Note:
The report was first prepared for a Bangkok meeting: Grassroots Strategies for Sustainable Chinese Investment, on 3-6 November 2007, convened by Friends of the Earth-US, Earth Rights International, Focus on the Global South, Globalization Monitor and International Rivers Network. The information and statistics mainly belong to the period before or immediately after the meeting, with minor exceptions. The purpose of the report is to provide an overview on China's overseas investment from a labor and environmental perspective, and to stimulate debate on the issue among social activists. It was presented at Capital Mobility Researchers' Meeting on 28-29 September 2010 in the Philippines, organized by Asia Monitor Resource Centre and the Asia TNC Monitoring Network (ATNC)

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Introduction

Since the turn of the century China has already become a significant player of out-flowing FDI (Foreign Direct Investment), FPI (Foreign Portfolio Investment) and an international world lender. This is against the background of China's proclamation of seeking a 'peaceful rise'. It is followed by more than 20 years of huge FDI inflow, which for many years was second only to the USA and then for three consecutive years, beginning from 2002, surpassed it.

For some years the think tanks of the Chinese government saw the relationship between *Yinjinlai*, literally meaning 'inviting in' (inflow FDI), and *Zouchuqu*, or 'going global' (outflow FDI), as supplementary to the course of modernization. According to this discourse, in the first phase of modernization, a country tends to accept more inflow FDI, without, the surplus capital for export. Then the inflow FDI, after interacting with the domestic market, necessarily modernizes the country to a point where it is both possible and necessary for the country to build its own TNCs (Transnational Corporations) and conduct overseas investment.

In 2004 the head of the Research Centre for the study of TNCs, Wang Zhile, edited a report on China's TNCs with funding from the state. The Research Centre is a branch of the Research Institute of the Ministry of Commerce. Wang noted that

"Both the 'inviting in' and 'going global' strategies are ways to integrate into economic globalization. 'Inviting in' is the base for 'going global', and 'going global' is the necessary result of 'inviting in'. The former strategy enables our country to get necessary economic resources like capital, technology and raw materials, but the initiative does not lie in the hands of our corporations. In fact, China's accession to the WTO (World Trade Organisation) not only implies that she has domestic obligations to fulfil, but also that she is entitled to her legitimate rights beyond China. Only when we enhance our strategy of 'going global', of trans-national operation, can we balance our obligation with our rights'¹

Another professor from the think tank further elaborates the relations between 'going global' and the WTO:

"Now that China has become a WTO member state, we on the one hand need to fulfil our domestic obligations, while on the other we can also enjoy the privilege of national treatment (under WTO terms) afforded to Chinese enterprises, when they

enter the markets of WTO member states.”²

China began her overseas investment in 1980 following the course of market reforms that were kick started in 1979. Generally we can divide the last 28 years into three periods.

The preparatory phase: 1979-1991

Although the amount of over seas investment in this period is small, it helped Chinese firms to accumulate the necessary experiences and to cultivate partnerships and contacts for more overseas investment in the following years. In this period the place for overseas investment was first and foremost Hong Kong.

The second phase: 1992-1998

Deng Xiaoping’s tour to the South marked his attack on the ‘Conservative’ and the inauguration of full scale integration to global capitalism. It also began a period when China’s overseas investment increased dramatically. Again HK remained the most important destination, although it also started to diversify.³

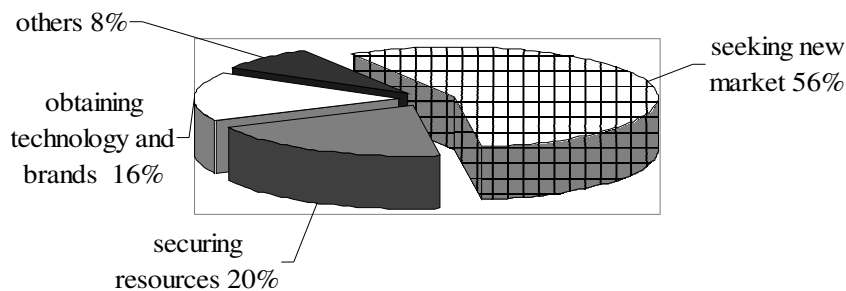
The third period: 1999- present

In early 1999 the State Department adopted a new document to promote overseas investment with special emphasis on processing industry. In 2001 Premier Zhu, in his policy address to the People’s Congress, officially used the term “going global” strategy for Chinese firms. In this period there is not only a dramatic increase of out flowing FDI, but also FPI (Foreign Portfolio Investment), including financial investment and international lending.

Motivation of Overseas Investment

There are various reasons why Chinese TNCs are investing abroad, as figure 1 may show. We do not consider the motives listed here to be adequate. We also think that it is beneficial to look at motives in accordance to the different phases of China’s economic and political development.

Figure 1: Motivations of Chinese Outward FDI



(Source: Survey of China's "Top 50 Industry-leading Firms," Roland Berger Strategy Consultants, 2003. Quoted from "The Globalization of Corporate China", by Friedrich Wu.)

There are mainly five types of Chinese TNCs:

1. Trading companies;
2. Manufacturing enterprises;
3. Oil and Mining companies;
4. Financial institutions;
5. Construction companies.

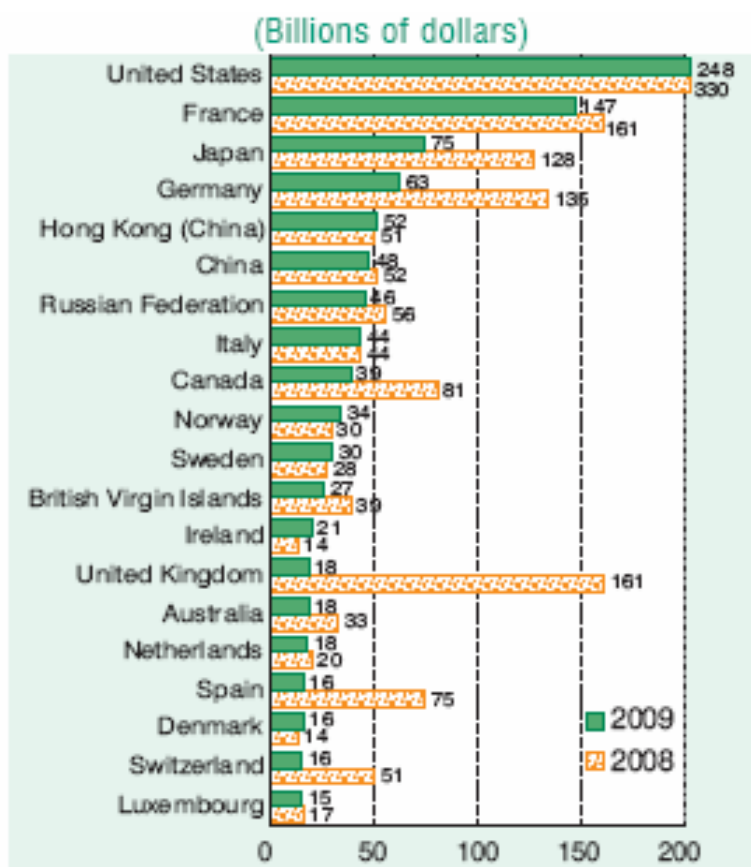
Generally the development of these five types of company is related to the different phases of the 'going global' strategy. In the earlier period overseas investment was chiefly trade. One source reported that trade made up as much as 60% of all overseas investment.⁴ A typical Chinese trading company, for example, was the China National Textiles Import and Export Corporation. In the later period China's overseas investment began to move to manufacturing and natural resources, and then even to high end products. This was a response to the increasing short supply of domestic energy and also to intensified competition at home and abroad. For the former period, for instance, there is Petro China, which has enormous overseas investment. For the latter, we have Lenovo, ZTE etc. It was only when China had accumulated huge foreign reserves and when the domestic financial markets had experienced both further liberalization and a boom since 2000, that we witnessed the rapid growth of overseas investment by financial companies. In 2001 the four Chinese commercial banks ranked between 7 and 29 in the top 1000 banks in the world. It was also in this period that Chinese FPI

becomes significant.⁵

The Scale of China's Outflowing FDI

In 2002, China's out-flowing FDI only amounted to 2.85 billion US dollars ranking 22nd in the world. This is much smaller than Hong Kong, whose out-flowing FDI amounted to 17.69 billion. China's figure has experienced leaps and bounds since then, reaching 48 billion in 2009 and ranking sixth, up from thirteen in 2006, according to the Chinese official figures.⁶ She is behind a dozen developed countries but is top amongst developing countries. (See Figure 2)

Figure 2: Global FDI outflows, top 20 home economies, 2008–2009a

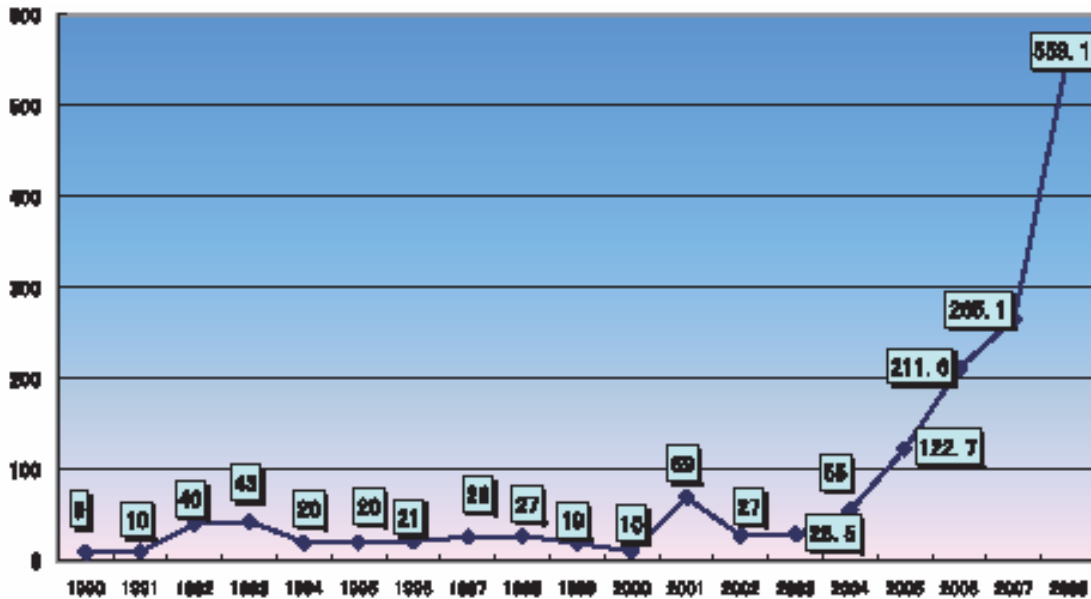


World Investment Report, UNCTAD, 2010

According to calculations with official figures, throughout the 1980's the average FDI outflow was only 1 billion dollars.⁷ In the 1990's growth was relatively stable,

then, from 2001 onwards it became more dramatic. Table 1 also shows that there was an investment boom in 1992 and 1993, surges again in 2001, and a dramatic increase since 2004.

Table 1: China Outward FDI, 1990-2008

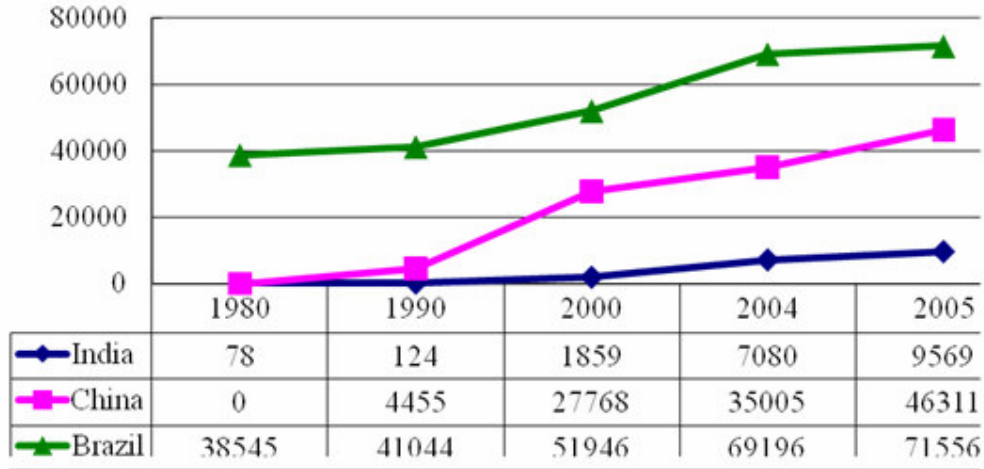


(Source: 2008 Statistical Bulletin of China's Outward FDI.)

In stock terms China's outward FDI was negligible in 1990. It then began to pile up and reached 46.3 billion dollars in 2005. This is higher than the outward FDI of South Africa (38.5 billion) and Korea (36.4 billion), and significantly surpasses India, although it still remains behind Brazil. (See Table 2)

Table 2: Outward FDI of Selected Countries by Stock

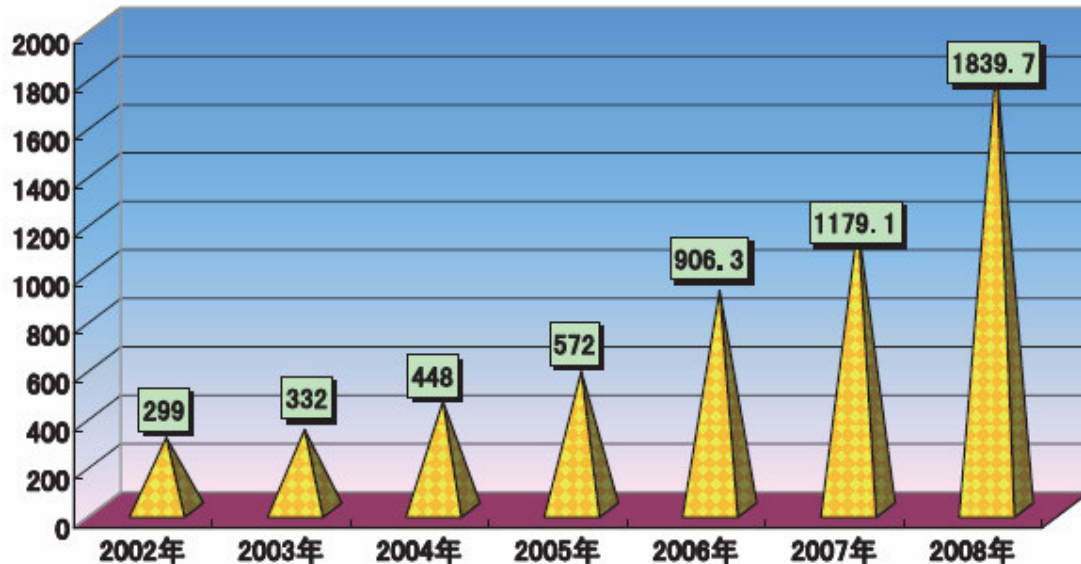
(Millions of dollars)



(Source: World Investment Report 2006, UNCTAD)

Since then China's outward FDI by stock has risen rapidly. Table 3 below updates the figures to 2008:

Table 3: China Outward FDI by Stock, 2002-2008
(100 million US\$)

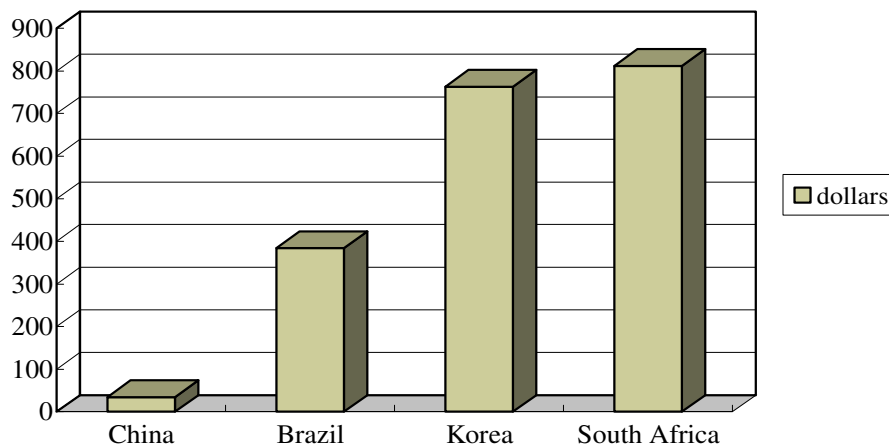


2008 Statistical Bulletin of China's Outward Foreign Direct Investment, p.9

(Note that the figures given here for the year 2004 and 2005 is slightly different from the World Investment Report by UNCTAD)

In per capita terms, however, China's outward FDI is still very low (it is only 35 US dollars), in contrast to the much higher figures of South Africa (812) and Korea (763) (see table 4). It simply mirrors the same discrepancy in GDP terms. China's GDP ranked fourth in the world in 2006, but in per capita terms it ranked beyond 100, reflecting both her strength and weakness --- one of the deep contradictions of China.

