Global China's business frontier: Chinese enterprises and the reach of the state

Gonzalez Vicente, R.; Pieke, F.N.; Iwabuchi, K.

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Global China's Business Frontier

CHINESE ENTERPRISES AND THE REACH OF THE STATE

Ruben Gonzalez-Vicente

CHINESE BUSINESSES HAVE EXPERIENCED a profound metamorphosis in the last four decades, transitioning from "work units" in a planned economy to profit-seeking enterprises in an environment dominated by market principles. The "contract management responsibility system" in the 1980s and the "modern enterprise system" in the 1990s represented key moments for the old work units to renounce their welfare and social security functions and focus solely on the "scientific management" of production and the quest for profits. These reforms were part of broader social changes, which caused the most extensive proletarianization in history and which were accomplished under an authoritarian regime that severely repressed labor rights and dissent.[1] At the same time, neoliberal norms came to reign in the international trade and production architectures, releasing vast amounts of capital from their national constraints. Soon enough, foreign direct investment (FDI) would gravitate toward China's shores, attracted by the country's cheap, disciplined, and increasingly productive labor force, as well as its unrelentingly upgraded infrastructures. As a result, China's international trade grew at an annual average of 18.6 percent between 1978 and 2017, a period during which the country also became the world's main destination for FDI.

In the latter half of the 1990s, the largest and most successful state-owned Chinese companies were consolidated and granted monopolies or oligopolies in strategic sectors of the booming Chinese economy. In parallel, some private and state-owned enterprises were successfully integrated into global value chains. Many of them became global giants, conquering international rankings, such as the Fortune Global 500. However, questions regarding the international competitiveness of Chinese firms emerged following the accession to the World Trade Organization in 2001, while overaccumulation started seriously threatening the country's economic success formula in the aftermath of the 2007–8 global financial crisis. These issues pressed many Chinese companies to look abroad for investment opportunities. The central government contributed to this emerging trend with the inclusion of a "going out" strategy in China's tenth Five -Year Plan in 2001, having since then financed international business expansion with soft loans through two of the country's policy banks: the China Development Bank and the China Eximbank.

Chinese companies followed suit and acquired numerous projects and companies outside China, becoming the builders and managers of large mines, special economic zones, and major infrastructure works. Driven by the coercive laws of competition, their FDI strategies fit the classical types described by Dunning: opening new markets, increasing efficiency and cost-reduction, or gaining access to resources and strategic assets.[2] All these strategies are pursued, although some have been more prevalent than others in different periods. The early 2000s were characterized by a quest for competitiveness on account of China's accession to the World Trade Organization. A demand for natural resources drove many Chinese firms overseas during the natural resource boom (2003–13) and following the global financial crisis in particular. The contemporary period stands out for the efforts to open foreign markets for construction firms in response to a slowdown of the Chinese economy. As far as the central government is concerned, this imperative for continued accumulation is accompanied by "geoeconomic" considerations—that is, the belief that the expansion of commercial networks is a key part of enhancing the country's international security and strength—as illustrated by the development of cross-border economic areas in China's border regions.

STATE AND BUSINESS INTERNATIONALIZATION

The close connection between Chinese firms and the Chinese state figures prominently in many accounts of Chinese business internationalization. Most of these characterizations are dominated by one of two positions. The first presents China's international campaigns as mere neocolonialism. This view is exemplified by the words of Donald Trump's former national security adviser, John Bolton, who recently cautioned about China's use of "bribes, opaque arrangements, and the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands."[3] Another, more celebratory characterization emphasizes the Chinese state's unprecedented capacity to stimulate growth and promote win-win opportunities throughout the developing world.

