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China's 'Going Out' Policy: Sub-National Economic Trajectories

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The China Council for the Promotion of International Trade (CCPIT), a statutory organisation under China's Ministry of Commerce (MOFCOM), is the largest and the most important institution for the promotion of foreign trade in China. Established in 1952 to promote Chinese industries and trade, it remained ineffective until 1978, when the economy was finally exposed to market forces and competition after the introduction of economic reforms.

As export trade and economic collaboration picked up pace after 1978, the role of the CCPIT changed considerably. China's trade engagement with the outside world widened its scope of duties from nation-wide to international trade promotion, and information and education of Chinese businesses to legal services, patenting, trademark, e-commerce guidance and handling international trade disputes. Its role got further elevated after China's accession to the WTO in 2001. Post-WTO accession,

China introduced the *zou chuqu* (走出去) or the 'going out' strategy to facilitate its global rise along with evolving mechanisms which would help in coping with various economic risks such as the 1997 Asian financial crisis, Since then the CCPIT has become a key player monitoring the initiatives under this strategy.

The establishment of two Courts of Arbitration in 2014 – China International Economic and Trade Arbitration Commission (CIETAC) and China Maritime Arbitration Commission (CMAC) - to address a variety of business and legal risks, as well as trade frictions which Chinese enterprises may face while pursuing their 'going out' policies (*Beijing Time* 2014), underlined the significance of *zou chuqu* and the crucial role the CCPIT plays, as a result, in China's trading future.

The Making of the *zou chuqu* Strategy

Towards the end of the 20th century, Chinese political and economic institutions were facing the challenge of reinventing themselves in order to keep the economy airborne. Historically, since its opening up, the economy built its premises based on inherited experiences and difficulties. This re-invention aimed to make the economy capable of absorbing sudden market shocks, like the one caused by the 1997 Asian financial crisis, which had exposed the vulnerabilities of Chinese export-led growth.

In order to secure its export-led growth rate, the Chinese state implemented a strategy to encourage its enterprises to pursue overseas investments and extend manufacturing beyond their safe-bases in China. Under this call for expansion, the enterprises were encouraged to develop overseas processing and assembly operations. The Chinese state decided to shift its focus from welcoming foreign investments into China to diversifying Chinese investments abroad, by employing measures to internationalise their presence. This move – represented by the *zou chuqu* or the 'going out' slogan – has gathered momentum in recent years, with the emergence of India too, as a major market for Chinese manufacturing units and investments. This has accelerated the sub-national engagements between India and China, as reflected in the growing number of delegations from the Chinese provinces delegation visiting India.

The 'going out' strategy has been widely used across the Communist Party of China and Chinese central government platforms since it first appeared in 2001. As a part of the Party's policy directive, the *zou chuqu* strategy emerged as a prominent force to drive local industries into new markets.

Before the policies of 'going out' were formalised, *minjian xianxing* (民间先行) or the 'non-government (private) first', was the core value which guided the business involvement of Chinese enterprises outside China (Peng 2011: 77). A number of entrepreneurs, particularly from Wenzhou and Zhejiang, as a result, began venturing into trade with international markets, including Africa, Middle East and Russia.

The CCPIT Councils follow localised trade and investment preferences based on industry-type and its international trade composition. This economic sector-wise prioritisation is also factored into the region-specific initiatives of these councils.

Internal macroeconomic reasons provided the foundation for framing the strategy, further including, one, the state's concerns over economic uncertainties due to trade dependence on the manufacturing sector and two, the entrepreneurs' need to rediscover a sustainable model of business expansion. *Yi xiang xitong gongcheng* (一项系统工程), translated as 'engineering the (economic) system', is how the CCPIT Chairman, Jiang Zengwei, has highlighted the core function of the 'going out' strategy (*CTN* 2014). This fundamental shift from 'please come in' (请进来 *qing jinlai*) to 'going out' was ground-breaking for a country like China which had hitherto been a manufacturing hub based on FDI (CIRI 2014).