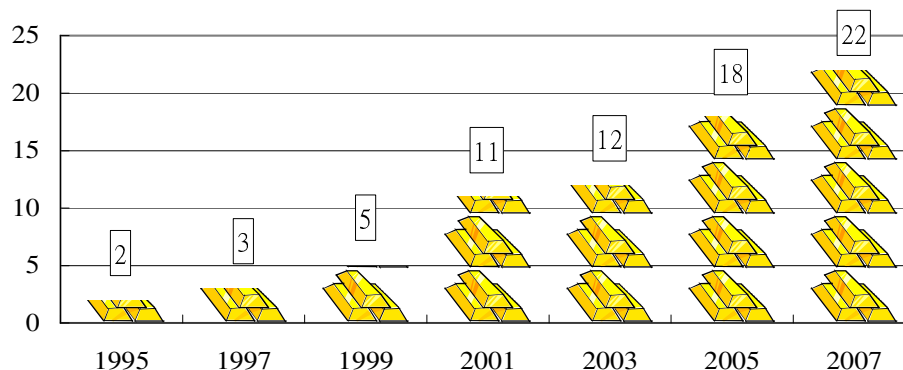
Table 4: China's outward FDI per capita, 2005



(Source: World Investment Report 2007, UNCTAD, p.115.)

The policy of 'going global' resulted in the rapid growth of Chinese TNCs. In 1995 there were only two Chinese TNCs listed in the Fortune 500. In 2007 this rose to 22. (See Table 5)

Table 5: Number of Chinese TNCs listed in the Fortune 500 giants in various years



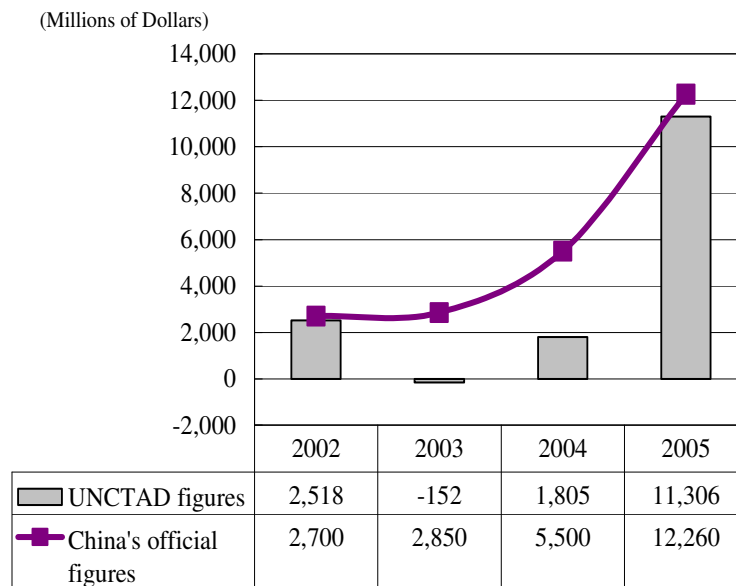
For 1995 – 2001 figures, see Tan Xiao p. 538-9.

For 2003-07 figures, visit <http://economy.enorth.com.cn>

Are the statistics reliable?

It is difficult, however, to make precise evaluation of China's outflowing FDI because of discrepancies in statistics. In the past, statistics on outward FDI were more or less considered to be a state secret. One could only make rough estimations by referring to statistics about the balance of payments, which had serious limitation as an effective tool for analysis. Things only began to change in recent years when some of the statistics were released, although they were still very much incomplete. In December 2006 the Chinese government released the first comprehensive report on China's outward FDI. The Chinese official figures for outward FDI were quite different from UNCTAD's figures, as table 6 below shows:

Table 6: China's Outward FDI according to two different sources of figures



According to the official explanation, the 1990-2001 figures come from UNCTAD, while the 2002-06 figures are from Ministry of Commerce (MoC). Before the turn of the century, MoC figures tended to be lower than UNCTAD figures. After that they become higher than the latter. The Singapore scholar Friedrich Wu remarked that “China’s Ministry of Commerce (MoC) has consistently reported significantly lower outward FDI value figures in comparison to UNCTAD statistics, which adopt the more inclusive data based on the balance of payments statistics from the People’s Bank of China. By failing to capture the amounts invested abroad by firms using earnings from exports or loans raised in international capital markets for instance, MoC has grossly underestimated the total value of China’s outward FDI.”⁸

On 24 March 2004, the Research Centre for the study of TNCs held a seminar where top officials from different chief think tanks of the government attended.

Some of the participants complained that

“(Concerning the outflow FDI figures) there are statistics released by the Ministry of Commerce, and those released by the Administration of Foreign Exchange, and also the World Investment Report put out by UNCTAD..... All of them could be used, but all of them are different from each other, so that there are discrepancies. It is chaotic. I made a comparison and found out that the figures released by the Administration of Foreign Exchange are closer to those released by UNCTAD, but still there are discrepancies....The third source (Ministry of Commerce) is not using a standard measurement at all.”

Another professor, Lu Tong, added that:

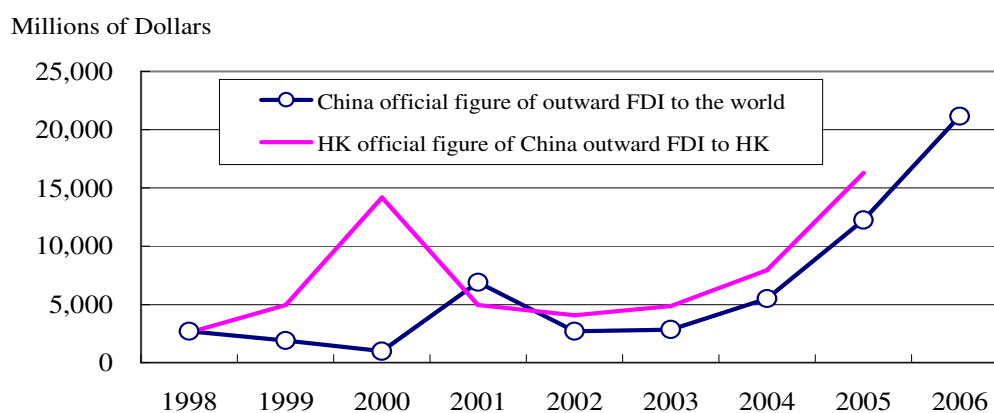
“When I go to conferences outside China, the foreigners always ask me the same questions; which figures are real? I respond that I do not know. We are told that every year the amount of outflowing foreign exchange is equal to inflowing foreign investment, which is 4-50 billion US dollars. The figure of FDI provided by the Administration of Foreign Exchange is just 7 billion, which is far too low. You cannot say that all these (the missing sum of capital outflow) are asset drains. Certainly there must be lots of investment. I am confused; all these statistics are very bad”⁹

Professor Lu mentioned ‘asset drain’ (*zichan liushi*) in passing, a term which in the Chinese context means state asset misappropriated by corrupt officials and business people. In 1998 a popular book was published in Beijing with the title ‘The Drain of China, A study on the draining of state assets’¹⁰, which reported the misappropriation of state assets. Many of these stolen monies became the main source of capital flight.

Perhaps these complaints finally worked. On December 2006, the Ministry of Commerce, the Administration of Foreign Exchange, and the National Bureau of Statistics jointly published the first report on China’s outflowing FDI, taking common responsibility on the issue.¹¹ Instead of clarifying the mystery around China’s outward FDI, however, the report raises further questions. Table 7 compares China’s official figures for outflowing FDI to the world with the Hong Kong official figure for China’s outflowing FDI to Hong Kong alone. It is common sense that the former figure must be bigger than the latter, or, in the extreme case, equal to the latter, which would mean that China had only invested in Hong Kong and nowhere else in the world. However, in the seven year period of 1998-2004, there were five years when Hong Kong recorded much more FDI outflow to Hong

Kong than China did to the whole world. Then in 2000 Hong Kong experienced an inflowing FDI from China amounting to 14 times the amount of China's outflowing FDI to the world. This is entirely nonsensical. Might the Hong Kong figures all be wrong? We must say that we are more confident in Hong Kong's figures because Hong Kong's government has no past record of forging figures. Surely we must make an allowance for the fact that, since Hong Kong is a free port and has no control over outflow and inflow capital, China's investments might not be being recorded by the authorities. If this was the case, however, then Hong Kong's figure would have been even larger than they are now, which makes the discrepancy between the two sets of statistics even more nonsensical.

Table 7: China's outward FDI to the world and to HK

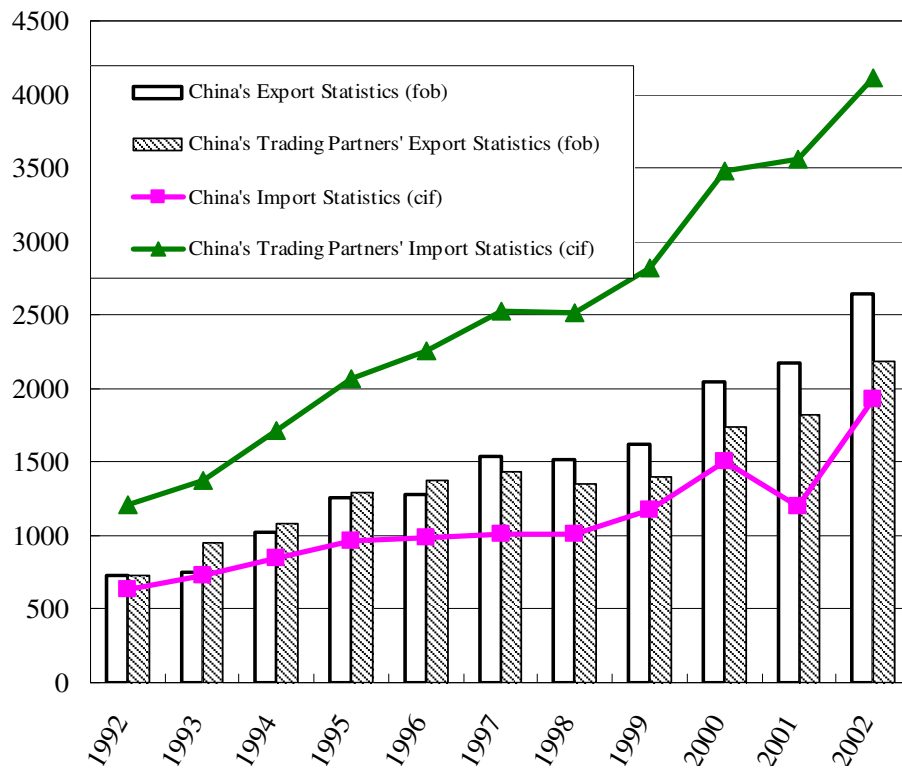


(Source: 2006 Statistical Bulletin of China's Outward FDI and HK Annual Digest of Statistics, 2005 & 2006.)

Yang Haizhen, the assistant professor at the Graduate University of the Chinese Academy of Science in China, wrote a book on the subject of capital flight. She tells us that capital flight may be done through 'trade mis-invoicing', which means either the under-invoicing of exports or the over-invoicing of imports. These techniques enable firms to keep overseas revenue which is supposed to flow to the home country abroad. Then she reported that there have been huge discrepancies between trade figures released by the Chinese government and those released her trading partners (see table 8), which she argues may become the main source of capital flight.¹²

Table 8: Trade figures of China and her trading partners

(100 million US dollars)



Yang Haizhen, p. 152

Table 8 shows that for many years in import terms the statistics of China have consistently been more than twice as low as her trading partners.. One must take into account, however, that the role of HK as an entrepot, together with the ways that China and the US record their trade figures, creates significant discrepancies. So in practice the discrepancies are less than what the figures may suggest. Furthermore due to the fact that huge discrepancies only exist for imports and not exports, these factors can only partially explain the discrepancies. Evidence suggests that trade mis-invoicing is quite common among Chinese traders. Another reason for the huge import discrepancy, which Yang has not covered, is smuggling. It is common knowledge in Hong Kong that there has always been serious smuggling

between HK and Mainland China, hence the imports to China, as recorded by her trading partners, tend to be dramatically greater than those recorded by China.

The Hong Kong scholar Feng Guochao wrote in his book about smuggling between HK and Mainland China:

“By comparing trade statistics between the two countries, one will understand how significant the amount of smuggling is. For instance, between January and April 1991, Korea exported 26,688 cars to China, yet on the Chinese side only 166 cars imported from Korea were recorded in the same period. It is commonly understood that the cars which went astray were in fact smuggled into Mainland China without ever passing through customs.....According to the Semiconductor Industry Association, US, one third of semiconductor imports to China are smuggled.”¹³

The revenues from smuggling often end up in money laundering in Hong Kong and Macau, and then become clean money for overseas investment.

Feng continues: “Hong Kong becomes a safe destination for illegal money coming from the Mainland. Some of this money is for long term investment in HK, and some of it will flow to other regions via HK.”¹⁴

“In the transition from a planned economy to a socialist market economy”, Yang said, “China has encountered the typical problem of corruption among transitional economies, which result in huge state assets being drained. Money ends up in the hands of the privileged (management of SOEs, or State Owned Enterprises, and government officials etc), and when they have accumulated great amounts of illegal assets they see moving it abroad as a way to legalize it.

“In 1982-85, there was almost no capital flight. In the period 1985-88, there was some capital flight, which was quite stable and not significant. It was around 3-4 billion US dollars annually. In 1989-91 there began a big increase in both the amount and growth rate of capital flight, with an annual growth rate of 65%. In 1991 the amount of capital flight reached 22.6 billion US dollars. Between 1992 and 1994, the growth rate of capital flight slowed down, to an annual amount of 27 billion US dollars. Beginning in 1995, capital flight entered a new period of rapid growth, and in 2000 it reached its peak, namely 106 billion US dollars, which is equal to 518% of the inflowing foreign capital from the same year, or 646% of foreign debt. We can say that much of the capital inflow in 2000 was turned into

outflow by means of capital flight. ”¹⁵

The author of the 1998 book ‘The Drain of China, A study on the draining of state asset’, Chen Jian, has this to say concerning capital flight:

“There have been large amounts of irregular overseas investment, and this has been rising in recent years. Thus domestic capital resources, already scarce, keep on flowing out in large quantities. Many enterprises, including State Owned Enterprises (SOEs), have tried their very best to evade governmental monitoring and control and so have founded branches overseas. According to an incomplete estimation, in one of the cities of the Jiezhang Province, there were more than 50 firms which were involved in overseas investment, but only 14 of them went through proper procedures with the City Foreign Exchange Administration. Most of the firms have conducted overseas investment without any permission.....A significant portion of them have used different methods to keep their goods or foreign currency outside of China so as to make their overseas investment an accomplished fact.

Some of the SOEs claimed that the purpose of their overseas investment was to become players on the international stage, although in practice it is a way for the managers, their children and their relatives to immigrate to overseas. For instance, the former Director of the Wuhan Changjiang Power Group, Yu Zhian, before his defection to a foreign country, had misappropriated a large amount of state asset and invested it overseas in his own name, resulting in a huge amount of state property being drained”¹⁶

We learnt from Professor Lu that much of the outflow ‘capital drain’ will end up in overseas investment. This suggests that if we take capital flight into consideration, then all of the outward FDI figures released by aforementioned institutes may have been seriously under-estimated. We are not able to make an assessment of the amount of China’s un-accounted for overseas investment. Our purpose here is to raise our concerns over this issue. If civil society does not even know the exact amount of China’s outward FDI, what is the purpose of talking about their transparency and social accountability?