These accounts have in common the assumption that the Chinese state plays a uniquely active role in the internationalization of Chinese capital. However, the Chinese state is far from the first to promote capitalist relations and business internationalization. Marx and Engels already described the modern capitalist state in nineteenth century Europe as a "committee for managing the common affairs of the whole bourgeoisie."[4] Likewise, the history of capitalist expansion beyond Europe was intimately tied to imperialism, and American hegemony in the twentieth century cannot be understood without considering the militarized support for an international liberal market order. More recently, national and multilateral development agencies, including the World Bank or the Organization for Economic Cooperation and Development (OECD), have increasingly focused on mitigating investment risks and on "escorting . . . international capital into frontier and emerging market settings."[5]

Thus, when put in perspective, the way in which various Chinese state agencies or actors associated with the state (for instance, policy banks, embassies, and the Asian International Investment Bank) facilitate the entry of Chinese businesses into external markets may be distinctive in terms of format, but is by no means unprecedented. In essence, these state entities also "escort" businesses into frontier markets, facilitate credit, and derisk investment with large portfolios and through government-to-government agreements.

As Chinese enterprises make use of this support to set up shop in a variety of settings abroad, they encounter new types of legislation, civil societies, business cultures, and natural environments. This has entailed processes of adaptation, contestation, and indeed, both failures and successes. In what follows, I chart two modalities of outward investment that respond in great part to the characteristics of host countries. In some cases, the low level of development of a particular sector or country has required what I call *state-coordinated investment partnerships* that bring together Chinese firms and state actors. In other cases, the strength of already existing industry or the difficulties of navigating the relations with government agencies and civil society have prompted some businesses to rely heavily on local expertise via subcontracting, collaboration, and the hiring of local staff. I refer to these latter cases as *localized investments.*

STATE-COORDINATED INVESTMENT PARTNERSHIPS

The rapid development of the Chinese economy since the late 1970s has not followed a linear process of Washington Consensus-inspired orthodox liberalization and privatization. Instead, in China many key corporations have remained under different degrees of state ownership (from minority stakes to full ownership) and at different levels of governance (ranging from township to national ownership), while others that have been privatized have kept important formal and informal ties with the Party and its cadres, resulting in what Jonathan London describes as "market Leninism."[6] However, the weight and reach of the state in the Chinese economy does not imply that firms are predominantly motivated by nonmarket agendas. Quite the contrary, in its transition toward a capitalist state concerned with protecting the interests of capital over those of labor, the state in China has become infused with entrepreneurial practices and guided by growth and profit rationales.[7] In the process, complex networks of trust and power that link state entities with businesses have been developed, challenging clear demarcations between "the state" and "society," or between "public" and "private."

These domestic networks have also facilitated a certain degree of state-led coordination in international ventures through what I term "state-coordinated investment partnerships." This type of arrangement combines the financial muscle of a Chinese state-owned policy bank, the diplomatic networks of the state, and the specific expertise and interests of individual companies. An example can be found in the construction of the Bui Dam in Ghana. Ghana's fiscally constrained government sought recourse to a US$263 million concessional loan from the Chinese government, in addition to a buyers' credit of US$298 million from China's Eximbank.[8] While the dam itself was built by the Chinese company Sinohydro, the Ghanaian government committed itself to repay the debt with the sale of cocoa beans to another Chinese company, Genertec International Corporation. In order to make this happen, Chinese state institutions coordinated different actors and used diplomatic contacts to facilitate negotiations.

This unique investment modality has given Chinese businesses an edge in tapping into unexploited markets of countries that would otherwise not be able to undertake much infrastructural development, suggesting a *differential* impact. This capacity comes at the price of creating new forms of debt, which may undermine the long-term developmental aspirations of loan recipients, particularly when infrastructural investments turn out to be unproductive. In some instances, sovereign guarantees (i.e., a governmental commitment to meet all debt obligations) have resulted in the transfer of infrastructural projects to Chinese businesses, as was the case with the Hambantota port in Sri Lanka, which is now under a ninety-nine-year Chinese lease after the Sri Lankan government was unable to service its debt. In other cases, the valuation of the assets handed over to Chinese investors has been opaque or controversial. In Jamaica, for example, some NGO groups and politicians have protested the lease of 1,200 acres of prime land to Chinese companies as part of the compensation for the construction of the underutilized North-South Highway.[9] Yet, in many other cases, Chinese projects and finance have given a boost to local economic activity—while the ensuing economic benefits are not necessarily equally distributed, as in Cambodia, where vulnerable populations have often been displaced to make space for a tide of Chinese real estate and infrastructural investment.

