

**Who damages whom?
Chinese firms' outward investment and the international reputation of
China's economic system.**

Marisa Siddivò

ABSTRACT

“A group of "princelings", children of China's political elite, has quietly urged the Communist Party leadership to release jailed Nobel laureate Liu Xiaobo on parole to improve the country's international image”¹.

The news revealed by the Reuters press agency, if confirmed, adds a key element to the inside élite's debate on the country's reputation and its link with the high failure rate of overseas direct investments (ODI). Starting from December 2012, the Chinese perspective on its own outward investment experience has indeed undergone a change. Two elements, in particular, have prompted this change: a preliminary estimate of the “failure rate” of Chinese multinational investment and the gradual but relentless erosion of the country's firm belief that developing countries would have extended a warm welcome to Chinese investments. The origin of the troubles faced by ODI has indeed become a top issue for State party officials, enterprise CEOs and economists as well. The emergence of divergent perspectives suggests that the block of interests that has often been identified behind Chinese investment is less homogeneous than it appears.

Keywords: China; ODI; failure rate

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¹ Benjamin Kang Lim and Michael Martina, “Chinese elite push for release of jailed Nobel laureate”, Beijing, Sun. May 11, 2014, 8:06 am, <http://uk.reuters.com>

1 - Introduction

Since December 2012, the assessment by the Chinese leadership of its own outward investment policy has changed abruptly. In December 2012, Mofcom released the “Report on Development of China’s Outward Investment and Economic Cooperation” for the years 2010-2011.² The report contained a long paragraph devoted to the difficulties faced in some investment environments and to the risks to which Chinese outward investments could be exposed.

Since then, the word “failure”, which occurred in the Report just twice, has spread rapidly in the literature on overseas direct investment (ODI). Throughout the year 2013, State party officials, economists and managers concerned in the “going out policy” discussed the failure rate of Chinese multinational investment, especially of cross-border M&As. According to many agencies, such as Dealogic Inc., Thomson Reuters, McKinsey, Zero2Ipo and Heritage Foundation, the Chinese investment failure rate was higher than that recorded by developed countries’ multinationals and, in some years, the highest in the world. Dealogic, for example, wrote that in 2009, the failure rate of China enterprise cross-border M&As (referring to the rate at which the withdrawal, rejection or expiry of cross-border transactions was announced) was the highest in the world.³ McKinsey estimated an average failure rate of 67%. In particular, Thomas Luedi, director of the Shanghai branch of McKinsey, on analysing 56 deals over the period from 1995 to 2007, wrote: “Although drawn from a relatively small sample, our analysis suggests that Chinese acquirers tend to overpay in a little more than half of all deals and that the capital markets on average discount the value of the combined entities.... evidence suggests that the deals of Chinese companies from 1995 to 2007 performed less favourably than those of Western ones did”.⁴ According to Thomson Reuters, from January 1982 to April 2009, the success rate of Chinese investment abroad was 51.2%, while in the same period, the USA recorded a 76.5 % of success and the worldwide average was 68.7%.⁵ Zero2IPO, which is one of the most influential agencies in China, has never released a definitive rate but the following statement is often quoted by Chinese analysts: “Chinese companies completed 110 cross-border deals in 2011, up from 57 the year before, but behind each successful acquisition a Chinese company made abroad last year, there were many more failures. The volume

² Ministry of Commerce of the People’s Republic of China, “Zhongguo duiwai touzi hezuo fazhan baogao” (Report on Development of China’s Outward Investment and Economic Cooperation, 2011~2012), <http://fec.mofcom.gov.cn> 2013-05-07.

³ Liu Hong, Qiao Xiao, “Cause analysis of the failure of China enterprise overseas M&As”, p.302, <http://www.seiofbluemountain.com>, August 2011.

⁴ Thomas Luedi, “China’s track record in M&A”, *The Mckinsey Quarterly*, no. 3, 2008: 75-81 quoted by Duan Xiaoyuan, “Global rethinking of Chinese state-owned enterprises outbound M&A”, Bucerius/WHU Master Of Law And Business Program, 2011.

