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# China's Local Governments and Small Enterprises as Overseas Investors

**By Shaun Breslin**

Xi Jinping is widely seen as being China's most powerful leader since Deng Xiaoping and perhaps since Mao. While it is right and prudent to focus on what Xi says and does (and loudly says that he wants), there is a danger that analysis of China's trajectory and international impact is becoming too Xi-centric. Even if observers are not specifically fixated on what Xi as an individual wants, they may nevertheless be overly focussed on the goals and ambitions of the central Chinese state, and overlook the interests and objectives of actors below the national level.

**Shaun Breslin**, Professor of Politics and International Studies at the University of Warwick, explains that "Even as other enterprises and actors become more active in overseas investment projects around the world, state priorities and objectives remained important."

Take the expansion of Chinese overseas investment as an example. The actions of Chinese companies overseas are often perceived as illustrations of Chinese economic statecraft, with companies acting on behalf of the state to attain strategic objectives. Some State Owned Enterprises (SOEs) have indeed invested overseas with financial and diplomatic support from the government to gain access to energy and other resources that the state has targeted as essential to maintain Chinese economic security. Such investment in developing countries—including a number of politically unstable ones—was very much a feature of the early wave of Chinese overseas investment in the new millennium. And even as other enterprises and actors become more active in overseas investment projects around the world, state priorities and objectives remained important. It was a shift in the Chinese overseas investment regulatory regime, for example, that not so much encouraged as allowed for a new wave of investment seeking advanced technologies and markets from smaller companies. And as the introduction of new Chinese controls on some investment in sporting, entertainment and real estate projects in 2017 showed, the state can and does act to prevent activity is not deemed to be in the national interest.

But just because some Chinese SOEs act as strategic agents of the central state, this does not mean that all of them do. Quite simply, commercial objectives play their part, too. The profit motive is even driving some investments by SOEs in energy sectors. Moreover, when we talk about the Chinese state, it is important to distinguish between different parts of that state. The power to approve and/or register overseas investment projects has been gradually simplified and devolved. From 2014, only mega-projects (of over US$1 billion) or those in sensitive areas need approval rather than simply being filed and registered, with local governments responsible for investments of under US$300 million. A range of other mechanisms has also been introduced to help smaller enterprises go overseas and move up global value chains.

One consequence has been an increase in the significance of the developed world as the main target of Chinese investment activities. Another is a shift in who is investing. Overseas attention seems to remain focussed on what is done by large Chinese companies – be they SOEs or large private ones like Huawei – and their major acquisitions (such as ChemChina's takeover of Sygenta in 2017). This is entirely understandable. However, according to a report by the National Development and Reform Commission (China's main economic management and planning agency), while investments by local enterprises only accounted for about 13 per cent of the total value in 2006, they had risen to nearly 90 per cent by 2016. There is a growing consensus among China watchers that local enterprises have become the backbone of China's outgoing foreign investment.

By focussing on the apex of the Chinese political system, we too easily overlook the importance of local governments. What they want – and what they want varies considerably from place to place – has become a key driver of Chinese international economic interactions. Their collective behaviour will also be a key determinant of how China's economy performs in coming years, both at home and overseas. For example, the vast majority of Chinese SOEs are not owned by the central government, or even by China's provincial level governments, but are instead registered by governments below the provincial level. It is this local level of the administrative hierarchy that owns and controls land. (Selling and re-selling land use rights are a key source of local government income.) This is where most Chinese government debt is located and will come due.

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In addition, government officials in counties, townships, and prefectures are the representatives of the state whom most Chinese people interact with in their daily lives. How they deliver public services, how they raise money, how they distribute contracts, and so on will collectively be a key determinant of both how future economic change plays out in China, and also how the Chinese people respond to it. What they do collectively will also be a key determinant of what happens to China's international investment profile in the future. For example, China's Belt and Road Initiative (BRI) has drawn the attention of many local governments, which are seeking to utilise Xi's enthusiasm for the project to lever their own local agendas.

Those in the Beijing foreign policy establishment will often express concern that what some Chinese do overseas reflects badly on the country as a whole. If they over-zealously pursue their own narrow economic objectives, then they can undermine the broader political objective of establishing an idea of China as a new type of great power. It is fair to say that it is not just small or locally owned investors that have resulted in a push-back against Chinese investment projects in places like Myanmar. But they certainly play their part. Xi's economic reform agenda in his second term seems at least in part intended to assert the primacy of central (and his) economic objectives. This reform agenda is primarily adopted for domestic reasons, but it could affect what local companies do overseas as well.

Xi's own personal agenda is hugely significant. But we should not assume that his is the only Chinese interest or objective, or that all Chinese overseas investment is part of a coordinated and clearly organised central state strategy. Sometimes it is. But other actors' interests and objectives are often crucial determinants, too. Xi might be in charge, but the Chinese political economy is too big and too diverse for even the central government as a whole to be in day-to-day control of everything.

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