Secondly, the aforementioned facts shows that moving suspicious revenues earned at home to abroad is undoubtedly one of the important ‘push’ factors for China’s overseas investment --- a factor often neglected by studies on the subject.

Round tripping of investment

What makes China's figures on inflowing and outflowing FDI problematic is the phenomenon of round-tripping of investments. This refers to Chinese capital that first goes to HK and then re-enters China in the form of FDI so as to enjoy preferential treatment provided to foreign capital in China. According to UNCTAD's World Investment Report in 2006, in the case of inward FDI in China, round-tripped inflowing FDI is estimated from 25% to about 50%.¹⁷ This has a significant meaning for outflowing FDI, because this fake 'foreign' capital, after making a profit in China, can officially or unofficially be repatriated to overseas 'mother' companies. It also makes the official figures for both inward and outward FDI look incredible.

The First Phase of 'Going Global' and the HK Experience

According to China's official statistics, China's out-flowing FDI mainly goes to Asia. In 2003 it accounted for 80%, and then 55% in 2004 and 71% in 2005.¹⁸ Table nine shows 2008 China FDI to the top 20 countries by stock. Hong Kong was the top recipient of China's FDI by stock, and far out striped all other countries/region. In fact back in 2003 HK already received 40% of China's total outward FDI. According to Chinese official figures, the net outward FDI (non-financial sector) to Hong Kong up until 2005 accounted for 90% of her FDI stock in Asia.¹⁹ Hong Kong is the most important host region for China's FDI.

Table 9: China FDI to the top 20 countries by stock, 2008

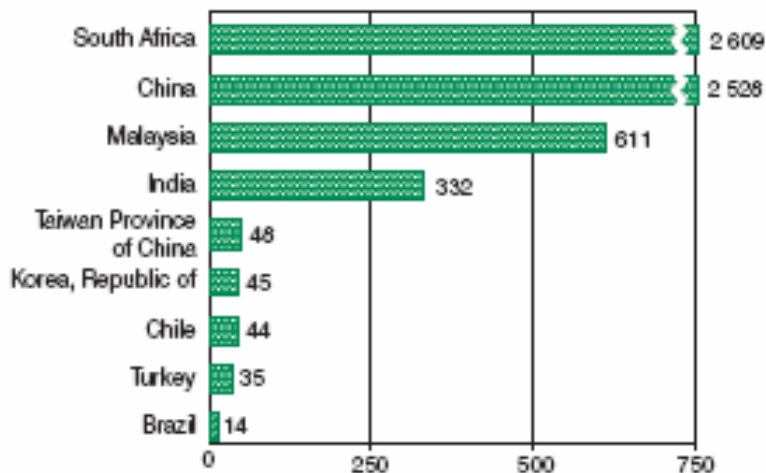
rank	Countries or region	Stock (100 million US\$)
1	Hong Kong	1158.45
2	Cayman Islands	203.27
3	British Virgin Islands	104.77
4	Australia	33.55
5	Singapore	33.35
6	South Africa	30.48

7	US	23.9
8	Russia	18.38
9	China, Macau	15.61
10	Kazakhstan	14.02
11	Pakistan	13.28
12	Canada	12.68
13	Mongolia	8.96
14	Korea	8.5
15	Germany	8.45
16	UK	8.38
17	Nigeria	7.96
18	Zambia	6.51
19	Saudi Arabia	6.21
20	Indonesia	5.43

2008 Statistical Bulletin of China's FDI

Meanwhile, in 2006-8 China became the second most important foreign investors among developing countries in Africa (see figure 2 below). China's investment in Africa has been quite controversial both among governments and the social movements.

Figure 3: Major developing economy investors in Africa, 2006–2008
(Millions of dollars)



Source: UNCTAD, FDI/TNC database.

World Investment Report 2010, UNCTAD

Table 7 above shows that China’s official figure for her out-flowing FDI to HK is seriously under-estimated, which means that HK’s position as a recipient economy of China’s out-flowing FDI is much more significant than the statistics may suggest. Indeed, HK has always acted like a platform for China’s going global strategy. It began in 1979 when China first promulgated her market reform. In the first half of the 1980’s, China began to export small amounts of capital, the purpose of which was first and foremost political. Xu Jiatuan, the defected head of the Hong Kong New China News Agency, who was also a *de facto* top diplomat representing China²⁰, revealed China’s capital export plans, against the background of the transition of the return of HK sovereignty to China. In this period of time China’s top priority was to win over HK Chinese capitalists and gain their support for the sovereignty return. Thus

“We instructed the HK branch of the Bank of China and all of China’s firms to work to stabilize the Chinese capitalists, to cooperate with them, to do business with

them. It means to give them help both in terms of trade and the raising of capital.”²¹

Another motive for capital export to HK was to make use of HK experiences in helping Chinese firms to learn Western skills in management, trade and technology. It is the strategy of so called making HK as a window for China’s reform. For instance, the giant company CITIC was founded in the early 1980’s for this purpose.

Tan Xiao in his book *China Strategy of ‘going global’*, gives the aggregate figure of China’s outward FDI between 1979 and 1983 as 45.7 million US dollars, and then between 1984 and 1988 it is 665 million. However, various sources indicated that China’s capital exports to Hong Kong alone in these periods far exceed the aggregate figures provided by Tan.²² Xu Jiatuan estimated that in this period (the first half of 1980’s) China’s aggregate investment in HK was 2-3 billion US dollars, and if reinvested earning from China’s firms and their loans were included, then it might reach 10 billion. No one knows the exact figure because it was considered a state secret.

According to Xu, until 1983 the Central government was still unfriendly towards the idea of investing abroad, therefore everything was under its control. One of the top leaders, Chen Yun, who was the only old cadre who were able to challenge Deng Xiaoping, hated the idea of investing abroad, seeing this as a road to corruption under capitalist influence. In the latter half of the 1980’s, however, following the increasing doses in domestic market reform, central control was gradually relaxing, which also implies that a political agenda no longer occupied top priority in Chinese firms’ overseas investment. Rather, for many of them, making money, and making it fast, became the top priority. Guo Guochan, a Chinese scholar, wrote in a new book:

“In 1985, basically all the Ministries and all the provinces and all the cities had already set up ‘window companies’ in Hong Kong. Then in 1986 and after, the government officials from the County, the Rural Township, and then even Village and Township Enterprises followed in their footsteps. In 1989 the number of Chinese firms was more than 2500, and irregularities became a problem. The State Department spent the subsequent three years (1989-91) trying to clean the house. In 1991 it only kept 1500 firms.”²³

Xu Jiatuan reported that...

“In 1987 and 1988some Chinese firms set up mother companies, subsidiaries and sub-subsidiaries, which made them greatly over-sized. Some of the

management was corrupt, accepting bribes, and involved in irregularities. It became out of control... It was reported that the CITIC was involved in the illegal trading of foreign currency and there were lots of complaints about this.”²⁴

The reason for us to go into some detail about things that happened more than 20 years ago is that a significant portion of Chinese overseas investments are from the very beginning connected to capital flight, irregularities and corruption, hence the absence of transparency in social accountability which civil society needs. It is also obvious that the motives of moving ‘grey revenues’, resulting from the misappropriation of public money, has always been one of the important considerations of the management’s overseas investment. In the subsequent sections we will continue to use HK experiences as a reference point for our study of China’s ‘going global’ strategy.

Phase II 1992-98: the Birth of Chinese TNCs

SOEs reform and ‘going global’

After defeating the 1989 democratic movement, which was not just a student movement but a movement where millions of workers also joined the protest, the Party under Deng Xiaoping then felt secure in making a great leap forward to harmonize with global capitalism. In 1992 the 14th Congress of the CCP inaugurated the construction of a ‘socialist market economy’, which amounts to giving the green light to privatization or the commercialization of SOEs (State-Owned Enterprises). It also amounted to the proclamation of the end of the command economy, implying that both investment and consumption were to be left increasingly to the ‘market’. The next year when the 14th Party Convention of the Central Committee was convened, it passed a resolution endorsing ‘Modern Enterprises’ as a model for SOE reform. By ‘Modern Enterprises’ it meant transforming big SOEs into joint stock companies which would draw in private share holders and see maximization of profit as their top priority. It also meant that they were giving the green light for their eventual floating at home or overseas. For big SOEs, even when they remained in state hands, they have been restructured as commercial entities whose ultimate purpose is to make a profit.

Already in 1991 the State Council decided to start the experiment of building 100 giant SOEs through mergers.²⁵ For instance, six big power companies were founded through mergers, and they accounted for nearly half of the national

electricity generated. In the car industry, six giants were created which accounted for 70% of national car production. Oligopoly has been formed quickly in many key industries. In order to hasten the pace, in 1996 the CCP launched the policy of 'retaining the large (SOEs), letting go of the small'. It was in practice a signal for nation wide privatization, in the course of which even many medium SOEs were 'let go' as well, i.e., privatized. There then started a great tide of dismissals. The tide of dismissals by medium and small firms was followed by dismissals by big firms when the latter underwent reform to become 'modern joint stock companies'. Although the laws on the Workers Congress --- which were to a certain extent similar to the German's co-determination model, at least on paper --- entitled workers to share power with the management, they were simply put aside and therefore workers' legitimate rights were never respected. The fundamental reforms in SOEs resulted in 40 million workers being sacked with little or no compensation. In the meantime, a new working class of 150 million, composed mainly of rural migrants, arose as a result of a policy which allowed the free development of the private sector with special emphasis on attracting FDI.

The 'going global' strategy is closely related to SOE reform:

1. If China has to open up her market to foreign capital, then only after immense downsizing could the big Chinese SOEs be able to compete domestically and then, later, internationally, with foreign capital.
2. Transforming SOEs into joint stock companies provides them with the necessary legal and economic conditions to float first in the domestic market and then in Hong Kong and New York. It is their floating in HK first which provides them with huge amounts of capital for further expansion both domestically and globally.
3. The creation of SOE giants, and hence the oligopoly of key industries, not only enables them to enjoy the economy of scale, but also to a considerable extent allows them to acquire monopoly rent, which enhances their ability to invest overseas.
4. The growing oligopoly in key industries means that medium size firms rapidly lose their market share and have to look to overseas markets as compensation. For example, in the oil industry, because of the three giants' dominant position, medium size firms like the Sinochem, have been forced to invest overseas.²⁶
5. The immense privatization of medium and small SOEs resulted in a

concentration of state assets going to cronies of the officials, and this is one of the main sources of capital flight and overseas investment.

The “push” factors for FDI in this period

There are three “push” factors for FDI in this period, namely:

1. Over investment resulting in the need to export surplus productive capacity.
2. The waves of privatisation and corruption.
3. The rush to invest in the HK market which was very bullish because of the “1997” effect.

I. Over Investment and Export of Capital

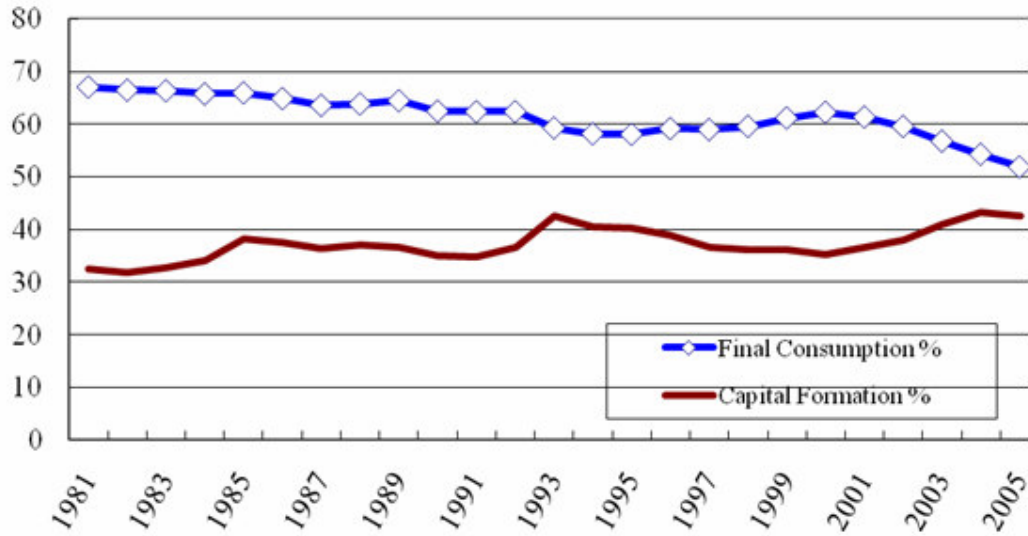
Deng’s tour to the South encouraged all level of governments to engage in a rush to invest. Between 1993 and 1995 there was a domestic investment boom as is shown in table 9 below. The provincial governments saw this as a chance to develop their regions. Although another factor was that the promotion of provincial officials became directly linked to the economic growth under their jurisdiction.

The rapid rise of investment inevitably squeezes consumption. There are three main components in the calculation of GDP, namely final consumption, capital formation and net export. In the period 1950-1979, capital formation had been excessively high in order to rapidly industrialize China, and very much at the expenses of people’s livelihoods. Wages were frozen for nearly thirty years in order to accumulate more capital goods, resulting in capital formation as high as 35-40% of GDP. This became one of the main criticisms of the Mao’s era after the fall of Gang of Four. The first half of eighties witnessed a rise in people’s consumption to average 66.4% against a capital formation of 33.9%. (See Table 10.0) It was the result of the government’s policy “*huanzhang*”, or paying back what was owed to the people.

Then beginning from the second half of the eighties the trend reversed again: people’s consumption continued to fall, and in 2005 it was down to the historic low point of 51.9%. In contrast, capital formation has never been lower than 35% since 1985, and in the periods of 1993-96 and 2003-05, periods of mad investment boom, the annual average reached 40.4% and 42.3% respectively. Table 10.1 further

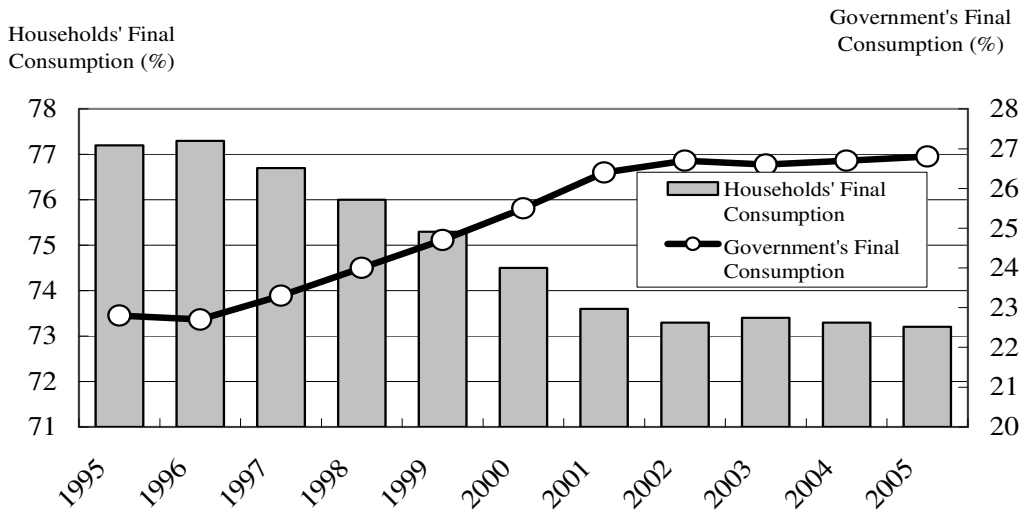
breaks down the category of final consumption and the trend is unmistakable: government expenditure continued to rise against a falling households' consumption. The table unmistakably speaks for the fact that, despite the government's repeated call for cutting government expenditure, it continued to grow at the expenses of the people. Table 10.2 shows that there is also growing inequalities in the final consumption of 'households'. Rural households' consumption continued to fall against rising urban households' consumption. When rural households still account for over half of the population, it is terrifying to see their weight of consumption dropping to merely 26.8%. If we take into consideration the continuously rising Gini coefficient, reaching 0.49 several years back, then the picture is very clear: the share of national output for common people is declining at an uninterrupted rate, particularly so for the rural poor, while the share of the rich keeps on rising, either for capital formation or for luxurious consumption. This is the combined result of the immense scale of privatization, sacking of SOEs workers and the mis-appropriation of land from the peasants by local officials. A vast rural area is bankrupt and the peasants earn little cash from tilling the land. They are virtually marginalized in the money economy. Over investment and under consumption for common people creates a problem for the sustainability of China's economy: inadequate domestic demands of the people make them unable to buy all that China produces. It exacerbates the problem of over capacity of the rapidly growing industries. Although the new rich and the new middle class are willing to spend, in the final analysis it is mass consumption, not the consumption of luxuries by the rich, which is crucial for a more balanced development of capitalism.

