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State Institutional determinants for China's intermediate goals: indigenous technology, development of industry, and internationalization of companies

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Abstract. This article analyzes the improvement of state institutional quality as a determinant of China's economic success, achieved through the accomplishment of intermediate economic goals. Conventional wisdom that market forces are the sole determinant of liberalization cannot fully explain the Chinese economic boom. With the aim of catching up with developed countries, China has steadily enacted reforms, with slight emphasis on political reforms and continual, aggressive emphasis on concurrent economic ones. Through this combination of state designs and strategies, China has achieved the intermediate goals necessary to sustain the fast and stable rates of economic growth observed in recent decades. To analyze this process, this study will focus on the analysis of three approaches: (i) technological element; (ii) development of the auto industry, and (iii) internationalization of Chinese companies. The recent literature related to the institutional approach offers a proper theoretical framework to understand China's recent economic development and the improvement of state institutional quality.

Keywords: State; economic reform; technological innovations; automobile industry; globalization; China.

1. Introduction

This article aims to analyze the institutional determinants of China's success in reaching its economic goals. Conventional wisdom on market forces is not sufficient to explain the Chinese economic boom. The country's overriding motivation has been to catch up with developed countries. To this end, through political strategies, China has achieved various intermediate goals. This study will focus on the analysis of three of these goals: (i) technological development; (ii) development of the automotive industry; and (iii) internationalization of Chinese companies. The literature offers an appropriate theoretical framework for understanding China's recent economic development based on an institutional approach.

The article is divided into four parts. The first part is the introduction. The second evaluates the institutional factors and environment in China, considering the main institutional reforms in recent years and relating it with the goal of modernization and economic growth. The third part evaluates the accomplishment of intermediate economic goals such as technological development, the development of the automotive industry, and the internationalization of Chinese companies. Finally, the fourth part concludes.

2. Political institutional framework and initial strategies

China's recent economic development is largely a legacy of the Maoist era, when the national goals were directed toward equality and a classless society within an explicit communism system. Since the implementation of the "open-door policy" at the end of the 1970s, there have been ongoing reforms focusing on the goals of modernization and economic growth, including the promotion of inward foreign direct investment (FDI), the development of technology, and the internationalization of Chinese enterprises.

Besides the open-door policy, it is worth noting that Deng Xiaoping´s measures to tackle the concentration of political authority on a single person – practiced by Mao – represented a political starting point. Indeed, under Deng, China's political institutions began meeting on a regular basis; for instance, annual sessions of the National People´s Congress have been held without interruption since 1979.

However, the basic structure of the Communist Party of China (CPC) – in terms of monopoly, hierarchical power, exercise of control, and senior bureaucracy – has been retained. Currently, the CPC unilaterally determines the economic and social policies associated with China's goals. There are four primary organs at the heart of state power: the National Congress, of the CPC, the Central Committee, the Politburo, and the Politburo Standing Committee.

In the economic sphere, it is worth noting the dual-track system, introduced in the late 1970s, through which prices were liberalized. First, in response to a famine, flexible pricing was introduced in the agriculture sector. Thus, after selling their quota to the government at official prices, farmers were allowed to sell the remainder to markets at flexibles prices. Later, the same system was implemented in other sectors. At the beginning of the 1990s the agriculture sector was gradually liberalized and government intervention significantly curtailed, which led to the adoption of new technologies by farmers (Xu, 2012).

The dual-track system was also applied to state-owned enterprises, while private and foreign-owned companies were allowed to invest in traditional strategic sectors such as energy and telecommunications by buying and selling at market prices. Likewise, at the 15th Chinese Communist Party Congress in 1997, the privatization and liberalization of international trade was promoted. This included reductions in legal barriers for private enterprises; privatization of some state-owned companies; and conversion of large-scale state-owned firms into limited companies under majority state control. On the foreign-policy front, under the terms of its membership of the World Trade Organization (WTO), the Chinese government cut tariffs, broadened trade rights, and liberalized foreign investment policy, among other measures. And as far as the division of power is concerned, the country enacted important measures to promote decentralization (Xu, 2012).