⁵ Zhang, Jianhong and Haico Ebberts, “Why Half of China’s Overseas Acquisitions Could Not Be Completed”, *Journal of Current Chinese Affairs*, 2010, vol. 39, no. 2, 101-131; p.103.

of foreign transactions is obviously increasing, but it's worth noting that Chinese companies abroad have one of the world's highest failure rates".⁶ In 2013, China Association for Mining confirmed 60% of failures, which went up to 80% in mining.⁷ One year later, it attested that the failure rate in this sector had been 95% during the 11th Five Years Plan (2006-2010).⁸

From the geographic point of view, the highest failure rate has been recorded in Australia followed by North America, Iran, Germany and Libya.⁹ However, there is a very long list of troubled investments in many parts of the world. In Iraq, the Chinese firm linked to the China National Petroleum Corporation had been suspected of fraud (2013).¹⁰ In Brazil, the joint venture BV Steel in 2006 and Companhia Siderurgica Vitoria in 2009 (both between Baosteel and Vale) closed before operations started and the same thing happened to Wuhan Iron and Steel Company (2012).¹¹ In Mongolia, the acquisition of 40% of the shares in Tavan Tolgoi by Shenhua Group (2011) and the investment by Chinalco in SouthGobi Resources (2012) were stopped by a new Mineral Law. In Chile, the CODELCO and MinMetals agreement (2008) has suffered many setbacks. In Gabon, (2013), China's CMEC lost the concession of Belinga Iron Ore Deposit "following concerns about its environmental impact and the company's ability to deliver".¹² In Myanmar, "each of the three largest Chinese investment...has encountered serious difficulties".¹³ The Patruka Hydroelectric Project in Honduras, the China Railway Construction Corp and Mecca light-rail project in Saudi Arabia and the China National Petroleum and Costa Rican Petrol project for the modernization of the refinery, represent other examples of the difficulties with which Chinese investment has coped.¹⁴

⁶ "The China challenge", <http://www.chinaeconomicreview.com>, Thursday, May 17, 2012.

⁷ Chen Yu, "Chinese enterprises to invest overseas mining failure rate as high as eighty percent of private enterprises into the main", 4 November 2013, <http://www.readdailynews.com>

⁸ "Wo guo qiye haiwai kuangye shougou shibailu chao 95%" (The failure rate of acquisition by our enterprises in the mining sector abroad exceed 95%), May 2014, <http://www.finance.eastday.com>

⁹ The ranking designed by the Heritage Foundation is based on the value of the troubled or failed investment. It is updated at December 2013.

¹⁰ "Chinese Firm Linked to CNPC Suspected of Fraud in Iraq", <http://english.caixin.com>, 1 March 2014

¹¹ "Risk more than expected Wisco give up \$5 billion in Brazil, <http://www.qdsjrf.com>, 2012-07-03

¹² "BHP freezes its mining project in Gabon-sources", www.reuters.com. Fri, March 29 2013 11:11 am

¹³ Yun Sun, "Chinese investment in Myanmar: What lies ahead?", *Stimson's East Asia and Southeast Asia Program*, Issue Brief no. 1, September 2013, p. 2, <http://www.stimson.org>

¹⁴ About the "troubled cases" See Kevin Gallagher, "China's development banks go global: the good and the bad", <http://triplecrisis.com>, 9 Sept. 2013; Duan Xiaoyuan, "Global rethinking of Chinese state-owned enterprises outbound M&A", Bucerius/WHU Master Of Law And Business Program, 2011; Fan He and Bijun Wang, "Chinese interests in the global investment regime", *EABER Working Paper* no. 90, 2013 and about political risks challenges for the Chinese oil multinationals see Susan Moreira, "Learning from failure: China's overseas oil investments", *Journal of Current Chinese Affairs*, 42, 1, 131-165 and Jiang, Julie and Ding, Chen, "Update on Overseas Investments by China's National Oil Companies. Achievements and Challenges since 2011", *OECD/IEA*, 2014.