Table 10.0: Weight of Final Consumption and Capital Formation
As a Percentage of GDP (%)



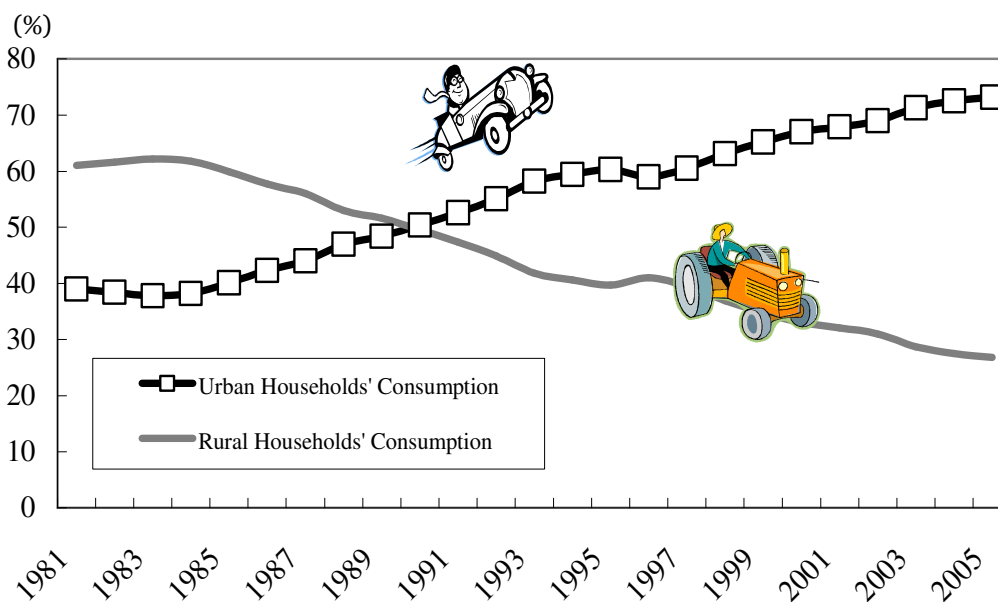
Sources: <http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm>

Table 10.1 Breakdown of Final Consumption



(Sources: <http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm>.)

Table 10.2: Breakdown of Households' Final Consumption



(Sources: <http://www.stats.gov.cn/tjsj/ndsj/2006/indexch.htm>)

Exporting overcapacity

The de-centralization of economic decision making, unleashed by the market reforms, resulted in fierce competition between provinces as they over invested in the same industries, which in turn resulted in overcapacity. In 1995, 14 provinces planned to prioritize the development of metallurgy and machinery; 16 provinces planned to prioritize the petro chemical industry; 22 the car industry; 23 bicycle and washing machines; 27 of them chose TV production as a key supporting industry; 28 chose synthetic fibres; 29 of them chose steel and fertilizer and plastic, and so on and so forth. Another consequence of this competition to invest was the fragmentation of investment funds, which often ends up leading to small scale production in industries where only large scale production is efficient. Hence, in the car industry, there were 751 car plants all over the country, but they were only able to put out 1.5 million cars, which was only a fraction of the annual car production of GM.(General Motors) In 1997 the number of car plants dropped to 115 after restructuring but the numbers were still considered to be too big, and so all the plants remained inefficient.²⁷

“Since the 1990’s, the Chinese economy has shifted from a seller’s market to a buyer’s market. ...According to a survey on industry in 1998, with the exception of energy and raw materials, all other industry experienced general overcapacity. The utilization rate of productive capacity for TVs was 46.1%, washing machines 43.3%, refrigerators 50.5%, air conditioners 33.5%, bicycle 54.5%, textiles 70%.”²⁸

In 1998 the now dissolved State Economic and Trade Committee released a policy document: Index of Over-Invested Products for Moving Abroad. The title of the document is self explanatory. It wants to export China’s excessive capacity to solve the domestic problems. It was particularly urgent as many firms were not able to pay back their loans to the bank because of poor performances; a consequence of inadequate domestic demand and over investment. The document stressed that “the third national industrial survey showed that the country had 500 types of product whose capacity utilization rate was below 60%.” It then reminded the officials that “many of these products are on the one hand more advanced in technology and quality than many developing countries; on the other hand, compared to advanced countries our products enjoy the advantages of competitive prices, therefore our products are internationally competitive.” It then targets the first batch of industries and products that need to move abroad: the light industry, machineries and electronics, motor cycles, refrigerators and TVs etc.²⁹

According to official documents, moving over invested productive capacity abroad is not only beneficial because it turns idle capacity into revenue, but also because it is a way of earning foreign currency. The official standpoints reiterate the urgency to earn more foreign currency, especially so during and after the Asian Crisis, when exports experienced a downturn. It is no wonder that Chinese firms see ‘acquire foreign market’, ‘earn foreign currency’, ‘realize the firms’ strategic goal’ and ‘make use of available (idle) machineries’ as the four most important motivations for overseas investment. (See Table 11)

The destinations of the exports of China’s excessive capacity are chiefly developing countries.

“Our country possesses a whole range of relatively mature industry technology. To move these industries abroad in general and to developing countries in particular will, apart from solving the problem of overcapacity, enable us to improve our national industrial structure. We now encourage the export of our overcapacity industries to developing countries, especially to emerging markets like the Middle

East, Southern region of Africa, Latin America, Far East Asia etc.³⁰

While TNCs in the China's Eastern region are increasingly interested in investing in developed countries, those in the Western region, which are less advanced in technology than the East, see South East Asia and other poor developing countries as their natural destination for capital export.

"The firms in the Western Region with overseas investment chiefly invest in the former USSR, Vietnam, Laos, Burma, and those countries in Central Asia and South East Asia.These are firms which mostly face overcapacity. ,Their technology is comparatively lower (than the Eastern Region). They chiefly export capital to relatively backward developing countries. The Guiyang Hisense, for instance, invested in trading networks of TVs in Burma, while the Guangxi Province invested in Vietnam."³¹

Table 11: Survey of Chinese TNCs' motives for overseas investment

Motive	points
Acquire overseas market	9.38
Earn foreign currencies	7.75
To realize the firms' strategic goal	7.50
Make use of current machineries or to export more	6.75
Earn more profit than in domestic market	6.0
Making use of overseas capital market	5.86
Diversification of products or expanding the scope of business	5.85
To maximize advantages in management and trading	5.50
Motive	points
Overcome import restriction of the host countries	4.50
Expand overseas market	4.25
Overcome domestic restriction	3.71
Acquire overseas natural resources	2.14

Note: The most important motive is 10 points. The least important is Zero points.

Source: Tan xiao, p. 144

II. Corruption

For a considerable section of the officials, there was also the hidden agenda of corruption in their drive to invest abroad.

“Because of the fact that SOE reform has not been completed, their ownership is not clear, and both the mechanism of incentives and control for SOEs are far from complete, overseas investment often ends up losing control. Some of the investing companies are not even aware of their own strengths and weaknesses; they are blind to the investment environment of the host countries, and fail to understand the traps prepared for them by crooks. Some companies have violated the national laws and set up overseas branches without prior permission, hence the rise of ‘couples companies’, ‘single person companies’ etc. Some companies engage in financial irregularities in their overseas projects, and the problems of ‘double accounts books’ are rampant, creating problems for the security of state assets, for keeping their value intact and appreciation. Some corrupt elements have used overseas investment as a means to transfer state property into their own names and so have drained the state’s assets.”³²

We continue to discuss this issue in the following section.

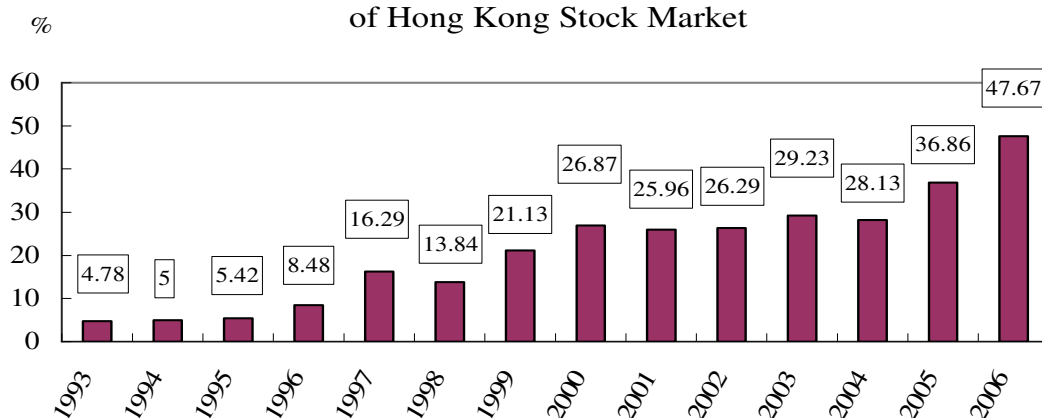
III. The rush of investment to Hong Kong and the Asian Crisis

In 1992 Deng Xiaoping toured the south and it was regarded as a signal of his support for more overseas investment, particularly in Hong Kong --- because at that time China was still being sanctioned by the West for her crackdown on the democratic movement, and also because HK remains the most accessible place for China’s investment. Now setting up windows companies on their own by the provincial governments is no longer enough. Buying shell companies and then floats in the HK stock market is becoming more common. The CITIC group is famous for this practice. According to the Chinese scholar Yasheng Huang, “the number of Chinese firms investing in HK rose from 400 in 1991 to 2,000 in 1994 and their cumulative investments reached US\$20 billion by 1993. By 1993, China had surpassed Japan as the number one investor in HK. Most of the Chinese firms in HK are unlisted.”³³

The rush to invest in HK peaked again in 1996 and 1997, because many provincial governments and their window companies were eager to set foot in the HK stock market before, or at least immediately after, the handover in July 2007.

Table 12 shows that in 1993 Chinese companies' stocks only accounted for 4.78% of the total value of the stock market. It rose to 8.48% in 1996 and jumped again to 16.29% in 1997. One must note that apart from the big Chinese companies flocking to float in HK, there were also immense numbers of medium and small window companies coming too, bringing a huge amount of money into HK. Mainland Chinese money was one of the chief factors which fed the bubble in real estate and the stock market in the 1990's.

Table 12: Chinese Companies Share of Total Market Value of Hong Kong Stock Market



Source: Guo Guocan, p. 208

In this period there was still Mainland capital control over outflowing capital, therefore much of the Chinese money did not arrive in HK via the official channel. It came to HK via a growing network of 'underground banking'. It is this 'underground banking' which provides an effective channel for Chinese capital flight. The 1990's witnessed the immense growth of this network which continues to the present. According to the book *Investigation on China's Underground Banking*, written by a Chinese scholar, in 2004 alone, the amount of money which went through the underground banking network between Mainland China and HK reached 100 billion yuan, or 13.4 billion dollars.³⁴

While Hong Kong becomes a financial centre for Chinese companies to raise capital there, Macau plays the role of money laundering from suspicious Chinese

origin through its casinos. The twin cities of China proved to be paramount as a platform in facilitating both inward FDI to China and China's outward FDI and capital flight, official or unofficial. Any discourse on 'Rise of China' cannot afford leaving out the role the twin cities has played and will play.

The continuous flow of Chinese money into HK fed the bubbles in real estate and the stock market. The Hong Kong scholar Feng Guochao reported that

"China's investment in HK is chiefly in the non-manufacturing sector, especially in real estate. China's huge investment in this sector brings about its high speed development. In 1992 and 1993, HK real estate prices went up by more than 100 percent. The prices have already surpassed those in Tokyo. Even Chinese officials from the Hong Kong and Macau Office came out to criticize Chinese companies for being too involved in speculation in the real estate market. Landlords benefit from rising real estate prices, but it also results in the re-distribution of income, meaning that common people are unable to pay for their houses and their living standards are affected.

"Certain kinds of Chinese investments are worrying. First and foremost, the SOEs use government funds for investment, and they face the issue of moral hazard. The investors may get involved in high risk speculation because they believe that even if the investment turns sour the state will come to their rescue; and if it reaps profit then they again will be benefited as individuals. This makes....the market exceedingly volatile."³⁵

The stock market boom was suddenly halted by the Asian Crisis. In October 1997 it hit HK and the stock market crashed. Many Chinese companies found themselves in trouble. Then came the bankruptcy of Guangdong International Trust and Investment Corporation (GITIC), the window company of the Guangdong Provincial Government. It could not pay back its debt, and it was only then that the public became aware of the hidden debt and all the secret borrowing practices of this company. Many local and foreign investors and lenders were furious over GITIC's bankruptcy. They were angry because these window companies had always used their government background as their proof of credibility in luring for loans, leading many investors to believe that they could not go bankrupt. The investors were wrong. What made things more unacceptable was that the scandal exposed the irregularities and even corruption of these window companies. Very soon the Guangdong Investment Ltd, another Guangdong's window company, was in big

trouble. This time it was saved by the public money of the Guangdong government, which simply gave the asset of Dongjiang's fresh water supply to HK to the company³⁶, fearing that if it were to go bankrupt again it might trigger off a meltdown for Mainland Chinese firms. Eventually the crisis was contained. According to the Chinese scholars Guo Guocan, the crisis of these window companies were the result of:

1. Misuse of government support - borrowing too much and accumulating debt;
2. Being over ambitious in seeking the expansion of their assets;
3. Irregularities of accounting.³⁷

Although the crisis was contained, it was followed by wave after wave of arrests and trials of CEOs (Chief Executive Officers) and high-up officials in the Chinese companies, both in HK and in Mainland China, reflecting the terrible scale of corruption. Guo hinted that

“Prior to their IPO [Initial Public Offering] in Hong Kong, the management of these Stock H companies (Chinese listed companies which registered in HK) know too little about the Laws of HK, and their thinking and modes of actions tend to remain the Mainland's, therefore they often breach the laws without knowing it.”³⁸

What is ‘the Mainland thinking and modes of actions’ anyway? In the context of China it means many things: no ideas about the rule of law, corruption, accountability to no one, incompetence, and so on and so forth. But there is also one thing which is beyond dispute: despite the official propaganda of ‘respecting the law of the market’, the fact is that arbitrary government interventions or even collusions between officials and business people are still common. Inside information and insiders-trading are rampant in the Chinese stock market. A Chinese scholar wrote that “US companies’ prices are much more related to their balance sheets than government policy.” In China “research proves that the correlation between the (Chinese) government’s policy and the stock market is as high as 80%, while in the US it is only 8-10%.”³⁹

Phase III 1999-present: the global offensive

The Asian Crisis sent those Chinese companies which heavily invested and borrowed in Hong Kong into crisis. It did not spread to China, thanks to her capital control regime – though eroding gradually, it was still in place. The fact that China

was not seriously affected by the Asian Crisis enabled her Central and provincial governments to come to rescue their 'window companies'. China's export oriented economy continues to enjoy a high growth rate in the post Asian Crisis period, and this creates new "push" factors for overseas investment.

I. Looking for overseas investment in energy and raw materials

To sustain rapid growth it is necessary for China to import more energy and raw materials. For instance, since 1993 China has become a net oil importing country and today half of her consumption relies on imports. Sourcing from overseas pushes up the prices of primary products and so they become increasingly costly to Chinese firms, which mostly have a low profit margin, especially so in the export sectors. To get around this problem, China increasingly relies on acquiring overseas energy and raw material resources.