A key feature of these investment partnerships is the limited linkages between Chinese enterprises and the local economy and society. In providing a "full package" arrangement for an infrastructural project, Chinese companies remain in a country only for a limited period of time, unless they are also contracted to manage the project. Such companies make only limited use of local suppliers or labor and are relatively isolated from local society and business. Interestingly, and also controversially, exceptional arrangements may be agreed on in order to facilitate quick and low-cost project delivery. In many of these cases, as the Jamaican one discussed above or the Ethiopian one discussed in the chapter by Driessen and Xiang in this volume, government-to-government deals include the management and control of Chinese labor on the basis of Chinese rather than local law. In this way, Chinese laborers embody a type of transnational Chinese sovereignty, as they are subject to Chinese regulations for taxation, salary and working conditions, as well as China's restrictions on independent labor unions.

LOCALIZED INVESTMENTS

Whereas state-coordinated partnerships have been instrumental to opening up new markets in countries otherwise unattractive to conventional forms of investment, Chinese businesses also operate in mature economies where they arrive as inexperienced players. The high-tech sector in California, the extractive sector in Australia or Peru, or the stock market in New York, to give just a few examples, require profound knowledge of existing regulations, practices, networks, and technologies. Moreover, when Chinese businesses arrive in these settings, they do not necessarily have a differential advantage that could allow them to negotiate exceptional conditions, as in the cases above; they can only add to existing trends and thus have an *incremental* impact. The embedding practices that these companies have to entertain necessarily rely—at least at an initial stage—on the assistance of local actors. In these cases, internationalization implies learning, while key elements of their background in the Chinese political economy also remain in place. Importantly, "learning" is a neutral process, as the new rationales internalized by Chinese investors can have both positive and negative impacts on the societies in which they operate.

There are plenty of examples of localization and learning. In trying to adapt to international standards, China's State Council hired teams of international advisors from the likes of KPMG and Price Waterhouse when they decided to float PetroChina on the New York Stock Exchange, something that fundamentally transformed the company's business practices.[10] Leading private technology firms such as Lenovo or Xiaomi recruited foreign CEOs in attempts to acquire market and management knowledge. In Australia, Chinese firms rely on the local talent pool for managerial positions in order to learn about the institutional context and leading practices in the mining sector.[11]

My own research on the engagement of Chinese firms in Peru found similar practices. The local offices of Chinese mining firms were filled with Peruvian, European, and American staff, while many key tasks were subcontracted to local or other foreign enterprises.[12] This resulted in behaviors that were quite familiar in the Peruvian context. Community management teams in charge of everyday relations with local communities used their training in American marketing strategies to promote participatory approaches to reach their goals. The adjunct general manager of corporate giant Shougang, in what would seem a clear breach of China's policy of noninterference, antagonized the Peruvian congress by threatening to stop Chinese investment in the country if an anticorruption investigation was to proceed any further. Public relations teams in the northern part of Peru attempted to discredit environmentalist NGOs critical of a Chinese state-owned company by depicting them—note the irony—as "Communists," indicating an important gulf between a company's headquarters and the practices of its local branches.[13]