Furthermore, at the same Congress, the Chinese government emphasized the need to support the internationalization of state-owned companies. According to Hongmei (2009), China's economy is structured around three pillars: (i) international trade; (ii) attraction of FDI; and (iii) internationalization of Chinese multinationals. In addition, the government has sought to promote a positive international environment and cooperation with other countries.[1]

State-owned companies continue to dominate the Chinese industrial landscape, despite the ongoing liberalization and privatization processes. Thus, such firms are still heavily involved in the country's technological development and internationalization. At the same time, Beijing's industrial and internationalization strategies across various sectors – such as auto man-

1 However, three decades on from the implementation of the reforms, some analysts argue that the Chinese Government's institutional context is misunderstood in light of perception of the country as a potential aggressor on the world stage. Indeed, the China is often characterized as a powerful centralized state, but actually wields less internal power than nearby countries such as Japan or Korea did when they were still undergoing development, something that was possible given their smaller size.

ufacturing, electronics, machinery, iron and steel, oil and petrochemicals, aviation and aerospace, pharmaceuticals, construction and so on – have proven highly effective.

In 2001, China joined the World Trade Organization (WTO), allowing it to continue with its successful integration into the global economy. Taken alongside economic growth, this global integration has catalyzed China's drift toward internationally accepted norms and standards of economic integration. In this context, and fueled by inward FDI, China has emerged as a source of dynamic international trade and outward FDI.

According to Schortgen (2009), there are two main schools of thought about China's global expansion. The first one is the "China Threat" school, which adopts a hysterical, alarmist perspective based on misperceptions regarding China's rise as a great power and the inevitability of global conflict. The second one is the "China Challenge" school, which offers a more comprehensive, rational, and objective assessment.

Indeed, the distribution of wealth and power is moving from West to East, although globalization has not necessarily created an environment in which developing countries are catching up with their developed counterparts. Inevitably, this shift will provoke a strong reaction from industrialized economies. For Schortgen (2009), regardless of whether China becomes aggressive or continues its peaceful economic rise, the county's emergence will pose a challenge to the national interests of other powers.

Although many scholars are critical of the CPC for maintaining a strong hold on power, weakening any possibility of political reform or democratization, others such as Yang (2006) justify such centralization, and the occasional temporary erosion of political freedoms it entails, as necessary for stability in an uncertain and rapidly changing external environment. These authors also point to the risk of social tension, arguing that China's large poorly educated population necessitates slow and gradual movement toward political reform.[2]

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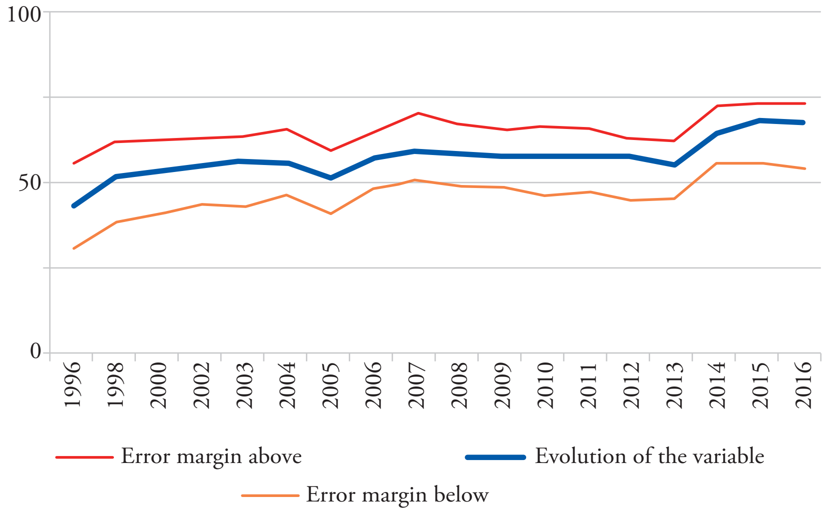
2 For some Western scholars, the internationalization of China's companies is a kind of geopolitical counter-hegemonic move against the United States, and coincides with the stagnation of the major Western economic powers. They argue that a powerful China acting alone can diminish the capacity of the United States to assure its interests based on acceptance of the free market around the world, and can also dilute liberal economy ideologies such as the Washington Consensus.
The Chinese government has made some efforts to assuage these concerns; for instance, by changing the name of its policy from "peaceful rise" to "peaceful development." However, suspicions still emanate from many developed countries, despite general acceptance among developing countries of China's rise. It is important to recall that during the 1980s, the same fears were aroused by the rise of Japan. Therefore the objectivity of global concerns about China can be called into question
In 1954, the Chinese government outlined its "Five Principles of Peaceful Coexistence" as the

Nonetheless, some modest progress has been made in terms of state institutional quality. For example, according to the World Bank's Worldwide Governance Indicators, government effectiveness was China's best-performing indicator out of the six analyzed since 1996. This indicator measures the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies.

