China's Emerging Global Businesses

Also by Yongjin Zhang

CHINA IN THE INTERNATIONAL SYSTEM, 1918–1920

CHINA IN INTERNATIONAL SOCIETY SINCE 1949

ETHNIC CHALLENGES BEYOND BORDERS (*co-editor with Rouben Azizian*)

POWER AND RESPONSIBILITY IN CHINESE FOREIGN POLICY
(*co-editor with Greg Austin*)

China's Emerging Global Businesses

Political Economy and Institutional Investigations

Yongjin Zhang

Department of Political Studies

University of Auckland, New Zealand

palgrave
macmillan

© Yongjin Zhang 2003

Softcover reprint of the hardcover 1st edition 2003 978-0-333-99934-9

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The author has asserted his right to be identified as the author of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2003 by
PALGRAVE MACMILLAN

Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010

Companies and representatives throughout the world

PALGRAVE MACMILLAN is the global academic imprint of the Palgrave Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd. Macmillan® is a registered trademark in the United States, United Kingdom and other countries. Palgrave is a registered trademark in the European Union and other countries.

ISBN 978-1-349-43333-9 ISBN 978-0-230-59961-1 (eBook)

DOI 10.1057/9780230599611

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Zhang, Yongjin.

China's emerging global businesses : political economy and
institutional investigations / Yongjin Zhang.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-333-99934-7 (cloth)

1. Corporations, Chinese. 2. International business enterprises – China. 3. Investments, Chinese – Government policy. 4. Structural adjustment (Economic policy) – China. 5. China – Commercial policy. 6. China – Foreign economic relations. I. Title.

HD2910 .Z43 2003

338.8'8951 – dc21

2002035787

10 9 8 7 6 5 4 3 2 1
12 11 10 09 08 07 06 05 04 03

Contents

<i>List of Tables, Figures and Boxes</i>	viii
<i>Acknowledgements</i>	x
<i>List of Abbreviations</i>	xii

Part I Revisiting the Economic Internationalisation of China

1 Economic Reform and the Internationalisation of the State	13
Internationalisation: contested definitions	13
Economic reform and internationalisation	16
Internalisation and the internationalisation of the state	21
Summary	23
2 The Internationalisation of the Chinese Economy: Empirical Evidence	25
Growth of foreign trade	26
Foreign direct investment	27
Loans from foreign governments and international organisations	30
Commercial borrowings	32
Other portfolio inflows	35
Capital outflows	36
International engineering and labour service trade	39
Summary	40

Part II The Political Economy of China's Emerging Global Businesses

3 Towards the Transnationalisation of Chinese Firms: Policies and Debates	47
Understanding multinationals in the world economy	49
Initiating general and particularistic policies, 1979 to 1988	53
National economic development strategy and transnational operations: earlier debates	62

Policy debates, 1989–92 and beyond	66
Institutionalisation of policy regimes and globalisation	72
Summary	80
4 China's Multinational Corporations: Then and Now	81
Transnational operations before 1978	82
A new and modest start, 1978 to 1987	88
Adjustments and growth, 1988 to 2000	95
Outward investment from China since 1978: an overview	102
China's multinational corporations today: a profile	111
Summary	116
 Part III The Transnationalisation of Chinese Firms: Institutional Investigations	
5 CITIC: A Pioneer Chinese Multinational	125
CITIC today	127
Rong Yiren and the establishment of CITIC	129
Early transnational operations, 1979 to 1986	134
Restructuring and expansion, 1987 and after	140
Towards a financial investment holdings conglomerate	148
CITIC Pacific	149
CITIC Australia	151
Summary	156
6 Sinochem: Global Reach	159
Sinochem at its prime	161
Trading with a difference, 1979 to 1987	165
Experimenting with transnational operations, 1988 to 1990	173
Global reach	178
Towards a multinational trading conglomerate?	180
Sinochem's mid-life crisis	183
Summary	187
7 Shougang: Going Transnational	190
Shougang and economic reforms in China	192
First international businesses	197
From technology-seeking to technology-exporting	201
Deng Xiaoping and Shougang, 1992	204
From Hong Kong to Peru	208