We have to say that data on failure rates do not invalidate the extraordinary rise of the Chinese presence on international markets,¹⁵ nor are they very reliable because in some cases they refer to FDI and in others only to M&A transactions (they exclude green-field investments, which are spreading in South East Asia, for example). Heritage Foundation, on the contrary, summed up investment with engineering contracts financed by the government's aid policy funds. If the parameter of the success rate is the profit margin, the comparison with other countries is even harder to manage.¹⁶ As rightly exposed by many Chinese analysts, data on the failure rate of their country's FDI are not indicative of the real performance since they are allocated to sectors where returns are long-term, such as mining and oil.

By and large, however, Chinese analysts have validated these data. Painstaking research by the Tsinghua University Training of Leadership¹⁷ confirmed a failure rate of 70%, and Chen and Wang expressed their disappointment with the following words, "In 2008 China's loss of cross-border M&A reached 200 billion yuan, which equalled almost the whole year's investment flow".¹⁸ According to Wu Jiangang, a research fellow at the China Europe International Business School, "There is no doubt that the early impetus for ODI came from the merger and acquisition moves of state-owned enterprises. Most of these moves were targeted at foreign enterprises with access to natural resources or to proprietary technology. However, this pattern of going global has not worked well. Though SOEs accounted for more than 90 percent of the ODI in recent times, many of these projects were a waste of China's precious foreign reserves. According to official data, more than 70 percent of the overseas investments made by Chinese SOEs were unprofitable, while the rest were questionable".¹⁹ The most up-to-date report by the Chinese Academy of Social Sciences²⁰ provides evidence of the scant knowledge of the host countries' regulatory system by the Chinese enterprises.

¹⁵ Chinese ODI grew both in value and in the number of deals in 2012 and 2013. As assessed by many international agencies, in particular the IMF and UNCTAD, the growth rate in 2012 was to be reckoned as an extraordinary result compared with the general decline (-18%) of FDI at a global level.

¹⁶ In 2012, the profit margin was 4.3%. In the same year, US FDI gained a profit margin of 8.4%; UK foreign investment recorded a profit margin of 7.3% and Japan FDI 6.7%. Reported by "Zhongguo qiye 'zou chuqu': chongdong hou de fansi" (Chinese enterprise "going abroad": one reconsideration), <http://www.eeo.com.cn>, 2013-09-14.

¹⁷ "Zhongguo qiye haiwai touzi de si da renshi mangqu, wu da fenxian" (Four large blind zones and five large risks for Chinese enterprises' outward investment), <http://www.thldl.org.cn>, 2013-03-27, 11:06

¹⁸ Chen Feiqiong and Wang Yin, "Integration risk in cross-border M&A based on internal and external resources: empirical evidence from China", *Quality & Quantity*, no. 48, 2014: 281-295 DOI 10.1007/s11135-012-9768-2, p. 282

¹⁹ Wu Jiangang, "Private firms can bloom globally", *China Daily European Weekly*, 30 August 2013 p. 9, <http://www.europe.chinadaily.com.cn>

²⁰ "Qiye guojihua lanbishu. Zhongguo qiye guojihua baogao, 2014" (Blue Book of Chinese enterprise globalization. Report on Chinese enterprises globalization 2014), Social Sciences Academy Press, Beijing, 2014

2 – Who damages whom?

Thus, data on the failure rate of ODI have been assumed as correct by most Chinese commentators. The debate, by consequence, has moved onto the origin of the troubles.

