

Research Series on the Chinese Dream and China's Development Path

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Changhong Pei • Wen Zheng

China's Outbound Foreign Direct Investment Promotion System



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Series Preface

Since China's reform and opening began in 1978, the country has come a long way on the path of socialism with Chinese Characteristics, under the leadership of the Communist Party of China. Over 30 years of reform efforts and sustained spectacular economic growth have turned China into the world's second largest economy and brought many profound changes in the Chinese society. These historically significant developments have been garnering increasing attention from scholars, governments, and the general public alike around the world since the 1990s, when the newest wave of China studies began to gather steam. Some of the hottest topics have included the so-called China miracle, Chinese phenomenon, Chinese experience, Chinese path, and Chinese model. Homegrown researchers have soon followed suit. Already hugely productive, this vibrant field is putting out a large number of books each year, with Social Sciences Academic Press alone having published hundreds of titles on a wide range of subjects.

Because most of these books have been written and published in Chinese, however, readership has been limited outside China – even among many who study Chinese – for whom English is still the lingua franca. This language barrier has been an impediment to efforts by academia, business communities, and policy makers in other countries to form a thorough understanding of contemporary China, of what is distinct about China's past and present may mean not only for her future but also for the future of the world. The need to remove such an impediment is both real and urgent, and the *Research Series on the Chinese Dream and China's Development Path* is my answer to the call.

This series features some of the most notable achievements from the last 20 years by scholars in China in a variety of research topics related to reform and opening. They include both theoretical explorations and empirical studies and cover economy, society, politics, law, culture, and ecology, the six areas in which reform and opening policies have had the deepest impact and farthest-reaching consequences for the country. Authors for the series have also tried to articulate their visions of the “Chinese Dream” and how the country can realize it in these fields and beyond.

All of the editors and authors for the *Research Series on the Chinese Dream and China's Development Path* are both longtime students of reform and opening and recognized authorities in their respective academic fields. Their credentials and expertise lend credibility to these books, each of which having been subject to a rigorous peer review process for inclusion in the series. As part of the Reform and Development Program under the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, the series is published by Springer, a Germany-based academic publisher of international repute, and distributed overseas. I am confident that it will help fill a lacuna in studies of China in the era of reform and opening.

Xie Shouguang

Acknowledgments

After a relatively short gestation period, the *Research Series on the Chinese Dream and China's Development Path* has started to bear fruits. We have, first and foremost, the books' authors and editors to thank for making this possible. And it was the hard work by many people at Social Sciences Academic Press and Springer, the two collaborating publishers, that made it a reality. We are deeply grateful to all of them.

Mr. Xie Shouguang, president of Social Sciences Academic Press (SSAP), is the mastermind behind the project. In addition to defining the key missions to be accomplished by it and setting down the basic parameters for the project's execution, as the work has unfolded, Mr. Xie has provided critical input pertaining to its every aspect and at every step of the way. Thanks to the deft coordination by Ms. Li Yanling, all the constantly moving parts of the project, especially those on the SSAP side, are securely held together and as well synchronized as is feasible for a project of this scale. Ms. Gao Jing, unfailingly diligent and meticulous, makes sure every aspect of each Chinese manuscript meets the highest standards for both publishers, something of critical importance to all subsequent steps in the publishing process. That high-quality, if also at times stylistically as well as technically challenging, scholarly writing in Chinese has turned into decent, readable English that readers see on these pages is largely thanks to Ms. Liang Fan, who oversees translator recruitment and translation quality control.

Ten other members of the SSAP staff have been intimately involved, primarily in the capacity of in-house editor, in the preparation process for all the Chinese manuscripts. It is time-consuming work that requires attention to details, and each of them has done this and is continuing to do this well. They are, in alphabetical order of their surname, Mr. Cai Jihui, Ms. Liu Xiaojun, Mr. Ren Wenwu, Ms. Shi Xiaolin, Ms. Song Yuehua, Mr. Tong Genxing, Ms. Wu Dan, Ms. Yao Dongmei, Ms. Yun Wei, and Ms. Zhou Qiong. In addition, Xie Shouguang and Li Yanling have also taken part in this process.

Ms. Shi Xiaolin is the SSAP in-house editor for the current volume.

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Abstract

The global financial crisis has provided a historic opportunity for outbound foreign direct investment (FDI) by Chinese enterprises. China should grasp this opportunity by prioritizing and accelerating outbound FDI while continuing to open up. As part of this effort, the Chinese government should take the lead in planning, regulating and guiding – from a macroeconomic development strategy perspective – outbound FDI made by companies. Furthermore, it should make, change and implement relevant laws, regulations and policies in a timely manner to suit the latest outbound FDI trends, while encouraging, guiding and protecting outbound FDI by Chinese companies through a combination of support and regulation. This will ensure sustainable and healthy development of outbound FDI, allowing Chinese companies to profit while also accomplishing national economic strategy objectives.