Apart from these macroeconomic reasons, Chinese provinces had adopted the 'going out' strategy to rationalise the local industries' need for international trade strategies as part of the national drive to integrate the internationalisation of Chinese enterprises with the national interest of justifying China's global rise (FIE-MOFCOM 2006; CMIN 2011; Wang 2014). The 'going out' guidelines were made a part of government documents following its appearance in the 3rd Plenum of the 9th National People's Congress (NPC) held in March 2000 (Peng 2011: 77).

In October 2000, the 5th Plenum of the 15th NPC brought about further clarity in this strategy. For the first time, the 'going out' strategy was regarded as one of the four new strategies that would shape China's plan for global economic integration and also provide momentum to China's pursuit of WTO accession (OCAO 2011). The other three strategies which China forwarded alongside 'going out' were the Western Development Strategy aimed at addressing regional disparities, the urbanisation strategy (城镇化战略 *chengzhen hua zhanlüe*)[1] and the talent strategy (人才战略 *rencai zhanlüe*)[2] (CCPIT-EIC 2007; Li 2008; CPC 2008).

Zou chuqu and Provincial China

The provincial industries and their financiers play a key role in devising and lobbying their respective interests through provincial governments. The provincial-level strategies clearly reflect the aspirations of local industries; although the broad policy directives came from the Central Committee via MOFCOM, the local bodies comprising local business elites decided the final shape of these decisions. To enable the smooth implementation of these policies at the sub-national level, CCPIT Councils have been set up at the municipal and provincial levels. These local councils follow their own suborbital trajectories while keeping their policies in line with the larger 'going out' principles mentioned in the policy documents issued by the Central Committee and the MOFCOM. The CCPIT Councils follow localised trade and investment preferences based on industry-type and its international trade composition. This economic sector-wise prioritisation is also factored into the region-specific initiatives of these councils. This is particularly evident in their policies towards Africa, Latin America and the Caribbean (LAC) and India. Thus, the foreign trade and the 'going out' policy of Jiangsu and Anhui provinces, for instance, may differ significantly from each other and the CCPIT councils from Zhejiang and Guangzhou may compete with each other while pursuing their respective India policies.

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[1] The urbanisation strategy was a new attempt to accelerate the reform of urban development. Under this strategy, the development of small towns was seen as crucial in promoting economic and social development in rural areas. Moreover, at the macro level, the drive to urbanise was deemed essential to optimise the structure of agriculture and the rural economy and to increase farmers' incomes to help alleviate the shortage of domestic demand, cater to agricultural surplus and pursue long-term development of the entire industry and services by developing a new market space. For more details, see CPC 2000.

[2] The 'Talent strategy' aimed to develop and build soft infrastructure in the form of human resources. This policy invested in training, attracting and using talent as a major strategic task to build a high-quality pool of personnel assisting the overall economic growth. The 10th Five-Year Plan (2001-2005), which was unveiled during the same period, had a special chapter titled 'Talent Strategy, Strengthen Personnel', emphasising human resource management.' This was the first time that China formulated a national strategy to address its concerns over human resources and to incorporate these into overall planning and layout of economic and social development.

The ‘going out’ strategy is interpreted differently by every provincial government, based on China’s uneven industrialisation pattern. This explains the varied responses of the provinces in terms of investment, apart from implying the limited preparedness of these provinces to embark upon a ‘going out’ plan. For instance, the richer provinces like Shanghai, Jiangsu, Zhejiang, Shandong, and Guangdong made outward investments easier by adopting simplified application and authorisation procedures since 2005 (Bernasconi-Osterwalder et al. 2013). While the state-owned enterprises had to apply to MOFCOM for the authorisation of projects between US$10 million and US$100 million, projects under US$10 million were allowed to proceed without approval (*Guangxi News* 2014).