The report by MOFCOM on the “Development of China’s Outward Investment and Economic Cooperation, 2011-2012” stressed the risks occurring in host countries, in particular:

1. Requisitions (the report says this risk is strong in some Latin American countries)
2. Terrorism
3. Change in the normative policy of the host country
4. Social protest (the report quotes the role of NGOs in developing countries)

The report off-loaded the troubles onto the foreign investment environment, onto the host countries’ inner political conflict or the attempts by local lobbies to raise the terms of negotiations or the activity of international NGOs. In 2014, the Blue Book of Chinese Enterprise Globalization confirmed that 25% of "investment accidents" (touzi shijian)'s originated in the host country's political context. Of such accidents, 8% had been caused by obstructionism on the part of political factions during approval procedures while 17% were the consequence of political upheavals during the realization of the investment works.²¹ Along the lines of the Mofcom report, the Blue Book listed the host country's normative framework and social protests (NGOs) among the chief causes of the failure rate. Liu Hongwu, Director of the Institute of African Studies at Zhejiang Normal University, commented on the activity of NGOs in Africa with the following words, “The third challenge is the rapid emergence of large numbers of nongovernmental organizations (NGOs) and the adversarial political appeals put forward by these organisations over the past two decades. These NGOs are often supported and controlled by foreign powers. However, to a certain extent, they have contributed to the dissolution of African countries’ internal tolerance, coherence, state authority and ability to take action from the interior”.²² He Fan and Wang Bijun, both researchers at China Academy of Social Sciences, underlined, on the contrary, the hostile climate and the specious attitude by the "Western politicians" who used "National security (as) one of the major pretexts... in order to justify their concerns about Chinese ODI... commercial interests presumably sometimes

²¹ "Qiye guojihua lanbishu", op. cit p. 28

²² Liu Hongwu, “How to Solve African Governance and Development Issues: A Perspective from China”, Institute of African Studies, Zhejiang Normal University, <http://ias.zjnu.cn>, 2013

lie behind claimed national security concerns."²³ The expression "*shuitu bu fu*" (the climate is not good), referred to the host countries' attitude toward the Chinese investment, became a mantra in all contributions on this topic.

Some CEOs deeply involved in the going out policy (among them, the president of EXIM Bank)²⁴, on the contrary, addressed the home context. They said that reasons for the high failure rate were the lack of state support, the weakness of their country's financial system and the strict regulations fixed by the SASAC.²⁵ Some of these officials admitted that cultural differences and the deficit of management talent have resulted in a high failure rate. Gao Xiqing, Vice President of the CIC, the powerful Chinese wealth fund has attested, for example, that a "major challenge for China's new overseas investment drive is a lack of experience. Then comes a lack of understanding of foreign cultures and societies... we must search diligently and find top-notch consultants before investing... One big difference between Chinese overseas investment and that of developed Western nations is that we lack talent".²⁶ The "lack of talent" was often singled out for the cost-benefit analysis that did not consider the difference in labour cost in those countries like Australia and Canada which had been the first target of sensitive investment in mining sector.²⁷ According to Xu Zhongbo, chief executive officer of Beijing Metal Consulting Ltd., in fact, "it would be great news to cool down the mania for rushing for overseas deals. We don't have the ability yet to create a globally powerful mining company."²⁸ Another very interesting consideration about China's FDI came from Zhong Jianhua, China's Special Representative on African Affairs. In August of 2012, he had to reply to Lamido Sanusi, then-Governor of the Central Bank of Nigeria, who said that China has contributed to Africa's "deindustrialisation and underdevelopment".²⁹ Of course, Zhong rejected this charge but

²³ He Fan and Bijun Wang, op.cit. , p.

²⁴ "Zhongguo qiye 'zou chuqu'shibailu quanqiu di yi. Chuanjia huyu guojia zhichi" (The failure rate of the Chinese enterprises involved in 'going out' is the highest in the world. Experts call for state support), <http://news.cnhubei.com>, 2013-09-13

²⁵ State Asset Supervision and Administration Commission. On this interpretation see: "Ma Weihua, Zhongguo qiye zou chuqu de shibailu hen gao" (Ma Weihua: The failure rate of Chinese firms abroad is very high), <http://finance.sina.cn>. 2013-04-21, 18:24; on the framework for approval and monitoring of ODI see: Karl Sauvart, & Victor Zitian Chen, "China's regulatory framework for outward foreign direct investment", *EABER W.P. Series* no. 88, 2013

²⁶ Gao Xiqing, "CIC Vice Chairman : Obstacles to Overseas Investment", <http://english.caixin.com>, 16 January 9, 2012, 17:07.