Improving China’s outbound FDI promotion system will facilitate the implementation of China’s “go global” strategy, the acceleration of China’s modernization process, and the achievement of long-term, stable and sustainable socioeconomic development in the context of globalization. This is a significant issue in terms of practical value and theoretical innovation. In this book, we design and build an outbound FDI promotion system for China in the new era based on extensive research of China’s history, basic situation, and major challenges related to outbound FDI. The system presented in this book is comprised of eight subsystems, including the legal, supervision/management, taxation/financial, intellectual property (IP)/standards, risk prevention and control, overseas economic and trade cooperation zone promotion, outward securities investment promotion and service subsystems.

Keywords Investment • Outbound foreign direct investment • Promotion system

Introduction

Capital outflow is an important approach for an open economy to engage in economic globalization. Outward investment can enable: interconnections between domestic and international markets; advantages in global pricing differences for factors of production so as to increase economic competitiveness of a nation; and improvement and optimization of a nation's domestic economic structure. Outward investment has replaced international trade as the primary force for economic globalization since the 1990s. Strategically, all the world's economic powers are major outward investors, which indicates that outbound FDI has become a key growth approach for mature economies. In order for the Chinese economy to mature and become more globally competitive, it is vital for China to continue to implement the “go global” strategy and accelerate outbound FDI.

The 1992 report to the 14th National Congress of the Communist Party of China (CPC) made clear that Chinese companies should aggressively increase outbound FDI and transnational operations. The report to the 15th National Congress of the CPC proposed that outbound FDI in fields where China had comparative advantages should be encouraged such that domestic and foreign markets and resources could be better utilized. The report to the 16th National Congress of the CPC noted that implementation of the ‘going out’ strategy is an important measure to take China into a new stage of opening up. The report went on to propose that China should encourage and support relatively competitive enterprises with various forms of ownership to invest abroad in order to increase exports of goods and labor services and cultivate a number of strong multinational enterprises and brand names. China should also take an active part in regional economic exchanges and cooperation. The report to the 17th National Congress of the CPC stated: “Expand opening up in scope and depth and improve our open economy. By adhering to the basic state policy of opening up, we will better integrate our ‘bring in’ and ‘go global’ strategies, expand the areas of opening up, optimize its structure, raise its quality, and turn our open economy into one in which domestic development and opening to the outside world interact and Chinese businesses and their foreign counterparts engage in win-win cooperation, and one that features security and efficiency, in order to

gain new advantages for China in international economic cooperation and competition amid economic globalization.”

Measures specific to implementing the “go global” strategy have been defined in every report on the Chinese government’s work since the strategy was first announced. The 2012 *Report on the Work of the Government* stated that: “We will implement the ‘go global’ strategy. With China’s outbound FDI in an important stage of accelerated development, we will enhance macro-guidance, increase policy support, streamline approval procedures, and improve services for Chinese investors. We will guide Chinese enterprises under various forms of ownership in making overseas investments, mergers and acquisitions in energy, raw materials, agriculture, manufacturing, service industries, and infrastructure in an orderly manner. We will explore new models for overseas economic and trade cooperation zones, and support companies making overseas investments in coordinating their growth and forming clusters. We will standardize development of cooperative overseas labor services. Restrictions on individuals investing overseas will be relaxed. We will strengthen risk management of overseas investments and protect the safety of employees and assets of Chinese enterprises operating overseas.”

After delving into the characteristics of the current era from a historical perspective, we believe that the global financial crisis has provided a historic opportunity for Chinese outbound FDI, and accordingly China should grasp this opportunity by prioritizing and accelerating outbound FDI while further opening up. The Chinese government should be responsible for planning, regulating and guiding – from a macroeconomic development strategy perspective – outbound FDI made by companies. Furthermore, the Chinese government should make, change and implement relevant laws, regulations and policies in a timely manner to suit the latest outbound FDI trends, while encouraging, guiding and protecting outbound FDI by Chinese companies through a combination of support and regulation. This will ensure sustainable and healthy development of outbound FDI, allowing Chinese companies to profit while also accomplishing national economic strategy objectives.

Implementing China’s “go global” strategy, accelerating China’s modernization process, and achieving long-term, stable and sustainable socioeconomic development are significant issues in terms of practical value and theoretical innovation. Based on our research efforts, we recommend that China build a forward-looking, comprehensive and easy-to-implement outbound FDI promotion system comprised of eight subsystems, including the legal, supervision/management, taxation/financial, IP/standards, risk prevention and control, overseas economic and trade cooperation zone promotion, outward securities investment promotion and service subsystems.

Outward investment, which is the core concept in this book, refers to investment in cash, kind or other forms of investment made by investors in a country other than that from which they are based, so as to increase the value of their assets. Investors refer to those who make investment decisions and are responsible for the results of relevant investment, including multinational companies (MNCs), multinational financial institutions (MFIs), governmental or semi-governmental organizations, and individuals. The term outward investment covers both direct investment,

whereby investors open, merge and/or acquire overseas financial or non-financial companies and/or secure the ownership or control of, or the right to operate and manage, such companies, and indirect investment whereby they buy shares of foreign companies and/or bonds of foreign governments and/or companies, and/or make loans overseas so as to receive dividends, interests or price difference-based benefits.