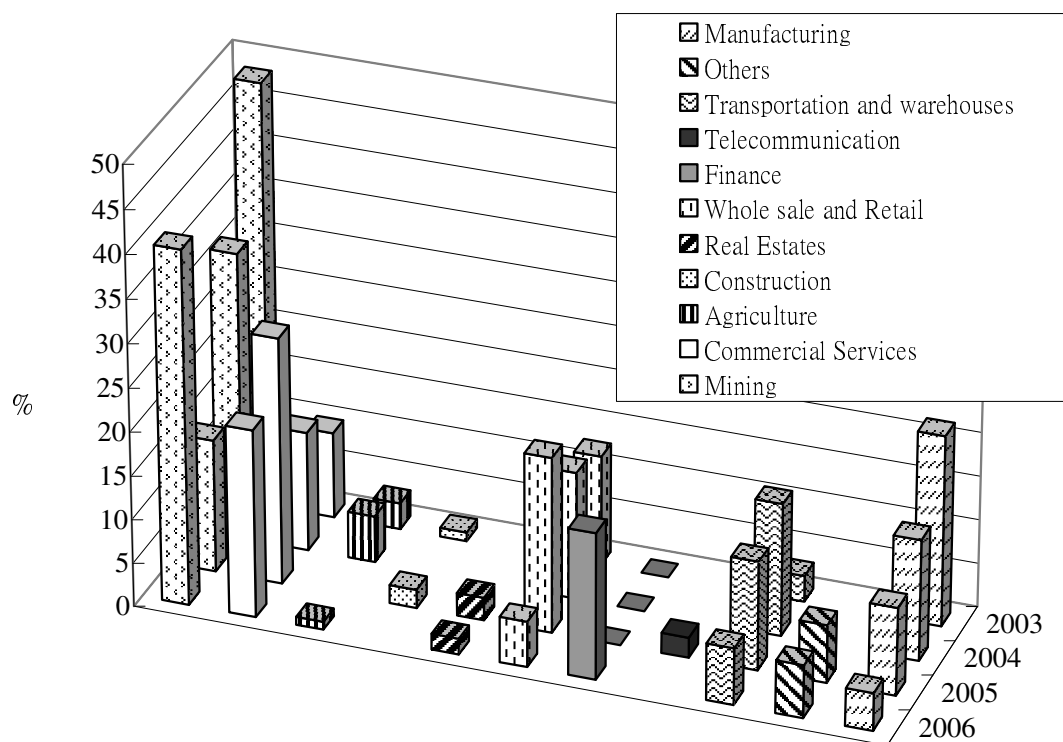
Table 13 shows that trade has become less important in China's outward FDI, while mining (with oil as the most important element) accounts for a much higher proportion. China has become the world's second largest oil consuming country after the US.⁴⁰

The oil industry is also one of the model industries which have undergone the 'inviting in' and 'going global' transformation. At the turn of the century the oil industry was restructured and made into three giant companies: Sinopec, Petro China and CNOOC. This was to prepare the industry to face direct competition from the world's three main oil giants (Exxon Mobil, BP Amoco, Shell) when the domestic market opened up under the conditionality of China's accession to WTO. In order to raise the competitiveness of the Chinese oil giants, 600,000 oil workers were sacked with miserable compensation. Their legitimate rights were also denied. The oil workers staged a 50,000 strong one month long demonstration in Daqing Oilfield in March 2002, but subsequently they were repressed. Meanwhile, the three Chinese giants, on one hand compete with the three world giants; while on the other hand they closely collaborate with them in joint projects all over China – from oil stations to oil pipe construction to oil and gas extraction. It is not astonishing to see that when CNPC, the mother company of Petro China, encountered opposition to its attempt to float in New York in 2000 because of its involvement in Sudan's operation, it was saved by BP Amoco when the latter bought 20% of CNPC's shares. All three world oil giants have bought a significant amount of shares in the three Chinese oil giants. Both sides share the same interests, albeit both sides also

compete with each others.

The three Chinese oil giants raised billions of dollars after listing in HK and New York, and are now able to acquire more overseas assets than in the previous period. Table 17 below shows that in the top ten overseas acquisitions by Chinese TNCs, half of them are for oil. After the failure to acquire the US oil company UNACO, China's oil giants seems to be more interested in looking for oil and gas assets in developing or smaller countries. In March 2007, China announced that she has targeted nine countries as suitable for investment by the nation's oil companies. The nine countries are: Bolivia, Ecuador, Kuwait, Libya, Morocco, Niger, Norway, Oman and Qatar. ⁴¹

Table 13: Composition of China's outflowing FDI in relation to industry



(Source: For 2003-5 figures, see Wang Zhile, 2007, p. 4.

For 2006 figures, see the 2006 Statistical Bulletin of China's Outward FDI, p.7)

II. Accumulating huge amounts of foreign reserves

The export drive has enabled China to accumulate a huge amount of foreign reserves, reaching 1.43 trillion US dollars in October 2007. It is estimated that two thirds of the reserves are US bonds and security. China has now become a major player in the global financial market, her outflowing Foreign Portfolio Investment (FPI) and foreign aid, which in the former period was negligible, now becomes ever more prominent.

Table 14 below gives some idea of the proportion of financial FDI in relation to China's total outward FDI. It includes the acquisition of foreign financial assets and the setting up of overseas branches. A word of caution is needed here. Given the scale of capital flight, Table 14 may not be as accurate as the official figures suggest. Nevertheless, the more China is integrated into global capitalism, as illustrated by the export oriented growth and rising Chinese overseas investment, the more it is necessary for Chinese banks to set up overseas branches to provide import and export credit to the Chinese TNCs. There is another aspect of financial overseas investment apart from FDI, however. Following the 'going global' strategy, China has also increasingly needed to provide private and public loans to, for instance, aid recipient countries for importing Chinese goods or for the financing of construction projects. On top of this is China's outward Foreign Portfolio Investment (FPI), which is also becoming more significant.

Table 14: Composition of China's FDI outflow, 2006 (Millions of dollars)

	2006 Outflow		2006 stock	
	amount	(%)	amount	(%)
Total	211.6	100.0	906.3	100.0
Non financial FDI	176.3	83.3	750.2	82.8
Financial FDI	35.3	16.7	156.1	17.2

Source: 2006 Statistical Bulletin of China's Outward FDI, p.2

The banking sector is one of the best illustrations of China's twin strategy of 'inviting in' and 'going global'. In the late 1990s the Chinese banks were technically bankrupt because of bad debt and non-performing loans, a result of the investment boom which later turned sour. The ratio of bad debt for the four commercial banks

was 13.2%, if we believe the official figures. As a matter of fact, few serious observers and bankers believe it. More respectable sources put the figure at 25%, and others have speculated that it may be as high as 40%. Nevertheless the government came to the banks' rescue. Within a few years as much as 1,700 billion yuan of bad debt, or 227 billion dollars, was shifted from the four banks to state run companies. On top of this, the Central government handed them 98 billion dollars to help them to raise their reserves and to transform themselves into joint stock companies. This was not enough, however, to make them competitive without sacking hundreds of thousands of bank workers. After these reforms the Chinese banks became attractive to investors. Under the conditions of China's accession to WTO, China had to open up her financial sector, including banking, to foreign capital in 2007. For the last few years the foreign banks have been in a rush to become strategic shareholders of the Chinese banks. As of October 2005 17 Chinese banks had accepted foreign strategic partners.⁴²

After the 'inviting in' then comes the 'going global'. There are two aspects of 'going global'. One is floating abroad to raise more capital. Today all four commercial banks have already been floated in Hong Kong and New York. The second aspect of 'going global' is overseas investment. There were Chinese banks investing overseas decades ago, of course. The Bank of China, given its history, has been the most internationalized Chinese bank, and its operation in Hong Kong is decades old. The total sum of Chinese banks' overseas investment before the 1990s was small however. Things have changed rapidly since the turn of the century. Previously the Industrial and Commercial Bank, the Construction Bank and the CITIC group bought several small and medium banks in Hong Kong. According to the China Finance Net, in the first half of 2007, China's commercial banks had up to 110 branches in thirty countries, with a total asset of 2000 billion yuan, or 133.6 billion dollars.⁴³ The rapid rise of their overseas investment is the outcome of a strategy of increasingly relying on acquisition and mergers as a way to expand. Table 15 shows that, in little more than a year there were already six acquisitions of foreign banks. The recent acquisition of the Standard Bank of South Africa by the Industrial and Commercial Bank of China is quite significant because the former is the biggest African bank.

In terms of ownership, 81 percent of Chinese outward stock FDI belongs to SOEs, while private enterprises only accounted for 1% in 2006.⁴⁴ It has been government policy since 1998 to encourage private overseas investment. In

October that year the Ministry of Foreign Trade and Cooperation released a document granting private enterprises and research institutes the privilege of export.⁴⁵

Table 15: Chinese Banks' recent acquisitions of overseas assets

	Chinese banks	Foreign Banks
Oct 2007	Industrial and Commercial Bank	Bought 20% of shares in Standard Bank of S.A. for 5.46 billion dollars
Oct 2007	China Minsheng Banking Corp.	Bought 9.9% of San Francisco-based UCBH Holdings Inc. for 200 million dollars
Aug 2007	Industrial and Commercial Bank	Bought 79.9% of Seng Heng Bank, Macau for 4.4 billion yuan
Jan 2007	Industrial and Commercial Bank	Bought 90% of HALIM Bank of Indonesia
Dec 2006	Bank of China	Bought 100% of a Singapore aircraft renting company for 965 million dollars
Aug 2006	Construction Bank	Bought 100% of Bank of America (Asia) for 9710 million HK dollars

(Source: Ming Pao, 26 Oct 2007)

The huge foreign reserves of China enable her state banks to evolve into big international lenders as well, and a considerable part of their loans act as aid to developing countries. Comprehensive statistics are lacking, though. One report quoted Professor Deborah Brautigam who used data from the China Statistical Yearbook and estimated that Chinese aid worldwide in 2005 was \$970 million, rising from \$650 million in 2002. World Bank officials suggest that Chinese aid to Africa alone might amount to \$2 billion, implying that the Chinese figures may be under-estimations. The author of the report estimated that Chinese aid worldwide totals somewhere between \$1.5 and 2 billion.⁴⁶

The China Export and Import Bank has evolved in a short time (established in 1994) into China's main lending agency. Its accumulated loans in 2005 amounted

to 20 billion US dollars. ⁴⁷According to a Chinese report, its' accumulated loans to Africa reached 50 billion yuan (about 6.6 billion dollars) in the first half of 2006.⁴⁸ Peter Bosshard quoted a Chinese researcher who gives a slightly lower figure --- 44.4 billion yuan. He then quoted a World Bank report which reported 12.5 billion dollars in mid-2006 in African infrastructure investment alone, which may suggest that the Chinese figure is under-estimated.⁴⁹

China's export oriented growth enables her to accumulate huge foreign reserves, which have amounted to 1430 billion US dollars this year, and represents the world's largest reserves. A big portion of the reserves has been used to buy US bonds. Although the amount of which is declining, in 2007 it still amounted to 400 billion dollars.⁵⁰ Sovereign funds have become one of the main sources of this global financial actor. China, although a late comer, has drawn the world's attention because of the size of her reserves and her ambitious buying practices in recent years. In late September 2007 the Chinese government officially founded the China Investment Corp (CIC), with a registered capital of 200 billion dollars. Prior to its official founding, CIC had already bought 3 billion dollars worth of the shares of Black Stone in May 2007. It is expected that the CIC will be more aggressive in its investment strategy than common governmental reserves funds, because CIC's capital is raised through the issuing of special public bonds which require the corporation to pay an interest. Due to its close relation with the Chinese government, it is also thought that its mission is to take concerted action regarding the government's economic and political policy. Another source of Chinese sovereign funds is the Social Security Fund. Founded in 2000, it has a total asset of 282.7 billion yuan, or 37.8 billion dollars.⁵¹ It began investing overseas in 2006.

The UNCTAD's World Investment Report 2006 expects that China's outward FDI will surge because of the ever-increasing amount of 'China dollars'. It has made "the promotion of outward FDI an imperative for the Chinese Government, leading it to adopt a 'going global' strategy and take concrete measures to promote the internationalization of Chinese companies."⁵²

III. The rich lack of investment opportunities in the real economy

Today China's savings amount to 15,000 billion yuan, and private funds have a total net asset of 3,000 billion yuan. The narrowing of domestic markets means that there is simply a lack of profitable investment opportunity, hence the fierce speculation in both the stock market and real estate market. There are lots of

investors who are also looking to overseas investment. In 2006 the government implemented the QDII (Qualified Domestic Institutional Investors) regime to allow banks and private funds to invest overseas. Again, it is HK which becomes the most active platform for China's outward hot money. In the second half of 2007, 15.6 billion HK dollars flowed into HK from Mainland China under the QDII regime to take advantage of the booming stock market there. The market expects that in the foreseeable future the amount of outward portfolio investment from Mainland China may reach 140 billion HK dollars.⁵³ The Wall Street Journal reported that "by encouraging the movement of funds out of the country, Beijing is seeking to tackle those inflationary forces and alleviate pressure on the yuan to appreciate. 'Steadily pushing forward the yuan's convertibility on the capital account is the longer term goal of changes in the system of foreign-exchange management,' the People's Bank said Wednesday."⁵⁴

There is now serious concern that the hot money flowing into HK from Mainland China is feeding a stock market bubble again.

IV. Over capacity may become serious again

In the period 2003-07 there began another round of investment boom, and a high official from the think tanks, Wang Jian, anticipated that it would be followed by a new round of over capacity after 2007.⁵⁵

The official proclamation of 'going global' strategy

At the turn of the century the Chinese government felt itself at a crossroad. The China growth model of export oriented and low value added had attracted criticism from various corners, including from the nationalists, who saw this as a net outflow of revenues for the advantage of foreign capital. This outcry against foreign capital is in fact part of the new trend since the turn of the century. It is a period when the concern over the threat of 're-colonization' becomes more intense, as foreign capital begins to increase its market share rapidly. In 2000 foreign capital accounted for 24% of gross industrial output, and for half of export value.

The response of the Party to these problems is not to roll back the neo-liberal reforms, nor impose any administrative restrictions on the inflow of foreign capital, but rather to embrace corporate led globalization more enthusiastically in order to become the winner of the same old game. It very much coincides with the remarks

of the CEO of Haier: Western TNCs are all wolves. If we are to compete with them we must also turn ourselves into wolves (who will be the sheep then?). It looks like a game of using the devil to hit the devil.

When the Chinese government were assured that the Asian crisis would not hit China, it became more confident about becoming a winner as a late comer in the game of corporate led globalization. It kicked started a new round of more ambitious projects with the implementation of the 'inviting in' and 'going global' strategies, mixing more capital market reform and more state support for Chinese TNCs at one and the same time:

1. More emphasis on the need for Chinese industry to undergo 'self-reliant renovations' and the need for more state support for big firms in their competition in both domestic and international markets;
2. More ambitious state plans regarding the building of giant Chinese firms in key industries, through acquisition and mergers and through various sorts of economic incentives;
3. Acquire more overseas oils, minerals and raw materials to sustain China's growth;
4. Further liberalization of the capital market and capital control, which simultaneously enhances both 'inviting in' and 'going global' – allowing more foreign capital to acquire Chinese market while encouraging more Chinese TNCs, small and medium firms, or even individuals to invest abroad, which is seen as an effective way to direct the hot money in China towards outward overseas investment;
5. Continue to maintain an iron hand over the potential growth of social protests and social movements, so as to give the ruling elites entirely free hands in implementing the bold policy and in crushing any possible opposition.

When the CCP convened their 15th Congress in 1997, the General Secretary Jiang Zemin already spoke about the strategy of 'encouraging those overseas investments where our nation enjoys comparative advantages'. It was not until 2001, when Premier Zhu, in his policy address to the People's Congress, officially used the term "going global" strategy for Chinese firms. The following year the Central Committee report to the 16th Party Congress stressed the need to "build our own strong TNCs and our own brand".