²⁷ During the 1990s, United States, Canada and Australia accounted for 43% of the Chinese total capital outflow. In 2009, Australia maintained the fourth position after Hong Kong, Cayman and Virgin Islands in the top twenty host countries. In 2013 the Canadian oil and gas company, Nexes, has been acquired by the China National Offshore Oil Corporation.

²⁸ "Hanlong shougou Oitalia kuang shibai; Zhong qi hai wai shougou 'lei sheng da, yu dian xiao' (Hanlong's acquisition of Australian mine failed. Chinese enterprise acquisitions abroad are 'lots of thunder but little rain'), <http://money.163.com>, 2013-04-09 16:36:0

²⁹ William Wallis, "Africa told to view China as competitor", *The Financial Times*, 13 March 2013

admitted, “The Chinese business community is also too young to understand properly how to conduct operations outside China. Too often companies and investors operating abroad take domestic practices with them which can harm their prospects for doing profitable business”.³⁰ Dr. Zhou Dequn, a conservation biologist at Kunming’s University of Science and Technology, focuses his criticism on environmental impact, “China is exporting its business behaviours and ignorance of rule of law practices to the Mekong region. Our wealthy businessmen abroad do not have the interest or technical capacity to promote sustainable practices, nor do they consider the legal context of their actions”.³¹ The sharpest criticism came, however, from Zhang Wenkui, a State Council affiliated economist who said “Chinese enterprises involved in the going out policy have to avoid the “local tyrant” style, they must be vigilant against the enlargement of the scale of their operation, that is, against the bias toward wandering off their place and their budget”.³² Newspapers and websites have often reported this sentence. Many comments, indeed, ascribe the failure rate to the corporate culture of national enterprises which, as stated by Fan He and Wang Bijun "are accustomed to building close connections with juntas, local strongmen, and powerbrokers, but do not know how to communicate with the local community and its people."³³ An increasing number of analysts, however, shifted the true origin of the failure rate from the multinationals’ behaviour to the overall reputation of China³⁴. In their opinion, “China” is a negative brand, it hampers its own foreign investment. As a result, they suggested distinguishing the “going out policy” from the *China* brand that is usually associated to the “world factory” image, to the corruption and food scandals as well.³⁵ Also this perspective has been prompted by outside comments. In this case, the stimulus for complaints by concerned officials and managers has been the BBC/Globe Scan Polls and Pew Attitude Project on China Survey. Both of them have been

³⁰ “Ambassador Zhong Jianhua on trade, aid and jobs”, *Africa Research Institute, The Conversation series*, 6 August 2013 , p. 3, <http://www.africaresearchinstitute.org>

³¹ Brian Eyler, “China needs to change its energy strategy in the Mekong region”, <http://chinadialogue.net>, 16.07.2013

³² Zhengquan Ribao, “Zhang Wenkui: The Chinese enterprises in going out have to avoid ‘local tyrant style’”, <http://zqrb.ccstock.cn>, 28.12.2013.

³³ He Fan and Bijun Wang, op. cit p. 19

³⁴ William Brent, “The Great Leap Outward: Can Chinese brands be global powers?”, *China Business Review*, 15 July 2013, <http://chinabusinessreview.com>

³⁵ Actually, this is the strategy of those Chinese enterprises that invest in developing countries through incorporation in Great Britain or Luxemburg. This choice confirms that Chinese firms have already attained the awareness of the weakness of their country’s image.