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New measures to ease controls on overseas investments by domestic companies were announced in April 2014 by the National Development and Reform Commission (NDRC) in China, which further facilitated the ‘going out’ strategy (MOFCOM 2014). The new decree simplified the approval procedures and shortened the approval time-frame by raising the ‘free-from-approval’ outbound investment bar to US$1 billion and came into effect on 6 October 2014. Now only if overseas investment projects are larger than US$1 billion need they be approved by the NDRC and if above US$2billion by China’s State Council. In addition, overseas investment projects in sensitive countries or regions, as well as in sensitive industries, will also require approval by the NDRC. Chinese companies planning to invest less than US$1 billion overseas ‘will only need to register with authorities rather than get approvals from the NDRC’. These reforms are likely to further increase the potential of Chinese investments in India.

A detailed profiling of Chinese provinces, which are already investing in India, also presents a diverse picture. Beijing and Shanghai, along with Jiangsu, Liaoning and Guangdong were the top five provinces and municipalities, which invested in India between April 2000 and February 2014 (DIPP 2014). Shanxi, Sichuan, Tianjin and Hebei trailed in the list. The leading investments came in sectors like metallurgical industries, automobile industry, industrial machinery, services sector and power. Investments from provincial China have been consistent after 2007 and comprised a large share of bilateral commercial engagements with India (DIPP 2014). This resulted partly due to the Chinese provincial scheme of encouraging private enterprises and provincial state-owned enterprises to look for local partners among the Indian states (Deloitte 2012; *Xinhua Network Television* 2014; Maritime China 2014).

Broadly, apart from foreign direct investment (FDI) outside China, the ‘going out’ policy also generated urgency among local industries to start expanding their operations by establishing global supply chains for distribution. The state enterprises took a major lead in galvanising forces behind this drive. For example, Sinopec, PetroChina, CNOOC and China Nonferrous multiplied their overseas investments. Chinese investments in Africa grew as part of the outward expansion by the *zou chuqu* with FDI rising to US$2.52 billion in 2012 from US$392 million in 2005 (Thompson and Olusegun 2014). In the case of the LAC countries, FDI from China, which was US$16 million in 2003, leapt to US$878 million in 2012 (Wise and Zhang 2014). In the case of India too, which had been a low priority region for Chinese investments until 2000, figures moved upward – the FDI rose from US$0.05 million in 2004 to US$152 million in 2013 (DIPP 2014). Importantly, the 'going out to India' strategy rode on the back of Chinese provinces, which took an interest in developing their trajectories for the Indian market.

Conclusion

Since the inception of the 'going out' strategy, local CCPITs have been engaged in a number of economic diplomacy endeavours and most of these trajectories are building on the potential of untapped markets, including India. The propensity of 'going out to India' was accelerated by another fact – the over-saturation in European markets and the risks of remedial trade measures. The increasing number of European trade remedies against Chinese companies has coincided with its rising trade volume with India. So far, China's 'going out to India' policy has made consistent progress. For example, from 2002 to 2005, the bilateral trade between India and China recorded about 50 per cent year-on-year bilateral trade growth (Mohanty 2014).[3] Chinese provincial investments in Indian states have been a significant source of sub-national economic drive in India with the states and their political leaderships giving immense importance to attracting Chinese investments. The visits of Indian states' delegations to China have become more common in recent years (MEA various years). These investments have greater potential than just trade engagements and hence, Indian states have to develop their own strategies to deal with the Chinese thrust of seeking more shares in their local economies. The competition among Chinese provinces to capitalise on Indian conditions as part of the 'going out' strategy will get vicious as the host Indian states also struggle to get more sizable deals from their Chinese counterparts. *It has also to be noted that the Chinese investments are not solely driven by the logic of dominance in the Indian market, but also by the fact that the Chinese investments are meant to build regional hubs that could be connected to China's global supply chains.* Chinese provinces' moves have been calculated and each province has its set of goals to pursue in its 'going out to India' strategy. It is evident, therefore, that the local and sub-national phenomena are playing a vital role in the India-China economic relations. Even as Indian states anticipate and match the new and creative methods adopted by Chinese provinces to further penetrate Indian state economies, there may be a range of new challenges created for India-China economic relations.■

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[3] The total year-on-year bilateral growth from 2002 was 58.6 per cent (2002), 49.2 per cent (2003), 59 per cent (2004) and 60 per cent (2005) (Mohanty 2014).

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