However, it is important to note that while transformation can be profound, localized branches of Chinese enterprises remain linked to China in important ways. In particular, two elements stand out: financial links and the physical location of a firm's headquarters. The first of these two elements enables a longer-term perspective relative to other transnational firms thanks to the availability of Chinese state finance and a significant independence from shareholders concerned with short-term returns. This allows taking more time for particular phases of a project—for example, for trial and error in fixing strained relations with a local community affected by a mine. Perhaps more obviously, local branches of Chinese companies require approval from their headquarters for operations exceeding a certain threshold (in the case of a company in Peru the limit was set at US$5 million), guaranteeing the head office a certain degree of control. Finally, as I found in Peru, the physical location of headquarters within Chinese jurisdiction may preclude local activists from organizing campaigns or pursuing legal cases against Chinese companies by targeting the head company, which was a strategy often used by Latin American activist groups against European, Canadian, or American firms. Localization may significantly transform some practices, but it does not completely erase the national characteristics of a firm.

CONCLUSIONS

A mix of admiration and anxiety pervades most analyses of Chinese business internationalization. More often than not, Chinese enterprises are seen as the spearheads of an impeccable strategy carefully designed to "rejuvenate the Chinese nation," as President Xi Jinping put it, weaving an ever-growing network of economic activity that emanates from Beijing and seeks to capture resources and opportunities for accumulation throughout the world. This picture fails to grasp how the most recent wave of Chinese economic expansion responds to shrinking profit margins for infrastructural companies in the Chinese economy, how Chinese firms operate under similar competitive constraints as other firms in the global economy, or how it remains impossible to tightly control an extraordinary number of firms that pursue their own economic interests throughout diverse geographies around the world.

This chapter has charted two modalities of internationalization with distinct implications. State-coordinated investment partnerships require complex investment architectures and have a unique capacity to open up new markets closed to other businesses. Here, entities of the state coordinate—but do *not* control—several actors. Owing to the timeframes associated with these types of projects or the lack of local capacity, Chinese companies do not engage much with local actors and practices. By contrast, localized investments are common in consolidated markets and sectors. They are characterized by deep processes of learning and transformation that render Chinese firms similar to other transnationals. While in some cases this may cause tension between the interests of firms and those of Chinese state entities, Chinese officials have long upheld firm autonomy and the profit imperative as guiding principles to improve the allocation of resources and guarantee success in a competitive global economy. Very importantly, the continuing association between Chinese firms and the state does not come in the form of business capitulation to foreign policy objectives. Instead, the opposite seems to be true in most cases, as a number of state agencies devote public resources to create spaces for the international accumulation of firms that are driven by an eminently economic bottom line.

There is, however, some geographical variation. Overall, the state's control over financial means implies that a "geoeconomic" agenda may be more prominent with many investments within Asia, while in other regions, like Africa and Latin America, profit is the primary motive. This is of course not unlike the strategic priorities of other governments, which also flexibly align with the interests of capital at different places and junctures.

While new in some ways, the activities of Chinese businesses overseas with or without the direct support of the state have not disrupted the workings of world market capitalism. In adapting to a variety of capitalist settings throughout the world and the rules of global competitiveness, the need to localize business underpins a mix of local variation, mutual learning, and convergence. Rather than devising new rules of the game, the Chinese state and individual Chinese businesses envision and carve out a space for Global China at the center of a business-centric form of globalization, rather than aspiring to replace it with something altogether new.

NOTES

1. Walker and Buck 2007.
2. Dunning 1977.

3. John Bolton, "Remarks by National Security Advisor John R. Bolton on the Trump Administration's New Africa Strategy" (Heritage Foundation, Washington, DC, December 13, 2018). https://www.whitehouse.gov/briefings-statements/remarks-national-security-advisor-ambassador-john-r-bolton-trump-administrations-new-africa-strategy/.

4. Marx and Engels (1848) 1978, 475.

5. Carroll and Jarvis 2014, 538.

6. London 2014.

7. Gonzalez-Vicente 2011.

8. Odoom 2017.

9. Gonzalez-Vicente, 2019.

10. Lin 2016.

11. Huang and Austin 2011.

12. Gonzalez-Vicente 2012.

13. Gonzalez-Vicente 2012.

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