translated into Chinese and widely commented since 2005. Recently they have also stimulated the country's need to conduct its own survey on the perception of world public opinion about China.³⁶ Compared to the Globe Scan/PIPA survey in 2005 and Pew Survey in 2007, the 2011 polls revealed that the negative view of China's growing economic power had risen in many parts of the world, especially in France (up from 31% to 53%), Canada (up from 37% to 55%), Germany (up from 44% to 53%), Italy (up from 47% to 57%), the USA (up from 45% to 54%), the UK (up from 34% to 41%) and in Mexico (up from 18% to 43%).³⁷ According to the same sources, in 2013 "global views of China have plummeted",³⁸ China was "the country whose influence in the world has worsened the most over the past decade" as "in 2005 positive views were held by nearly half (48%) and strongly outweighed negative views (32%), but since then perceptions have flipped: positive views have dropped 13 points to 35 per cent in 2014 and are now eclipsed by negative views (49%, up 17 points).³⁹ Besides, the nations with the most positive views of China's economic growth were Nigeria (78% in 2013 and 85% in 2014), Pakistan (81% in 2013 and 75% in 2014) and Ghana (68% in 2013 and 67% in 2014) despite a drop of 11 points since 2012 in these latter countries. Obviously, these surveys attracted the interest of China Party-State officials and led to a bitter consideration of their efforts to improve the country's reputation. By the same token, they obviously also represented an opportunity for the enterprises' CEOs to overturn the negative assessment of their behaviour.⁴⁰

In 2014, however, new factors cooled down the debate on the outward investment failure rate. The first was the release of the data on the growth rate of outward and inward investment. According to the Mofcom, in 2014 the ODI growth rate was 14.1% while that of foreign direct investment was 1.7%. The gap between the two-way capital flows enabled China's Vice Commerce Minister Zhong Shan to forecast an imminent leap forward, "On current trends, China's outward investment will continue to grow faster than its utilization of foreign investment, which will make China a net

³⁶ Until 2010, the report published by the magazine "Huanqiu Shibao" on "Global perspective. A survey on China and the world" was devoted to the perception of the Chinese people about the world. Since then, the report has been enriched by a distinct part on "China seen by the world". In December 2013, a high-level meeting to analyse the results of this report was held in Beijing.

³⁷ The BBC Press Office, "Global poll reveals rising concern about China's increasing power", <http://www.bbc.co.uk>, 28.03.2011

³⁸ GlobeScan, "Views of China and India slide in global poll while UK ratings climb: Global Poll", <http://www.globescan.com>, 22 May 2013

³⁹ Globescan, "Negative views of Russia on the Rise: Global survey on country influence", <http://www.globescan.com>, 3 June 2014

⁴⁰ One of the most articulated works on the mutual negative impact between going out enterprises and the country's international reputation is a long, anonymous post published by sina.com, "Zhongguo duiyu ziji de guoji xingxiang huaiyi yu bu zixinde genyuan shi Zhongguo de zhidu bu wanshan" Doubts of China on its international image and lack of confidence on the improvement of its system, <http://blog.sina.com.cn/wuyadong1840>, 2009,7,7

investor in no time, making a historic turning point".⁴¹ Along the same lines, many economists and government officials commented on the success of the going-out policy and the maturity achieved by their country as "the real economic impact of a country does not lie on the products (many or few) that it exports but on the capital (many or few) it exports, through M&A it is possible to deeply affect international economic rules and trade pattern as well".⁴²

The second factor was the new perspective on the shift of the economic pattern introduced by the so-called "*xin changtai*"(new normal). The new catch-word launched by Xi Jinping identifies both the changes occurring in the international and domestic landscape because of the persistent economic crisis and an opportunity for China to "deepen the reform, stimulate innovation and discharge energies". In other words, China could now realize that shift from an investment-led growth model to a consumption-led growth model, launched, without success, by Wen Jiabao and Hu Jintao before the international crisis in 2008. As stated by some analysts, "xin chang tai" and "going-out policy" influence each other as the interest of the Chinese multinationals toward R&D, high tech manufacturing, finance and those innovative sectors that lie, of course, in low risks countries can be stimulated by the decreasing demand for raw materials on the domestic market. Besides, the commitment of the government in reducing the huge foreign currency reserves can translate into further financial support to the enterprises that are investing abroad.