In 2001 the government released its Tenth Five Year Plan. Regarding overseas investment it said:

1. Strive to raise the ratio between inflow and outflow FDI to 10:1.
2. The National Development and Reform Commission shall compile a list of the overseas investment of those resources which China is in short supply of, for instance, oil, gas, wood, ferrous and nonferrous metal etc. The objective of which is to ensure the sustainability of our country's economic development and our economic security as well.
3. Support the growth of overseas processing manufacturing.
4. Encourage overseas investments which aim at expanding global market share and high tech.
5. Strive to develop a batch of competitive TNCs in five years, and 50 Chinese TNCs big enough to enter into the 500 global giants in 2015.
6. Set up overseas research and development centers.
7. Expand overseas construction projects and the export of labor.⁵⁶

In his speech to the recent 17th Party Congress in Oct 2007, General Secretary Hu Jintao reiterated the need to:

1. Support the growth of Chinese TNCs and the building of Chinese Brands;
2. Develop international cooperation over energy resources;
3. Implement the strategy of Regional Free Trade Agreement FTA;⁵⁷

What concerns us here is Hu's point on building Regional FTA. China is already committed to the building of ASEAN + China FTA in 2010, apart from the dozens of FTA agreements with many other countries. It is again a reflection of the Chinese government's overall strategy in its response to the neo-liberal agenda of the US Empire and the EU --- endorse the agenda and try to make itself the winner of the same old game. This is the essence of 'inviting in' and 'going global'.

Features of China's Current Overseas Investment

More Acquisitions and Mergers as a form of overseas investment.

There are reports that Acquisitions and Mergers (A & M) accounted for an average of 20% of all overseas investment before 2002.⁵⁸ Table 16 shows that Chinese outward FDI increasingly takes the form of A & M. The taking over of

important overseas assets by Chinese TNCs, as is shown in Table 17, increasingly attracts world attention and occasional criticism. Why are Chinese TNCs inclined towards A & M? As a late comer, it is the quickest way to expand globally. For instance, the CITIC group chiefly takes the form of A & M to transform itself into a global player, by buying up several dozen companies across Hong Kong, USA, Canada, Australia and Thailand etc. Many other big Chinese TNCs, especially those with government backing, like the three oil giants, follow the path of CITIC.

It is worth noting that 70% of China's overseas investment consists of joint ventures or foreign-China collaboration projects. While solely owned companies account for 20%. Most productive projects and oil projects are joint ventures; trading firms are mostly solely owned.⁵⁹

Table 16: Breakdown of China's outward FDI in terms of new investment and A & M

Year	New Investment	A & M
2003	82.0%	18.0%
2004	68.2%	31.8%
2005	47.0%	53.0%
2006	63.3%	36.7%

Source: Wang Zhile, 2007, p. 100. For 2006 figures, see http://news.xinhuanet.com/fortune/2007-09/11/content_6700685.htm

Table 17: Top Ten Chinese Cross-Border Deals (until July 2005)

Date	Target	Nationality	Acquirer
Dec 2004	IBM /PC business	US	Lenovo Group
Jan 2005	PCCW (20%)	HK	China Network Communications
Oct 2003	Oil & Gas Assets (Gorgon Liquefied Natural Gas Field)	Australia	China National Offshore Oil Corp (CNOOC)
June 2001	Hyundai Display Technology Inc (80.1%)	South Korea	Beijing Orient Electronics Group Cando Corp
Jan 2002	Repsol-YPF SA (Indonesian assets)	Indonesia	CNOOC
July 2004	Ssangyong Motor Co Ltd (48.92%)	South Korea	Shanghai Automotive Industry Corp - SAIC
June 2005	PetroChina International Ltd	Indonesia	China National Petroleum Corp (CNPC), PetroChina Co. Ltd
Sept 2002	Hyundai Display Technology Inc.	South Korea	BOE Technology Group Co. Ltd.
Aug 2002	Woodside Petroleum Ltd	Australia	CNOOC
Sept 2002	BP Pic (Tangguh LNG Project)	Indonesia	CNOOC

Source: Dealogic, quoted from The Observer, 24 July 2005.

Floating abroad as a means to raise capital

To finance their overseas investment and acquiring of expansive assets, the Chinese TNCs cannot rely on government credit or international lenders alone. Hence they increasingly look to floating in HK, London and New York stock markets. Table 18 shows that there are three Chinese TNCs' IPO (Initial Public Offering) listed in the top ten IPO in the world. HK remains the most important platform for Chinese TNCs' IPO. Hence they now account for half of the total market value of the HK stock market, whereas in 1993 they only accounted for 4.78%, and in 1998 only

13.84%. (See Table 12) In 1996, only one Chinese TNC entered the top ten listed companies in HK. In 2006 this number rose to four.⁶⁰

Table 18: The World's Biggest IPO until 2006

Rank	Company	Country origin	Business	Year of IPO	Amount of IPO (millions of dollars)
1	Industrial and Commercial Bank of China	China	Finance	2006	191
2	NTT DoCoMo	Japan	Telecommunication	1998	184
3	Enel Spa	Spain	Power	1999	170
4	Detsche Telecommunication	Germany	Telecommunication	1996	130
5	Bank of China	China	Finance	2006	111
6	OA0 Rosneft	Russia	Oil	2006	106
7	A T & T Wireless	UK	Telecommunication	2000	106
8	Telstra	Australia	Telecommunication	1997	100
9	China Construction Bank	China	Finance	2005	92
10	Kraft	USA	Food	2001	87

(Source: Guo Guocan, p. 213.)

Undertaking Overseas Contracts

Another aspect of the 'going global' strategy is the undertaking of overseas contracts, from infrastructures like roads and dams to telecommunication. Table 19 shows that in recent years the value of overseas contracts has increased significantly. According to the same source, in 2005 the accumulated sales value of China's undertaking of overseas contracts reached 135.8 billion dollars, which is more than the 57.2 billion dollars worth of FDI (non-financial parts), and accounts for 59% of all overseas investment (excluding portfolio investment).⁶¹

Accompanying this trend is a growth in the exportation of workers, which in 2005 reached 565,000. This figure will rise if un-documented Chinese workers are included.

China considers this aspect of overseas undertaking as an important component of its 'going global' strategy. A Chinese scholar noted that

“Beginning from 11th Dec 2006, the transition period of our construction industry under the conditions of China’s accession to WTO will have ended. Our construction industry will face direct competition at the same level on both the domestic and international playing field. Shall we simply remain on the defensive, or shall we go over to the offensive? That is the problem.... Our construction industry...is more urgent than ever to the implementation of the 'going global' strategy.”⁶²

“Involvement in overseas contracts enables our country to improve employment (through exporting labor) and also enhances the exportation of domestic machinery and raw materials. For a long period ahead of us, we will face very serious employment problems. We must not forget the fact that our huge quantity of cheap labor is one of our comparative advantages which enable us to compete in the international market.”⁶³

Table 19: Sales value of China’s undertaking of overseas construction projects

Year	Sales value (in billions of dollars)	Annual growth rate (%)
2001	8.9	--
2002	11.19	25.8
2003	13.84	23.6
2004	17.50	26.0
2005	21.76	24.6

(Source: Wang Zhile, 2007, p. 75)

The Giant Chinese Companies

The tremendous market reforms successfully transformed big SOEs into profit seeking corporations and then into TNCs in a very short time. Table 4 shows that whereas in 1995 there were only 2 Chinese firms listed in the Fortune 500, in 2007 there were 22. Table 20 below shows the ranking of these 22 TNCs.

Table 20: The ranking of Chinese TNCs in the Fortune 500, 2007

Rank	Logo of Company	Name	Industry	Revenues (\$ millions)
17	 中国石化 SINOPEC	SINOPEC	Petroleum Refining	1316.36
24		China National Petroleum	Petroleum Refining	1105.20
29	 国家电网公司 STATE GRID CORPORATION OF CHINA	State Grid	Utilities	1071.85
170	 中国工商银行 INDUSTRIAL AND COMMERCIAL BANK OF CHINA	Industrial & Commercial Bank of China	Banks	368.32
180	 中国移动通信 CHINA MOBILE	China Mobile Communications	Telecommunications	359.13
192	 中国人寿 CHINA LIFE	China Life Insurance	Insurance	337.11
215	 中国銀行 BANK OF CHINA	Bank of China	Banks	307.50

230	 中国建设银行 China Construction Bank	China Construction Bank	Banks	285.32
237	 中国南方电网 CHINA SOUTHERN POWER GRID	China Southern Power Grid	Utilities	279.66
275	 中国电信 CHINA TELECOM	China Telecommunications	Telecommunications	247.91
277	 中国农业银行 AGRICULTURAL BANK OF CHINA	Agricultural Bank of China	Banks	244.75
299	 中国中化集团公司 SINOCHEM CORPORATION	Sinochem	Trading	231.09
307	 宝钢	Baosteel Group	Metals	226.63
342	 中铁工程 CREC	China Railway Engineering	Construction	205.20
384	 中国铁建	China Railway Construction	Construction	187.35
385	 第一汽车	China FAW Group	Motor vehicles and Parts	187.10
396	 中國建築工程總公司 CHINA STATE CONSTRUCTION ENG'G CORP.	China State Construction	Construction	181.63
402	 SAIC	Shanghai Automotive	Motor vehicles and Parts	180.10

405		COFCO	Trading	179.53
435		China Minmetals	Metals	169.02
469		China National Offshore Oil Corp.	Petroleum Refining	160.38
488		China Ocean Shipping	Shipping	154.13

The problems of 'going global'

The weakness of Chinese TNCs

Table 20 shows that, although more Chinese TNCs are now big enough to be listed in the Fortune 500, they are chiefly monopolistic companies or primary productive companies like the power industry, oil, banks, telecommunication and foreign trade etc. Their present position owes more to strong government support than effective management or innovations. In fact, most of them are government owned.

Peter Nolan, an expert on China at Cambridge University, remarked in one of his books that

“A closer look at these (Chinese) firms reveals that they typically benefited from a protected domestic market, and from state support through soft loans, state procurement and protected marketing channels. Despite their enormous achievements, these firms were without exception far behind the global leaders in terms of revenue, R & D expenditure, marketing expenditure and global market share. Without continued state support, they were most unlikely to be able to build on their considerable entrepreneurial achievements, and mount a serious challenge to the global giants in the respective sectors.”⁶⁴

High overseas failure rate

Chinese firms are eager to invest overseas but many of them fail to conduct prior feasibility studies, or make investigation into the laws and market situation of the host countries, resulting in losses. A study shows that amongst overseas branches of Chinese firms, only 55% are profitable, and they are mostly non manufacturing firms. Firms which are neither profitable nor experience losses account for 28%. 17% are losing money; most of these are manufacturing firms.⁶⁵ Another survey shows that only 30% of overseas investment is profitable, 30% experience losses, and 40% barely make ends meet.⁶⁶

In April 2000, the Hangzhou city government conducted a survey and found that there were a total of 53 non trading firms which conducted overseas investment in 20 countries. 14 of the firms, (26.4%) never really started overseas production at all; 15 of them (28.3%) terminated their operations. The two figures imply a failure rate of 54.7% for these Hangzhou firms. According to one official, successful firms only account for 10%.⁶⁷

With regards to Chinese overseas portfolio investment, the case of the Singapore branch of China Aviation Oil Corp Ltd is quite telling. In 2004 the company raised 180 million dollars in the Singapore stock market, and it announced that the money was for acquiring new assets. It turned out that the company used the money for portfolio speculation, resulting in the loss of 550 million dollars. The company was simultaneously under investigation by the Singapore government for irregularities, and compensation demands from investors as well.

It is reported that 60-70% of A & M have failed. A study shows that after merging, one fourth of companies have experienced more than a 20% drop in their share prices; only 36% maintain income growth. In order to compete for oil resources, for instance, the Chinese oil companies tend to pay a high price to get it, resulting in unbearably high costs to run the projects.⁶⁸

Exporting scarce resources

Unlike the West, China's huge capital export is not the result of a fully developed domestic economy --- where the market is relatively saturated, producing increasing amounts of surplus capital which is unable to find profitable investment at home. In contrast, China is still very poor in terms of GDP per capita and as such capital is a

scarce resource. In the Western Region, a vast rural area remains under-developed and is capital-hungry. In the rural areas there are 360 million peasants who do not even have a pipe water supply. Millions of their children have no access to secondary education. Affordable medical care is basically absent. There is little mechanization in agriculture, forcing the peasants to till the land in the way their ancestors have been doing for thousands of years. Any government which claims to work for the benefit of common people should first and foremost use available capital to develop infrastructures and basic social services in the western and rural regions, rather than exporting this scarce resource in huge amount. It is especially troubling when China has to acquire overseas oil and mineral resources, much of which are used just to produce for export --- China's foreign trade is now equal to 70% of its GDP, which is abnormally high --- and then the foreign currency earned is invested abroad again. This export led growth along with the capital export strategy does not really serve the interests of common people. A more sensible development strategy is to prioritize the full and balanced development of the domestic market, with a special emphasis on the state supporting rural development.

More volatility in the Hong Kong market

Huang comments on China's investment in HK:

"Many in China believe that HKMC (HK and Macau) FDI is overly speculative, i.e., it is driven highly by the changes in the Chinese Government's policies rather than by China's long-term economic fundamentals. One manifestation of the speculative nature of the HKMC FDI is its high volatility. The standard deviation value of the HKMC FDI growth was 67.7 percent between 1984 and 1994, as compared with 47.9 percent for the Japanese FDI growth. However, once the effect of the round-tripping FDI is netted out, HKMC FDI growth becomes much smoother. The standard deviation value is reduced from 67.7 percent to about 47 percent, quite similar to the Japanese FDI growth (49 percent). This finding suggests that the Chinese firms, not HK firms, typically engage in speculative investments that respond quickly to changes in Chinese Government policies rather than to more long-term economic fundamentals."⁶⁹

Hong Kong has already experienced mad speculation prior to the Asian Crisis. We are probably now going through the same bubble economy and volatility as we had in the 1990's. This time it is even more obviously driven by Chinese policy ---

chopping and changing, though --- and hot money rather than economic fundamentals. In August 2007 The Administration of Foreign Exchange announced the Pilot Program for Domestic Individual Investment in Overseas Markets without limitations on amounts invested. It sent the HK stock market into crazy speculation, especially as those Mainland investors who received inside information had already put a lot of money into the HK stock market via unofficial channels. Then when the Chinese authorities took a sudden turn in November, announcing that the policy would be shelved, the market dropped violently.

While it is true that with or without Chinese hot money the boom and bust cycle in a money economy is inevitable, it is no less true that this hot money magnifies the scale of the cycle, increasing its volatility, and making it much more difficult to contain when a crisis breaks out. On top of this, the benefits and pain during a commercial cycle is not evenly spread. Even in boom periods the poor do not necessarily get proportional benefit. In Hong Kong whenever there is boom it also implies high rents which the poor cannot afford. It goes without saying that the poor are also the hardest hit in a crisis. It is not just Chinese investment's fault, of course. It is the problem of the system, the system of casino capitalism. The problem is: why does China join this corrupt system when she has other choices?

Lack of Transparency for Chinese overseas investment

The problem with China's overseas investment lies beyond issues of EIA and CSRs. First and foremost, there is the question of secrecy and irregularities, to the extent that no one knows the exact figure of it. One cannot monitor, let alone manage, something one does not even know. When Chinese funds, much of them with a strong government background, emerge as important sources of outward FPI, the secrecy of their movements may be reinforced by the legal protection of 'commercial secret', although it is quite disputable as to the question of whether companies like the CIC (China Investment Corporation) are really commercial institutions or not. For instance, in September 2007, a mysterious Mainland Chinese fund --- some speculated that it was CIC, some said that it was the Chinese Social Security Fund --- bought a great amount of shares in Hong Kong Exchange and Clearing Ltd, the mother company of the HK Stock Exchange. This move raised concern about an increase in the Chinese government's influence on the Hong Kong financial market. Some see this as a move to manipulate the HK financial market. We are not able to pass judgment on the issue. Our purpose here is to reiterate our

concern: there is no transparency in Chinese overseas investment. To be fair, Chinese officials are now more willing to release news prior to making decisions on policies, but it is chiefly the domestic and foreign TNCs, or their lobbying companies, which are granted the privilege of sharing information. In a report in the Washington Post, a scholar who wrote the book “The Business of Lobbying in China,” was reported as saying “a few years ago foreign companies would grumble that they heard about new policies only after they were announced. That is increasingly no longer the case. Today, even if they don’t agree with the final result, they know it’s on the horizon.”⁷⁰ Ironically, worker activists who simply tell foreign reporters their story will be charged for ‘maintaining illicit relations with foreign country’.