Whither Shougang as a multinational corporation post-1995?	215
Summary	218
8 Conclusion	220
<i>Notes</i>	231
<i>Bibliography</i>	256
<i>Index</i>	275

List of Tables, Figures and Boxes

Tables

2.1 Share of foreign-funded enterprises in China's exports, industrial output, and investment in fixed assets, 1990–99	29
2.2 Loans from foreign governments and international organisations to China, 1992–96	31
2.3 International bond issues by selected developing countries, 1985–90	33
2.4 China's international bond issues, 1991–94	33
2.5 China's issues of sovereign bonds, 1987–97	34
2.6 Long-term capital outflows from China, 1990–96	37
2.7 China's construction, engineering and labour service trade, 1991–2001	40
4.1 China's non-trade-related outward investment, 1979–88	91
4.2 China's large overseas investment projects, 1980–87	93
4.3 China's outward investment, 1991–95	98
4.4 China's inward and outward investment, selected years	104
4.5 China's outward FDI stocks (selected years) in comparative perspective	105
4.6 Geographical distribution of China's outward FDI stocks in comparative perspective	107
4.7 Transnationality of the largest Chinese TNCs in 1996 and the national average in comparative perspective	114
5.1 Assets, net assets and profit of CITIC, 1991–2000	128
5.2 CITIC's foreign and Eurobond issues, 1982–85	136
8.1 GNP per capita and NOI of China and the four Asian tigers, 1997	226

Figures

2.1 The growth of China's foreign trade, 1978–2001	26
2.2 Composition of China's exports, 1980, 1990 and 2000	27
2.3 FDI flow into China, 1988–2000	28
2.4 FDI and foreign loans used by China, 1990–95	28
4.1 China's outward investment, 1991–2000	99
5.1 Growth of CITIC's assets and net assets, 1983–2000	128
5.2 Allocation of CITIC's assets, 2000	129

5.3 CITIC's corporate structure, 2000	130
5.4 CITIC Australia's corporate structure, 2000	153
6.1 Sinochem's turnover, 1990–95	162
6.2 Breakdown of Sinochem's turnover, 1996	162
6.3 Corporate structure of Sinochem, 1996	165
6.4 Sinochem's trade volume, 1979–87	171
6.5 Sinochem's export of petroleum products, 1979–87	171
6.6 Sinochem's overseas subsidiaries, 2000	179

Boxes

3.1 The MOFERT documents on outward investment	56
3.2 Government-specified requirements for the approval of outward investment	57
3.3 The bureaucratic control of China's outward investment	59
3.4 Inhibiting factors for the transnationalisation of Chinese firms	72

Acknowledgements

Writing a book is an intellectual journey, a personal and often formidable one. This is particularly true for me in writing this book. The idea was first conceived in the mid-1990s when I was completing another monograph on *China in International Society since 1949*. I literally bumped into a large number of disaggregated data on China's outward investment activities, and was told bemusing tales of Chinese companies' overseas adventures. Impulse as much as intellectual curiosity was the inspiration for the conception of this project. Little did I expect, however, that it would have been such a challenging and demanding one, accompanied by enormous enjoyment and enrichment as well as by occasional frustrations and irritation. If in completing this project, I have had to stretch myself into a number of unfamiliar territories and have had a testing experience, it is also enriching and enabling. It challenges me to extend my scholarship and learning. It enables me to come to a better understanding of that fundamental economic transformation that China is experiencing today, which I have put down on paper to share with readers of this book.

An intellectual journey would never have been completed without supportive and inspiring companions. I am deeply indebted to a large number of individuals and institutions that have helped me with my interviews and research in China as well as in other parts of the world over the years. I would like to acknowledge my thanks in particular to Bian Yongzhuang, Feng Xiaoming, Guo Shuqing, Natasha Hamilton-Hart, He Jiacheng, Kang Yongping, Lin Ye, Pi Shenghao, John Ravenhill, Shao Binhong, Shi Yutang, Song Xinning, Wang Haijun, Xie Duo, Yu Yongding, James Xiaming Zhan, Zhang Jijing, and Zhang Xiaojin. My debt to many of them goes beyond the intellectual.