A third factor contributed to the cooling down of the debate on the failure rate, namely the "yi dai yi lu" (one belt, one road) policy. Launched by Xi Jinping in 2013 the "silk road economic belt" and the "21st century maritime silk road" is a project for a more incisive and coordinated internationalization of the country. Countries⁴³ located along the two tracks will benefit from the Chinese cooperation "especially in terms of building infrastructure and other development projects" and will absorb, according to the expectations of the Chinese government, "China's technologies

⁴¹ In January 2015, however, Mofcom released this statement, "According to the statistics by the Ministry of Commerce and the State Administration of Foreign Exchange, in 2014, Chinese enterprises made a direct investment overseas of US\$116 billion, up 15.5% year on year. US\$13.11 billion went to financial areas, up 27.5% year on year while US\$102.89 billion went to non-financial areas, up 14.1% year on year. China's direct investment overseas and attraction of FDI only got a balance of US\$3.56 billion, which is for the first time that China's two-way investment being close to be even in line with present statistics standards." It forecast a balance not a surpass as many media reported.

⁴² "Zhongguo ziben zouchuqu, jiyu yu yu tiaozhan bingcun" (Chinese capital goes out, opportunities and challenges), <http://news.hexun.com>, 2015.01.28

⁴³ From the cctv.com, 03-08-2015 10:44, "The "One Belt" begins in Xi'an in Northwest China before stretching west through Urumqi to Central Asia. From there it goes to northern Iran before swinging west through Iraq, Syria and Turkey. From Istanbul, it crosses the Bosphorus Strait and heads northwest through Europe, including Germany and Netherlands. It then heads south to Venice, Italy. The other part of the plan is the 'One Road' that begins in China's Quanzhou in Fujian province and heads south to the Malacca Strait. From Kuala Lumpur, it heads to India, then crosses the rest of the Indian Ocean to Nairobi, Kenya. From Nairobi, the Maritime Silk Road goes north around the Horn of Africa and moves through the Red Sea into the Mediterranean. Then it meets the land-based Silk Road in Venice".

and production capacity in oversupplied areas such as steel manufacturing".⁴⁴ The "one belt, one road" policy, by consequence, provides two keys to overcome the difficulties until now faced by the national enterprises, the support of state-led aid for development policy and a geographic route that will result in a more orderly expansion in the international context. Even if the debate on the failure rate appears to be cooling down, the increasing (since 2014) demands on enterprises to embrace the ambitious plan of the government and grasp all the opportunities offered by such a pattern of internationalization suggest that the dispute on their failure is still under way.

3 - Conclusion

The glamorous image of a triumphant march of Chinese investors in foreign markets is argued by the same Chinese. In the official documents, the troubles faced by outward investment rest on the political and economic risks (or barriers) in host counties and on the ignorance of investors about them as well. In the public debate, on the contrary, a more articulate criticism of both the Chinese multinational firms' behaviour and the impact of the nation's reputation on the success rate of the firms is emerging. In this work it has been reported only a fragment of the contribution by the Chinese analysts on this topic. A great deal of case studies, national meetings' proceedings, scientific essays, blog posts, official and informal declarations have highlighted the concern of the political and economic élite of this country about the performance of the going out enterprises. When the local press reports cases of infrastructures built by Chinese enterprises collapsing within a few years, like Luanda's General Hospital, or roads in Zambia washed away by rains or the University of Liberia's Fendell Campus, a \$30 million gift from China, which showed signs of collapse after being open only two years, Chinese analysts cannot claim that the unfavourable investment environment is caused by the activity of USA-paid NGOs. It is no coincidence that government pressure on firms to adopt corporate social responsibility codes is increasing.⁴⁵ Obviously, company managers do not appreciate the role of scapegoat. They prefer to emphasize the negative perception that has blossomed in many countries on their country's reputation and the effect it exerts, in terms of civil society protests and normative barriers, on their investment. "Who