The absence of basic democracy, of civil liberties, of rule of law and so on and so forth, make both the Chinese officials and the government backed corporations unaccountable to common people, and this breeds corruption. Due to HK’s relative credibility in being a clean society, the contrast between HK and Mainland China is especially glaring. Top level management of Chinese firms directly involved in corruption and being charged by ICAC (Independent Commission Against Corruption), are frequently at events in Hong Kong. The case of Liu Jinbao and Zhou Zhengyi is terrifying. Liu was the head of the Hong Kong branch of the Bank of China. Zhou is a company CEO. Liu granted 2 billion yuan of suspicious loans to Zhou and both men misappropriated millions of yuan. The news of Liu’s misconduct was first leaked in the US and Hong Kong. Subsequently the two were arrested in the Mainland and were sentenced to jail.

No one can deny that corruption in China is rampant. In the 2007 Corruption Perception Index (CPI) issued by Transparency International, Hong Kong’s index is 8.3 and ranks 14th, while China’s index is 3.5 and ranks 72nd. We are concerned that in exporting her capital China may export her corruption as well. We have already witnessed this in Hong Kong. Now there are overseas reports which suggest that China’s companies are involved in corruption. Lately the Chinese TNC the ZTE Corp, allegedly bribed close associates of President Arroyo of the Philippines in order to bid for a telecommunication project. We are not able to verify the allegation, or any other related reports. One thing is for sure though: without democracy, rule of law, freedom of speech and of association, it cannot be possible to keep corruption among Chinese companies, inside or outside China, in check.

Political interests in Chinese investments

Chinese projects in many authoritarian countries are always controversial. The most remarkable examples are of course the oil exploration in Sudan, and the dam building and gas exploration in Burma (Myanmar), which draw international attention and criticism from human rights and environmental activists. Most recently, as the humanitarian crisis in the Democratic Republic of Congo (DRC) broke out due to the civil war, the interests of the foreign mining companies behind it are again mentioned.

Le Monde Diplomatique reported that Canadian mining companies Barrick and Banro had been "funding military operations [in the DRC] in exchange for lucrative contracts." A report in *Z Magazine* in 2006 said Barrick still "operates in the town of Watsa, northwest of the town of Bunia, located in the most violent corner of the Congo. The Ugandan People's Defence Force (UPDF) controlled the mines intermittently during the war. Officials in Bunia claim that Barrick executives flew into the region, with UPDF and RPF [Rwanda Patriotic Front] escorts, to survey and inspect their mining interests."⁷¹

The situation is now further complicated by the presence, in the south-eastern province of Katanga, of the Chinese companies -- China Railway Group (SHSE: 601390, HKSE: 0390), Sinohydro and China Exim Bank. In April 2007, the Chinese investors formed a joint venture with the DRC government, and beat off intense competition and paid Gécamines, the DRC's state-owned mining company, \$9 billion for an interest in a series of mining projects worth \$80 billion. The controversial agreement has been attacked for being unconstitutional, too advantageous to the Chinese, a risk to public debt, and for its lack of transparency.

In September 2007, China Exim Bank agreed to provide some \$8.5 billion for infrastructure to support the country's mining industry. In return China was granted rights to copper and cobalt reserves that were said to be worth \$14 billion. In October, the DRC government signed a loan accord with the China Development Bank to finance development of the promised resources.⁷² In November 2007, General Laurent Nkunda, the rebel leader in North Kivu of DRC, demanded the renegotiation of all the contracts signed between the DRC government and Chinese companies.

In East Timor, the Chinese investors have even been involved in a tendering process that may have violated the country's law.⁷³ It was announced in October

2008 that the Chinese Nuclear Industry's 22nd Construction Company had been awarded the tender to build two power generating stations and an electricity grid, with the project budgeted over four years.

The deal probably revealed the close ties between China and East Timor's ruling government, as China was the first country to establish diplomatic relations with the country after it achieved independence in 2002 and has since been a major donor to the oil-and-gas rich nation, providing everything from food to military equipment.

But the project was dealt a legal blow when the Court of Appeal, on October 27 2008, upheld a petition submitted by 16 members of parliament, many from the opposition Revolutionary Front for an Independent East Timor (FRETILIN) party. The court ruled in line with their complaint that the budget was unconstitutional and illegal because the money for the China-tendered deal would entail a withdrawal beyond the amount permitted by existing laws governing the country's oil revenue-financed sovereign wealth fund, known as the Petroleum Fund.

Environmental and social problems

Apart from political conflicts, Chinese companies are also involved in environmental and labour disputes, and industrial safety problems. In 1998, the state-owned China Non-ferrous Metal Industry's Foreign Engineering and Construction Company Limited (NFC, Shenzhen Stock Exchange: 000758) acquired the Chambishi mine, which first began operation in 1965 amid the privatisation of Zambia's copper mine operations. In 2000, the China Ex-im Bank approved a loan of 470 million yuan for the acquisition deal. No Environmental Impact Assessment was required for loan disbursement until the enforcement of the Development Agreement between NFC and the Zambian government in 2006.

Since then, two major incidents have damaged Chinese investors' reputations. More notoriously, in April 2005 in the single biggest disaster in the history of Zambian mining, there was an explosion at the BGRIMM (Beijing General Research Institute of Mining & Metallurgy) explosive plant that killed 52 Zambian workers. None of the management or Chinese staff at the plant were injured. Secondly, in 2006, during a two-day strike over delays in payments, mine workers protested near the living quarters of the Chinese management. Two of the protestors were shot. No prosecutions followed. The incident enhanced the idea that Chinese bosses were uniquely brutal and exploitative, and that the Zambian government's relation to

Chinese was too close.

In March 2008, it was reported that Chambishi mine workers, who complained of low wages, union busting and poor working conditions, had launched a violent assault on the NFC's management. As a result, 500 mine workers were reportedly sacked, seven union members were arrested and a Chinese manager was admitted to hospital.⁷⁴ After the riot, NFC announced new investments of US\$150 million in April to develop the west ore body and create 1,000 new jobs as part of measures to increase profitability in view of the raised mineral and royalty taxes.

NFC chief executive officer, Luo Xingeng, said the company was seeking assistance from the ministry of labour and social security to help it understand the country's labour laws. He said it took the mining firm three years for managers to start understanding the labour laws.⁷⁵

In another case, Chinese companies are also active in Lao's hydropower boom. The Nam Tha 1 Hydropower Project in the mountainous far northwest of Laos was first proposed in the early 1990s, but has only recently been taken forward by the China Southern Power Grid (CSG). Nam Tha 1 would require the resettlement of almost 8,000 people from 1,379 households in 34 villages, most of whom are ethnic minority people. The local terrain will make it impossible to provide new rice paddy fields for resettled villagers, and the main alternative livelihood option appears to be growing rubber and upland rice after extensive forest clearance. Villagers' basic food security would be compromised, and they would be likely to suffer impoverishment in the resettlement villages.

Nam Tha 1's environmental and social impact assessments underestimate the scale and magnitude of the impact that can be expected from such a major dam project. The documents' findings and conclusions are flawed and biased. At local consultations, participants are presented with a pro-project argument which basically asserts "the project has clear benefits to the economy, society and environment" and claims that any environmental impacts are minor and can be mitigated.

Is China's overseas investment helping the developing countries?

China has yet to pose serious threat to the commercial interests of the US Empire. That does not mean, however, that its investment there will always be welcomed. As Chinese TNCs are becoming more ambitious, they may face more

obstacles in investing in developed countries. For the moment China's outward FDI still mainly goes to these countries. The initial obstacles which CNPC faced in its first trial of IPO in the US, and the unsuccessful acquiring of UNACO by CNOOC, however, make Chinese TNCs realize that nationalist feelings, or Western government's consideration of 'national security', may make things difficult for them. On top of this, are local laws, social movements, the trade unions etc, all may hamper their ambitions there. Cui Zhicheng, the manager of the Beijing No. 1 Machine Tool Plant, told the story of his hard bargain with the German Work Council in the course of acquiring the German plant. He negotiated with the Work Council for half a year with little progress and was becoming desperate, because the Work Council demanded a 35 hour week but Cui could only agree to a 38 hour week. "We told them the East German works for so and so hours, and the Czechs, and the Americans, and the Japanese, so on and so forth."⁷⁶

We do not know if Cui was finally successful or not. Chinese TNCs are now, however, coming to understand that Western trade unions, although much weaker than thirty years ago, still pose problems to their grand strategy of 'going global' to the West.

These problems may not really deter China's TNCs' interests in investing in developed countries. After all, there are many other factors at work other than the aforementioned. Still it speaks for the fact that China may need to diversify her overseas investment. The probable alternative is poorer developing countries. Tan Xiao, the Chinese scholar, advised the authorities that

"China is not able to directly compete with developed countries, but she can dominate small or medium size developing countries." He then gives the example of Guangzhou's First Cigarette Factory: its three main brands now have market coverage of 90% in Cambodia.⁷⁷

If China's investment in developing countries seeks 'dominance' there then it is quite alarming. It is also in line with the Haier CEO's remarks on wolves --- where, according to this logic, those poor developing countries might be the sheep? We can perhaps relax because Tan is only speaking in his personal capacity as a scholar. We have also demonstrated above, however, that there are disturbing signs about China's direction as far as her relations with developing countries are concerned. According to the section on exporting over capacity in this paper, it is clear that China's intention is not about helping developing countries. It is about exporting

China's problem. It is not necessarily bad for the host countries, though. It depends on whether the people of the host countries really need these capital goods, and whether they can pay reasonable prices for them. When the host countries are absent of democracy and rule of law, however, it implies that common people have no way to influence the government's economic decisions or the 'market', and of course they have no way to raise any opposition to overseas investment when it harms rather than benefits local people. Unfortunately this situation is common in developing countries like Burma and Sudan. Chinese companies moving to these countries make the threat quite real.

In Africa there is serious concern among civil society over China's economic activities. Dot Keet wrote that:

"Chinese imports and Chinese traders on the ground are ousting small local traders; and this, in turn, is resulting in pronounced anti-Chinese xenophobia. Construction – many of which rely on imported Chinese workers, skilled and unskilled, and therefore do not create much local employment and do not transfer production/management skills.....Manufactured goods which are flooding into African countries are wiping out small, and even relatively larger producers which do not enjoy the direct and indirect subsidies that industries receive from Chinese authorities."⁷⁸

The Chinese government is well known for its hostility towards the labour rights of free association and the right to strike. There is growing concern over whether China's investments overseas – most of them are state enterprises funded – are also exporting China's anti-labour regime as well, particularly so when the host countries are keen on providing an excessively pro-business environment to foreign investors at the expense of their own fellow workers' interest. Three researchers from the Ghana Trade Unions Congress wrote that

"There is popular perception [that] Chinese investors/employers are notorious for their disrespect for labour rights...For the construction union (CBMWU), it believes that the gains it has made over the years in the areas of collective bargaining and social dialogue are being threatened by the Chinese and that if it does not act quickly both foreign and local construction firms may follow the bad example of the Chinese in a 'race to the bottom'. The General Secretary describes the entry of the Chinese in the construction industry as a 'direct threat to social protection' in Ghana. According to the General Secretary, the Chinese do not hesitate

to sack workers who show any inclination towards unionism even though they (the Chinese management) claim that they are not against unionisation.

“The Chinese do not want to accept the five working days that prevails in Ghana. They indirectly force workers to work every day of the week. They also prefer to hire workers on temporary basis even for permanent jobs.”⁷⁹

There are necessarily areas where China’s investment in developing countries works in a more positive way. For instance, China is more willing than the Western investors to invest in infrastructure, in addition to bringing in a lot of cheap consumer goods and capital goods. The balance sheet has yet to be drawn. It is difficult to make a correct and objective balance sheet, however, first and foremost because of the fact that much of China’s operation is not transparent.

The Chinese government, as usual, reiterates her policy of ‘non-interference’ and her loan does not have strings in the cases of Western lenders. Yuza Maw Htoon and Khin Zaw Win responded that

“Its loans do have strings, in the form of ties to the use of Chinese companies, guarantees of access to future oil production and, internationally, to African states toeing the Chinese line not only on Taiwan, but also in the forums of global governance institutions.”⁸⁰

Another researcher Ali Askouri wrote that

“African states are still dominated by tribalism, elitism, and regionalism. To these characteristics one can add the weak institutions and administrative structures of African states, which limit their ability to solve internal disputes and conflicts...China’s open-door lending policy does not appear to take these complexities into account. It is not surprising then if China’s financial aid to African countries end up fuelling ongoing internal conflicts or nurturing new ones. Indeed, the open-door lending policy has brought China nothing but defamation, particularly among ordinary African people...China’s recent experiences of pursuing its ‘no conditions policy’ have shown that many African governments who turned up at China’s door were not qualified for any assistance by moral, ethical, humanitarian or any other acceptable standards.”⁸¹

Aids for whom and what?

Chinese overseas loans in Africa have been criticized in the west for supporting military regimes and environmentally destructive projects. For instance, the British international development secretary, Hilary Benn, warned in 2007 that China offering billions of dollars in unconditional aid and cheap loans to African governments risks driving back into debt countries that have only just benefited from debt relief, and undermines efforts to create democratic and accountable administrations.⁸² This is hypocritical since it has been the British government's neo-colonial policy towards Africa which has been responsible for the latter's indebtedness.

There are attempts to defend China, for instance:

“China seems a lesser evil than the West on key issues in Africa's development and African dignity...A Nigerian official has also noted that ‘the Western world is never prepared to transfer technology – but the Chinese do [and] while China's technology may not be as sophisticated as some Western governments’, it is better to have Chinese technology than to have none at all...For many Africans then, there is a ‘Chinese model’ ... an image of a developing state that does not fully implement Washington consensus prescriptions, does not impose onerous conditions on African states’ policies and is more willing than the West to help develop predicates of industrialism in the global South, including by opening many factories in Africa...This perception is now part of an image often labeled ‘the Beijing consensus’.”⁸³

Before commenting on the lesser evil argument, let us first put the whole debate within a context of the qualitative changes of China's policy in foreign aids and investment since the reform. In February the Beijing Review carried an article to come to the defence of China's role in Africa. In responding to the accusation that China's role in Africa is colonialist, the author has this to say:

“Though China is not a colonialist, it is a successful capitalist in Africa. The path it has taken on that continent is consistent with the logic of market capitalism-liberal trade based on fair contracts.....Although capitalism implies exploitation to many, China's capitalists have to limit their exploitation within the framework of the WTO and abide by local laws.....To some extent, Chinese people's influence on African society may include environmental pollution, excessive

development of resources and collusion between them and local officials. But these phenomena can be removed by the rule of law.”⁸⁴

The interesting point here is the honest recognition that Chinese overseas investments and lending are nothing but ‘successful capitalist’ practices, rather than ‘socialist’ which until today is the state religion that every Chinese citizen has to adhere to. These lines would not have been published if it was written in Chinese. Anyway, the essence of the comment here is absolutely in line with a 2000 State Council document on foreign aid, which includes the following point:

“Through foreign aid policy and our funds, we shall be able to make the most of our overseas manufacturing projects and extraction projects. We shall look into the common needs of both the aid recipient countries and our country, and conduct accordingly a whole range of big projects which can bring high investment returns and also a big political impact. This will in turn give an impetus to the launching of more medium and small projects. Foreign aid has to be linked to the export of our machinery and high tech products.”⁸⁵

These practices are no doubt in alignment with ‘capitalist’ practices and have been quite common in many aid giving countries. China’s present practices, however, are quite different from what she proclaimed in 1964.