I owe many debts of gratitude to a number of institutions, in particular to the United Nations Conference on Trade and Development (UNCTAD) for granting me access to its library and allowing me to conduct interviews at its headquarters in Geneva, and to the Centre for Asian Studies of the University of Hong Kong for sponsoring me as a Visiting Scholar while I was doing my research in Hong Kong. The University of Auckland provided initial financial assistance to kick-start this research project. The Department of International Relations, Research School of Pacific and Asian Studies of the Australian National Univer-

sity, where I was a Fellow between 1999 and 2001, provided a supporting environment and research grant for the completion of this book. I would like to register my gratitude to both these institutions here. At Palgrave Macmillan, I am grateful to my commissioning editors Nicola Viinikka and Amanda Watkins for managing the publication of this book, and to Guy Edwards for seeing through its production.

My ultimate debt is, as always, to my family, who offered unfailing moral and indispensable logistical support throughout this journey. I dedicate this book lovingly to my wife Shanping and to my daughter Jessie, who has grown up into a university student at Cambridge while I was completing this project.

Auckland

YONGJIN ZHANG

List of Abbreviations

ABC	Agricultural Bank of China
ADB	Asian Development Bank
ADR	American Depositary Receipts
APEC	Asia-Pacific Economic Cooperation
BOC	Bank of China
CCB	China Construction Bank
CCP	Chinese Communist Party
CIB	CITIC Industrial Bank
CIS	Commonwealth of Independent States
CITIC	China International Trust and Investment Corporation
CNAC	China National Aviation Corporation
CNIFP	Central North Island Forestry Partnership
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COFCO	China National Cereals, Oils and Foodstuffs Import and Export Corporation
COPRI	Comision de Promocion de la Inversion Privada
COSCO	China Ocean Shipping Company
COSTIND	Commission for Science, Technology and Industry for National Defence
CPPCC	Chinese People's Political Consultative Conference
EIU	Economist Intelligence Unit
ENR	Engineering News Record
FDI	Foreign Direct Investment
FEER	Far Eastern Economic Review
FOTIC	China Investment and Trust Corporation for Foreign Economic Cooperation and Trade
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GITIC	Guangdong International Trust and Investment Corporation
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
ICI	Imperial Chemical Industries

IDA	International Development Association
IDP	Investment Development Path
IISI	International Iron and Steel Institute
ILO	International Labour Organisation
IMF	International Monetary Fund
IPO	Initial Public Offer
ITICs	International Trust and Investment Corporations
LME	London Metal Exchange
M&A	Merger and Acquisition
MIA	Multinational Investment Agreement
MNC	Multinational Corporation
MNE	Multinational Enterprises
MOFERT	Ministry of Foreign Economic Relations and Trade
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NICs	Newly Industrialising Countries
NIEO	New International Economic Order
NOI	Net Outward Investment
OECD	Organisation for Economic Co-operation and Development
PEOC	People's Bank of China
PICC	People's Insurance Company of China
PLA	People's Liberation Army
PRC	People's Republic of China
RMB	Renminbi
RMRB	Renmin Ribao (People's Daily)
SAFE	State Administration for Foreign Exchange
SAIC	Shanghai Automobile Industry Corporation
SCRES	State Commission for Restructuring the Economic System
SEG	Shenzhen Electronics Group
SEZs	Special Economic Zones
SGNEC	Shougang-NEC
SINOCHEM	China National Chemicals Import and Export Corporation
SINOPEC	China Petroleum and Chemical Corporation
SOE	State-owned Enterprises
SPC	State Planning Commission
SWB	Service of World Broadcast
TNCs	Transnational Corporations
TNEs	Transnational Enterprises
TVEs	Town and Village Enterprises

UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UNIPEC	China United Petroleum Corporation
UNTCMD	United Nations Transnational Corporation and Management Division
USAC	US Agri-Chemical Co. Ltd
WTO	World Trade Organisation