Graph 1 displays the improvement in China's government effectiveness indicator, which has now crossed the 50% threshold (with zero percent denoting the lowest quality and 100% the highest quality). But although the country has improved its institutional context as a means of fueling economic growth, there is still a great deal of room for improvement. Indeed, China's performance of just above 50% in this indicator is well below the standards of OECD countries, which exceed 90%. Therefore, the level of institutional quality in China still needs to improve considerably to catch up with the developed world.

Figure 1
Evolution of China's government effectiveness



Source: http://info.worldbank.org/governance/wgi/sc_chart.asp#

framework under which its foreign policy would be conducted: (i) Mutual respect for territorial integrity and sovereignty, (ii) Non-aggression, (iii) Non-interference in internal affairs, (iv) Equality and mutual benefit, and (v) Peaceful coexistence.

The Chinese government has acknowledged that the private sector is a powerful engine of economic growth, and has moved to neutralize potential opposition to it. Likewise, at successive party congresses, the regime has highlighted the importance of the private sector for Chinese development. At the local level, the private sector enjoys beneficial treatment from local government institutions.

This article proposes that China's economic growth is built on the strong foundations of state institutional improvements as a way of ensuring credibility and, in turn, of attracting foreign investors in large numbers. And even though the CPC dominates as a central power, there is a positive political relationship between the center and local levels in favor of a kind of market-preserving federalism (Yang, 2006).

Indeed, the Open Door Policy, liberalization, and economic reforms, in themselves, have allowed China to improve its institutional quality. This progress has paved the way for economic growth and sustainable development thanks to a better political and modern economic framework. Thus, the reforms have provided greater incentives for trade and investment involving both domestic and foreign actors.

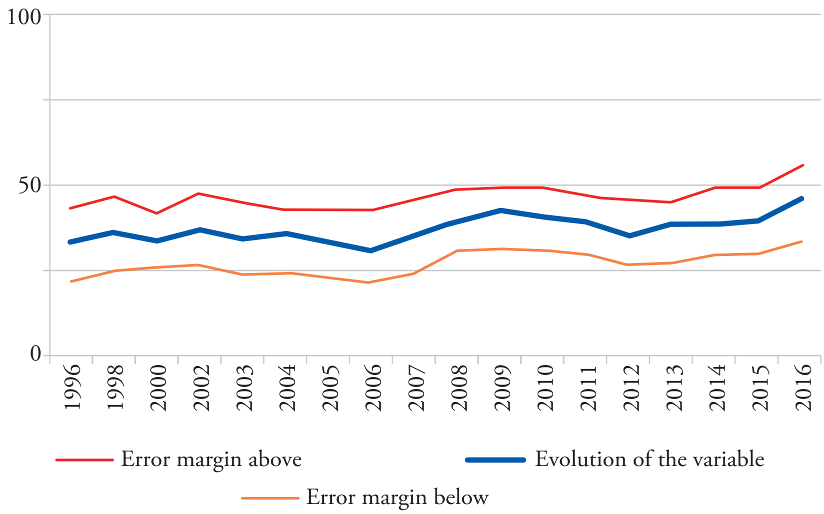
The weaknesses that remain in the Chinese political system are arguably due to the gradualist approach to reform, along with general agreement regarding this approach between major actors in the country, such as the CPC and the private sector; the lack of interest in democratization is a possible consequence of this. Of the successful entrepreneurs interviewed by Chen (2002), nearly all prefer the "rule of law" to democracy since they are interested above all in an institutionalized free market in order to assure private profits. Likewise, the middle class, eager to protect their wealth and social status, has similar perceptions about the need for repressive methods and control over the large population of poor people, with their potential demands for egalitarian policies. According to Chen, the most important factor for the middle class in China is "social stability."