In 1964 the Chinese government announced the Eight Principles Concerning Foreign Aid:

1. The PRC (People’s Republic of China) considers that her foreign aid is granted in accordance to equal and mutual benefit, and never regards it as a unilateral favour.
2. The PRC grants aid with the utmost respect to the sovereignty of the aid recipient countries and never seeks any privileges for herself.
3. Aid recipient countries can request deferred payment of loans when necessary.
4. The objective of the PRC’s aid is to make sure that no aid recipient country ends up relying upon more aid and is instead enabled to become self reliant, and independent with regards to development.
5. The projects which the PRC gives priority to are those which can quickly increase the revenues of the aid recipient countries.
6. The PRC provides the aid recipient countries the best of her own machinery

and products, and the prices are negotiated in accordance to international prices. If the machinery and products delivered are defective, the PRC guarantees a return of the goods.

7. When the PRC provides aid recipient countries with a certain kind of technology, she guarantees the latter are trained until they can handle it.
8. Experts sent by the PRC shall enjoy the same level of benefits as those experts from the aid recipient countries. They shall not be privileged.⁸⁶

The 1964 policy guidelines were in line with the overall foreign policy of China at that time, which was supportive of national liberation movements and more self-reliant growth models in developing countries; she was also fiercely against the US Empire. On the other hand, the guidelines mentioned nothing about 'high investment return', and the spirit of the guidelines shows no evidence of seeking China's commercial interest. The going global strategy, hence, represents a regression of the Chinese policy and foreign aids policy of relative progressive third-worldism to one which prioritizes Chinese companies' commercial interests, within a broader context of neo-liberalist strategy of seeking free trade agreements with countries in the world. This should be of concern for any people who support the people in the third world in their rights to development, because even if China's performance in developing countries is not as bad as the Western countries (and we believe they are not), this qualitative change itself is alarming. For all progressive social movement activists, especially those in the poor countries, they are just too familiar with the logical consequences of 'the logic of market capitalism-liberal trade': unscrupulous exploitation of labour and the environment, hostility towards social movements and serious attempts at capital control etc. What is striking here, however, is that this kind of 'lesser evil' discourse carries little criticism on China's tremendous regression in its foreign aids and investment policy. All the justified scepticism among progressives about unequal exchanges between more developed and less developed countries, about foreign investment and about 'developmentalism' as practised by the Western countries, is dropped here.

In the above mentioned paper it admits that "the commonalities of Chinese and Western approaches are now fundamental", but add that "but important distinctions also exist." Further on the paper says that "it is not clear whether the differences outlined here will persist over the long-term ⁸⁷ While the concrete outcome can never be predetermined, one must point out the fact that, as a late comer, China's entering into global competition with the West for market and resources

necessarily results in a race to the bottom in relation to global labour rights and environmental protection.

There may be a grain of truth for the 'China as lesser evil' discourse, especially for any particular African country when hard pressed by the IMF or World Bank or any other Western commercial banks, now it can turn to China for loans or investment. While it is always possible for progressive movements to render tactical support to China's aids or investment in well defined circumstances, it has to be judged case by case, and always bearing in mind that a tactical support should never imply giving up on a general criticism of the Chinese government's, or any government, for their uncritical acceptance of 'the logic of market capitalism-liberal trade' and the WTO regime, or this tactical support may degenerate into wholesome and un-principled support for the latter. Therefore our criticism of the Chinese government is not singling out China; rather, we are just extending our criticism of the unjust international trade and investment regime – a regime which the Western governments and their corporations have been trying hard to underpin – to the Chinese government. Failing to uphold a principled criticism of this regime and to extend it to the Chinese government, may risk turning a blind eye to the negative impacts that China's foreign projects have on labour and the environment of the host countries, or their long term interest in autonomous development. This also implies possible failure to give support to the labour and environmental movement of the host countries which are resisting exploitation by unscrupulous foreign investors, including Chinese companies.

In 2005, China's Ministry of Commerce suggested that the OECD and China cooperate on issues of corporate social responsibility.⁸⁸ The Export Import Bank has issued its document on environmental policy, reiterating China's commitment to safeguarding the environment in her overseas project. One scholar, however, has this to say about the evaluation mechanism of Chinese aid:

"How do the Chinese program their aid? Do they do strategic country planning like the US? Do they manage by results? Do they evaluate the outcomes and impact of their aid? 'No' appears to be the answer to all of these questions though they do apparently check to make sure their aid monies were spent in the way planned... They do not, according to the senior MOFCOM (Ministry of Commerce) official I recently interviewed, yet have an evaluation system though they recognize the need for such a system and are planning to create one soon."⁸⁹

In October 2007 it was reported that China had decided to lend 5 billion dollars to the Congo for infrastructure and mining projects. The IMF representative in the Congo warned that the debt ridden country should not borrow more. It is sort of ironical, if not hypocritical, for the IMF to concern itself with the un-payable debt of poor countries, for the IMF, along with the World Bank, have been responsible for the piling up of the debts of these poor countries. Putting aside the IMF representative's remarks, the indebtedness of poor countries is a real issue which cannot be discarded. How are we going to make sure that China's loan really works for common people there without making the country become sucked into the trap of loans, and without damaging the environment? How are we going to make sure that the mineral projects will not eventually only benefit the Congo ruling elites and the Chinese companies, leaving local people displaced and exploited? Is there any mechanism which ensures that these things will not happen? Unfortunately, there is no such mechanism.

There are discourses which expect China to act as a counter force to the US Empire. Being a huge country and one with a strong manufacturing base, China, to a limited extent, can take this role if she wants it. But the problem is, does she want it? And how far will she go? More importantly, for whose sake? Though there is political disagreement or even competition between the two countries, one must not lose sight of the fact that both share the same socio-economic agenda of neo-liberalism, and the same agenda of making profits through the close collaboration between TNCs from both sides. The complete opening up of China's market under the terms of her accession to the WTO, the gradual erosion of her capital control, and the great waves of privatization and down-sizing, the commercialization of medical care and tertiary education, the ban on independent trade union initiatives, all speak for this. Indeed they constitute the premises of the 'inviting in' and 'going global' strategy. If China rises along this neo-liberal path, even if it clashes with the US in its way, can one seriously argue that these clashes are necessarily beneficial to the working people and the environment of developing countries? If the answer is yes, then it follows that neo-liberalism and corporate led globalization is necessarily beneficial to the latter as well. Can anyone who opposes neo-liberalism seriously argue for that? There are of course possibilities that in certain scenarios China's rise as a strong neo-liberal capitalist state may act to the advantage of certain developing countries, or at least certain sections of their population. This aspect of matters is just one small piece of a big puzzle whose names are neo-liberalism, deregulations, privatizations etc, and it is important for

us to refer to the whole picture even when we can identify some positive elements in the picture.

Or we may narrow the debate to a more concrete issue: does China's rise to the status of important international lender, to a certain extent challenge the hegemony of the International Financial Institutions (IFIs), and thus give some space for developing countries? Our response is that it is possible. It is also possible, however, that things work in the opposite direction. One must not forget that in this scenario China is only acting in accordance with her own commercial or political interests, which may or may not intersect with the interests of the developing countries. Even if the answer is 100 percent beneficial to the developing countries, the question remains as to whether these benefits can trickle down to working people and the environment. Governments always claim that they do, but when there is no transparency regarding aid, no democratic mechanism to allow both the Chinese people and the people of the aid recipient countries to assert control over the aid, how on earth are we able to verify these claims?

We aware that in dealing with this vast subject there is no simple answer, and that linear thinking is of no help to us. Multiple responses in accordance to the complex and multiple facets of the issues are probably required.

Corporate Social Responsibility to be developed

In fact, Chinese government policies appear to support the view that Chinese standards should inform the conduct of Chinese businesses overseas. In September 2008, the Chinese Academy for Environmental Planning, the Global Environmental Institute, and the University of International Business and Economics announced plans to create environmental guidelines for Chinese companies investing overseas.⁹⁰ The recent China Exim Bank guidelines explicitly instruct lenders to follow Chinese or international policies when the host country's standards are inadequate. The State Council's Nine Principles on Encouraging and Standardizing Foreign Investment,⁹¹ as well as the Guidelines on Fulfilling Social Responsibility by Central Enterprises⁹² promulgated by the State-owned Assets Supervision and Administration Commission both encourage Chinese companies to behave responsibly when operating in other countries.

China has included EIA (Environmental Impact Assessment), public participation, and resettlement benefits in its own laws. Since 2003, the Environmental Impact Assessment Law has required EIA for all major development

projects; the process also includes public participation, and the public release of the EIA. These standards were further clarified in the 2006 “Provisional Measures on Public Participation in Environmental Impact Assessment.”⁹³ Also in 2006, the State Council implemented Order No. 471 “Regulations on Land Requisition Compensation and Residents Resettlement in Construction of Large and Medium-sized Water Conservancy and Hydroelectric Projects,” which stated that affected people must be given compensation, and that resettlement plans must be developed to include economic development plans, the creation of jobs, and plans for new farmland.⁹⁴

As China is not a member of the OECD (Organisation for Economic Co-operation and Development), Chinese companies are also not parts of the OECD Guidelines for Multinational Enterprises. There are a few notable exceptions, however. China Southern Power Grid Co. has general environmental policies, while Sinohydro is a member of the International Hydropower Association, which has general guidelines instructing its members to conduct EIA, avoid or mitigate displacement, and consult affected communities. Perhaps the most comprehensive guidelines were adopted by China Exim Bank. These guidelines encourage EIA as well as social impact assessment (SIA), and require lenders to conduct EIA, consult the public, and “properly handle resettlement problems” when completing overseas projects. The guidelines further instruct lenders to follow the host country’s laws, but when those laws are lacking to refer to Chinese or international policies as a benchmark.⁹⁵

The international community has increasingly recognized the need for corporate responsibility, as exemplified in the draft UN Norms on the Responsibility of Transnational Corporations, the UN Global Compact, and the OECD Guidelines for Multinational Enterprises. All three of these guidelines instruct corporations to avoid harming people affected by their projects, while the UN Norms and the OECD Guidelines further encourage corporations to conduct EIA and consult affected communities. China’s Ministry of Commerce even recommended that the OECD and China cooperate on issues of corporate social responsibility.⁹⁶ The Equator Principles encourage similar commitments in the financial industry. In early 2008, China’s State Environmental Protection Administration (now the Ministry of Environmental Protection) announced plans to bring the Equator Principles to China’s banks.⁹⁷

On top of this is the need for the world labour movement to fight for an enforceable International Labour Convention and a series of international

conventions on the protection of indigenous people and the environment. From a Chinese perspective, however, nothing is more important than the need to win political freedom for all Chinese citizens so that they can develop social movements to put the Chinese government and all its policies, including its foreign policies, under democratic control and monitoring. Only with this can Chinese working people be united with the international movement in checking the corporations and their government's predatory agenda at home and abroad. It looks impractical now but we should not lose hope. Though suppressed, the hope for a democratic and egalitarian China among common Chinese has never died.

Endnotes

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 - ³ Under the One Country Two Systems, Hong Kong remains as an autonomous economic entity.
 - ⁴ *Zhongguo zouchuqu de fazhan celue*, (The China Strategy of 'going global'), by Tan Xiao, China Social Science Press, 2003, Beijing, p. 527
 - ⁵ *Ibid*, p 525, 40-41.
 - ⁶ *2006 and 2008 Statistical Bulletin of China's Outward FDI*, jointly published by the Ministry of Commerce, the Administration of Foreign Exchange, and the National Bureau of Statistics
 - ⁷ Wang Zhile, 2004, p. 31 and 32.
 - ⁸ *The globalization of Corporate China*, Friedrich Wu, NBR Analysis, Vol 16, No 3, Dec 2005.
 - ⁹ Wang Zhile, 2004, p. 72 & 89. For more discussion about China's statistics discrepancy, please read "*The pattern and magnitude of China's outward FDI in Asia*", by Shaoming Cheng and Roger R. Stough.
 - ¹⁰ *Liushi de Zhongguo*, by Chen Jian, China City Press, Beijing, 1998.
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 - ¹² *Ziben Waitao: Guoji Qushi yu Zhongguo Wenti* (Capital Flight: International Trend and China's Problem), Yang Haizhen, China Finance Press, 2005, p. 27 and 152.
 - ¹³ *Maoyi yu touzi - Zhongguo dalu, Xianggang, Taiwan* (Trade and Investment, Mainland China, Hong Kong, Taiwan), Feng guochao, Commercial Press, 1997, Hong Kong, p. 72-3.
 - ¹⁴ *Ibid*, p. 128.
 - ¹⁵ Yang haizhen, p.144 & 156.
 - ¹⁶ Chen jian, p. 204-5.
 - ¹⁷ *Huigui Shinian de Xianggang* (Hong Kong economy 10 years after the hand over), GuoGuocan, Joint Publishing (HK) Co. Ltd, p. 12
 - ¹⁸ *Zouxiang Shijie de Zhongguo Kuaguo Gongs*,(Chinese TNCs going out for the world), edited by Wang Zhile, China Economic Publishing House, 2007, p 8.
 - ¹⁹ 2006 yearly statistics, 18-20.
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 - ²¹ *Xu Jiaturun huiyi lu* (Memoirs of Xu Jiaturun), Hong Kong United Daily News Co. Ltd, 1984, P. 235
 - ²² Tan Xiao, p. 40
 - ²³ Guo Guocan , p. 172
 - ²⁴ *Ibid*, p. 257-9
 - ²⁵ *Zhongguo guoyou qiye gaige ershi zhounian* (Twenty Years of Reform of Chinese State Owned

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- Enterprises), edited by Wang Dongjiang, Zhongzhou Classic Press, Zhengzhou City, 1998, p. 184 & 191.
- ²⁶ Wang Zhile, 2007, p. 12
- ²⁷ Tan Xiao p. 540
- ²⁸ Tan Xiao, p. 129
- ²⁹ China International Economic Consultants Co. Ltd,
<http://www.chinavista.com/business/ciec/ch/chciec19981013.html#cn00006>
- ³⁰ Tan Xiao p. 541-3
- ³¹ Ibid, 545-6.
- ³² Wang Zhile, 2004, p. 33
- ³³ *FDI in China, An Asian Perspective*, Yasheng Huang, Chinese University Press, HK, 1998, p. 57
- ³⁴ *Zhongguo dixia jinrong diaocha* (Investigation on China Underground Banking), edited by Li Jianjun, Shanghai People Press, 2006, p. 260. There is also the same underground banking between Taiwan and Mainland China. On 31 Oct 2007 it reported that Taiwan authority uncovered an underground bank which undertook money laundering between Mainland and Taiwan, amounting to 5 billion yuan in just 2 years.
- ³⁵ Feng, p. 131.
- ³⁶ HK's fresh water relies on the Dongjiang river of the Guangdong province, and HK pay million of dollars annually to Guangdong government for the supply.
- ³⁷ Guo Guocan, p. 201.
- ³⁸ Ibid, p. 215.
- ³⁹ Tan Xiao p. 172
- ⁴⁰ It is projected that in 2015 China oil consumption will reach 3600 million tons, which is twice of her domestic production. See Tan Xiao p. 255
- ⁴¹ <http://www.uofaweb.ualberta.ca/chinainstitute/nav03.cfm?nav03=57486&nav02=57275&nav01=57272>
- ⁴² Invest in China http://www.fdi.gov.cn/pub/FDI/zgjj/hyzk/fwy/yh/t20060419_24224.htm
- ⁴³ China Finance Net, <http://bank.zgjr.com/News/20071025/Bank/053137176500.html>
- ⁴⁴ 2006 statistics bulletin, 13 &14
- ⁴⁵ Tan Xiao p. 154
- ⁴⁶ *The Chinese Aid system*, by Carol Lancaster, Center for Global Development, <http://www.cgdev.org>
- ⁴⁷ *Export Credit Agency and Environmental Standard*, by Peter Bosshard
- ⁴⁸ Wang Zhile, 2007, p. 44
- ⁴⁹ *China's Role in Financing African Infrastructure*, by Peter Bosshard
- ⁵⁰ Ming Pao, 19 October 2007
- ⁵¹ http://big5.gov.cn/gate/big5/www.gov.cn/jrzg/2007-06/15/content_650453.htm
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- ⁶⁵ Tan Xiao 535
- ⁶⁶ Wang Zhile, 2007, p. 78
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- ⁶⁹ Huang, p.63

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- ⁸⁴ http://www.bireview.com/print/txt/2007-02/05/content_54851.htm
- ⁸⁵ <http://wjw.tengzhou.gov.cn/zcfg/20061582939.asp>
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