⁴⁴ "One belt, one road", <http://www.english.caixin.com>, 20145,12.10

⁴⁵ Most Chinese multinational firms have endorsed the UN Global Compact or other agreements on the respect of social rights and environmental protection (Corporate Social Responsibility). On the Global Compact website, we note however that 43% of the Chinese firms involved in it are "non-active", that is to say that they have not submitted their Communication on Progress about social responsibility. On the pro active measures of the Chinese government for the adoption of CRS codes see: Marisa Siddivò, "Cina: il dibattito sulla corporate social responsibility nella "società armoniosa", in Marisa, Siddivò (ed.) *La responsabilità sociale di impresa in Asia*, UNIOR, Dip. di Studi Asiatici, Naples, 2009 and Olga, Timokhina, "Chinese foreign direct investment in Africa in corporate social responsibility context", *MSM WP* no. 2014/29

damages whom” summarizes the debate that has arisen inside the Chinese economic and academic elite. Is it the Chinese firms’ behaviour that damages the nation’s reputation or is it the nation’s reputation which damages the success rate of Chinese investors? We do not have an answer yet. The conflict between those who emphasize the impact of both the institutional regime and the growth strategy on the country’s reputation and those who dissociate themselves from the national corporate culture is at arm’s length. The first conclusive remark is that this contrast is indicative of a new relationship between Party-state leadership and state-owned enterprises; it can reveal that the block of interest, which we identify behind Chinese ODI, is less homogeneous than it appears. The season of mutual blame, however, is ending. The new project of "one belt, one road" put enterprises under the control of the State that will back them with financial support and diplomatic relationships. Even if the government has pledged broad autonomy to its multinational enterprises, the chances of operating in oil, mine, construction sectors with no (or less) failure risk are too attractive.

Criticism of the behaviour of multinational firms may easily be extended to the whole country’s corporate culture. The constant enlargement of the scale of operations, neglect of the natural environment and worship of the “price factor” as key elements of competitiveness was experienced first by Chinese citizens and then by populations in developing countries. The criticism levelled by the latter at the behaviour of Chinese enterprises and at the extensive mode of economic growth can therefore exert two-fold pressure. It could make them steer that shift from an investment-led growth pattern to a consumption-led growth pattern (and any consequences in terms of wage increase, respect for the environment, product quality and so on), which Wen Jiabao and Hu Jintao sought to impose, without much approval within the leadership and with little success. Developing countries might also be able to prompt reconsideration of this country’s economic model. We have seen that most of the troubled or failed investments have been run by large SOEs, that is, by those “national championship firms” selected by the SASAC to represent China in the world market. The emphasis by the Chinese press on the need to sustain private firms in the going out policy and dampen criticism made by western countries about the nexus among State, enterprises and sovereign wealth funds could enhance that reform agenda, known as “Plan 383”,⁴⁶ which has been ignored by the Third Plenum of the 15th Congress.

A final consideration requires further research, namely the impact of competition between developed countries’ firms and Chinese firms in bidding for large investments in developing

⁴⁶ Plan 383 was designed by the government-affiliated think tank Development Research Center. It proposed “a three-in-one reform principle in eight key reform areas, with three correlated reform combinations”. According to many analysts, the plan has been neglected by the current leadership. About “383” plan see: Caixin, “State Council Think Tank Proposes '383 Plan' for Reform”, <http://english.caixin.com>, 10.28.2013, 19:22

countries. The story of Peru (comparison between Antamina and Hierro, the former in a joint venture with four OECD-based companies (Xstrata, BHP Billiton, Teck, and Mitsubishi, the latter a joint venture with a China-based company Shougang)⁴⁷ is representative of competition based on compliance with international standards on human rights, environment, transparency, labour and anti-corruption which advantaged the host countries. This case can represent the U-turn of the “race to the bottom” that has afflicted many countries in the name of the competitiveness.

⁴⁷ Barbara Kotschwar, Theodore Moran and Julia Muir, “Do Chinese Mining Companies Exploit More?”, *Americas*, fall 2011, <http://americasquarterly.org>