Furthermore, Chen (2002) finds that in the view of the entrepreneurs, "unjustifiable" economic inequalities give rise to certain threats, such as political reversal and public anger, for which some institutional tools and principles, such as the rule of law, provide legal protection. Thus, in cases of emergencies such as the 1989 Tiananmen Square protests, the rule of law may provide a legal framework for maintaining social order and keeping the state machine in good working order.

The rule of law also serves as a means of constraining state power over the market. That is, it provides rules that must be respected by every actor in the country, including the central government. It is worth noting that the Worldwide Governance Indicator for "rule of law" in China has also improved slightly over time, as can be seen in Graph 2.

According to the World Bank, the rule of law indicator measures the extent to which law enforcement agents have confidence in and abide by the rules of society, and focuses especially on the quality of contract enforcement; the police and courts; and the likelihood of crime and violence. China is perceived as a safe society by its citizens, with low rates of criminality. Moreover, the collectivism of Chinese society with regard to the authorities is conducive to compliance with the law.

Figure 2
Evolution of China's rule of law



Source: http://info.worldbank.org/governance/wgi/sc_chart.asp#

China's improved performance as measured by World Bank indicators reflects gradual improvements in its entire institutional framework, based on the Chinese model of gradual reform. It is on these foundations that the CPC has chosen specific strategies, such as incentives to attract foreign investment, to sustain rapid economic growth.

Indeed, just as China is improving its institutional apparatus, it is making some progress toward its goal of catching up with the developed world. This progress has been achieved pragmatically, largely by sustaining rates of economic growth.

As a basis for this economic growth, China has attracted huge volumes of foreign investment, as well as achieving technology transfer, the main sources of which are multinationals based in the United States and Japan.

It is important to note that although China has not always had the best of relations with these two powers, the country's pragmatic approach has prompted it to exploit opportunities to capture technology from them.

In designing its policy of promoting inward FDI, China chose the geographic strategy of focusing on its eastern coastal areas, which promised much higher rates of return for foreign investors compared with other parts of the country. Thus, the state established special economic zones, and opened up cities and regions along the coast with the aim of attracting large inflows of foreign direct investment. Table 1 displays the special economic zones established in China at the beginning of the Open Door Policy.

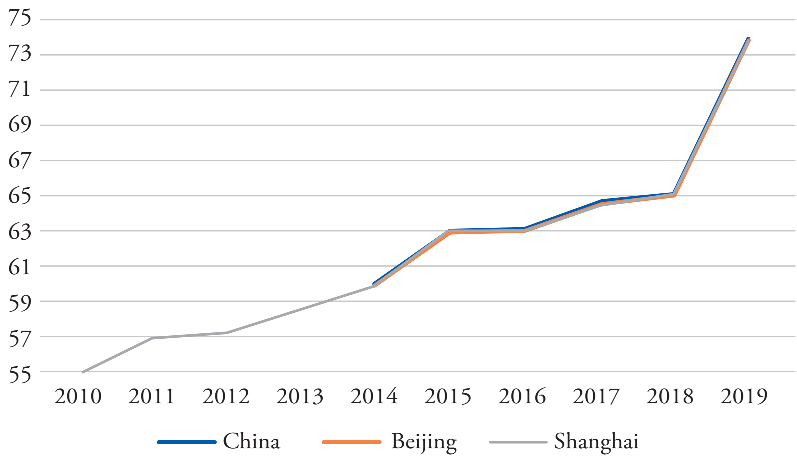
Table 1
Special economic zones

Type	City	Province
Special Economic Zone, City	Shenzhen	Guangdong
	Zhuhai	Guangdong
	Shantou	Guangdong
	Xiamen	Fujian
Special Economic Zone, Province	No city	Hainan
Coastal Development Areas	Dalian	Liaoning
	Qinhuangdao	Hubei
	Tianjin	Tianjin
	Yantai	Shandong
	Qingdao	Shandong
	Lianyungang	Jiangsu
	Nantong	Jiangsu
	Shanghai	Shanghai
	Ningbo	Zhejiang
	Wenzhou	Zhejiang
	Fuzhou	Fujian
	Guangzhou	Guangdong
	Zhanjiang	Guangdong
	Beihai	Guangxi

According to the World Bank's Ease of Doing Business ranking, China has followed a positive trajectory for facilitating business activity, and this performance has been repeated by major cities such as Beijing and Shanghai. In 2019 there was an increase of more than 10% in the score compared with the previous year. From this it can be inferred that China's economic success is closely linked to the greater ease with which business can be undertaken in the country.

Indeed, reductions in the number of procedures, cost, and time required to start a small or medium company have made this process easier. For example, to start a business in Shanghai, applicants have to submit an application online via the website of the Shanghai Administration of Industry and Commerce. Other measures aimed at streamlining the creation of companies include those to facilitate acquisition of construction permits, access to electricity, and property registration.

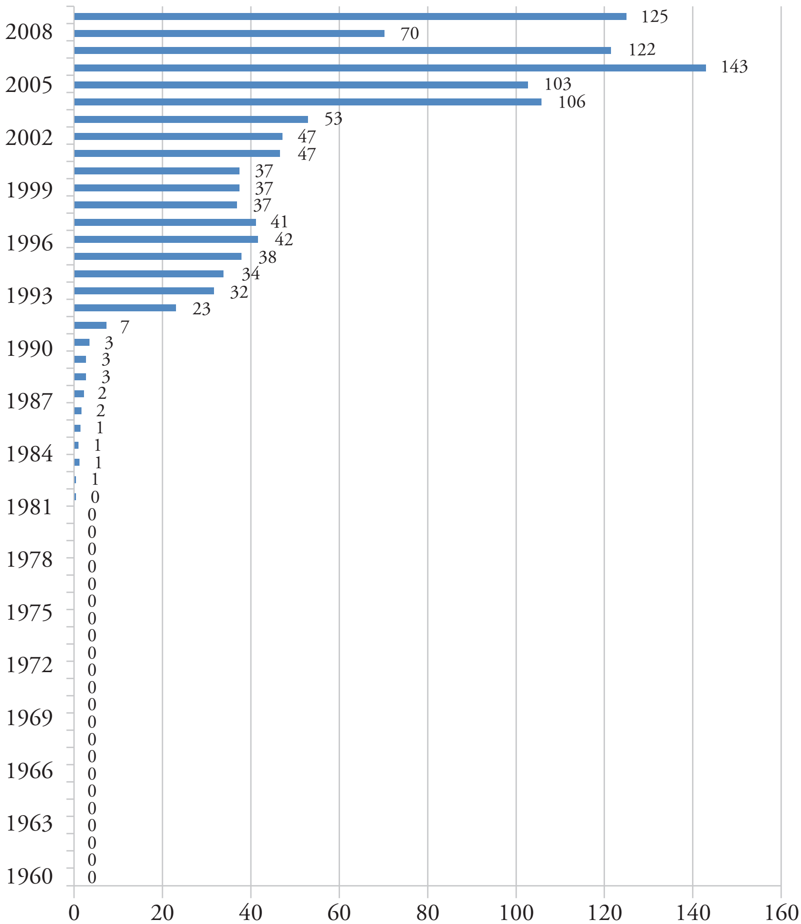
Figure 3
Evolution of Doing Business score



Source: www.doingbusiness.org/en/custom-query

By 2002 China had become the world's largest recipient of FDI, which in turn allowed the country to reach outward FDI totaling US$ 90 billion by 2006, the highest of all developing countries. Ge et al. (2009) propose several institutional theories, such as the "latecomer perspective," the "springboard perspective," among others, as useful ways of studying and explaining China's economic success.

Figure 4
China's inward FDI (US$ billion)



Source: http://databank.worldbank.org

As to outward FDI, China's main focus is on the developing world, in order to secure access both to natural resources and ultimately to new markets to sell its industrial products. China is also motivated by a recognition that some developing countries are growing faster than their developed counterparts, prompting it to regard the former as potential partners in a future multipolar order.

For example, according to Heginbotham (2007), China has signed "strategic partnerships" agreements with Brazil (1993), Venezuela (2001), Mexico (2003), South Africa (2004), Argentina (2004), India (2005), Kazakhstan (2005), Indonesia (2005), Nigeria (2006), and Algeria (2006). In addition, China has entered into regional partnerships such as the Forum on China–Africa Cooperation (2000) and ASEAN (2003).

As Hongmei (2009) points out, around one fourth of Chinese companies go abroad to explore for or exploit natural resources, such as hydrocarbons and minerals. The state supports these companies through measures such as providing credit, for instance. Thus, Chinese companies have acquired stakes in oil production facilities in Algeria and Canada, as well as in mining projects in Australia, Brazil, Papua New Guinea, and Zambia, among other countries. As the largest manufacturing center in the world, China is also one the biggest consumers of natural resources.

As far as Chinese investment in the Latin America is concerned, it has followed an upward trend, with differences across countries given the country's pursuit of various investment strategies since the beginning of the 21st century. Besides mineral exploration, China's projects have included the construction of public infrastructure (for example, a railway system in Argentina, and energy infrastructure, agricultural development and telecommunications in Venezuela). Chinese state-owned banks play a key role in these projects.

According to statistics collected by the Economic Commission for Latin America and the Caribbean, the first countries in the region to receive major Chinese investment were Peru, Colombia, and Argentina, concentrated primarily on the extraction of natural resources. But the situation changed starting in 2010, with greater volumes flowing into Brazil and Argentina for public infrastructure projects of the kind mentioned above. Currently, Brazil and Peru are the two countries in the region in which China invests the largest volumes. This reflects China's new mixed strategy of investing in securing access to natural resources and while at the same time improving public infrastructure and cooperating in the areas of industry and satellites (ECLAC, 2018).

According to Giron et al. (2017), many new multinational Chinese companies have high levels of indebtedness; however, the majority of the debt is attributed to the Chinese government, while a minority comes from external creditors. Although China is one of the leading global creditors, the country still needs to overcome bureaucratic hurdles, especially given the challenges involved in international infrastructure projects and sustaining fast rates of economic growth.

The Chinese "One Belt, One Road" initiative, announced in 2013 by President Xi Jinping, aims to strengthen economic growth, mainly through infrastructure projects connecting China with its partner countries. However, the initiative faces financial restrictions since many of these countries lack the necessary infrastructure, and would require considerable investment to bring it up to the required standard. Although some countries have large volumes of international reserves, such as oil exports, the majority of such resources are diverted to more developed financial markets, where there are more diversified assets, instead of financing the building of domestic infrastructure. This financial predicament poses a significant challenge for China's international projects and for sustaining its economic growth (Long, 2015).

According to the *Monitor of Chinese OFDI in Latin America and the Caribbean* in 2018, most Chinese transactions in the region came through mergers and acquisitions. In recent years the country's concentration on raw materials has been decreasing, while the emphasis of manufacturing and services has increased. Although state-owned companies account for slightly less than 50% of transactions, they make up a greater share of investment and job creation.

3. The achievement of intermediate economic goals

Currently, China is the world's largest manufacturing hub for the technology sector, and the largest exporter. According to Zhou (2008), one of China's most important achievements is the development of its own technological companies. But although the country has built successful brands (e.g. Lenovo) within the Chinese market, they are still relatively small compared with some foreign-owned multinational corporations (MNCs). However, some predict that Chinese firms will catch up with these MNCs in the near future.

It can be argued that the Chinese model has faced less propitious conditions than the East Asian newly industrializing economies (NIEs; Korea, Taiwan, Hong Kong, and Singapore). For instance, China faces more political barriers from Western developed countries and more pressure to open its markets to MNCs. Indeed, the United States has regulations banning its firms from exporting military and civilian high-tech to China. Yet China does have one major advantage: a large and growing market.

According to Zhou (2008), the successful creation of Chinese-owned technology companies necessarily relies on two pillars: external and domestic markets, and the interplay between these two pillars. The advantages enjoyed by Chinese companies include improved conditions for export and a growing domestic market.

If Chinese companies did not always have access to advanced technology domestically, they have enjoyed other advantages over foreign-owned competitors. For example, Chinese companies such as Lenovo have greater commitment, access, and knowledge with respect to their home markets than international MNCs. Moreover, following the development of China's export economy, Chinese companies found fertile ground for technological learning and improving their competitiveness.

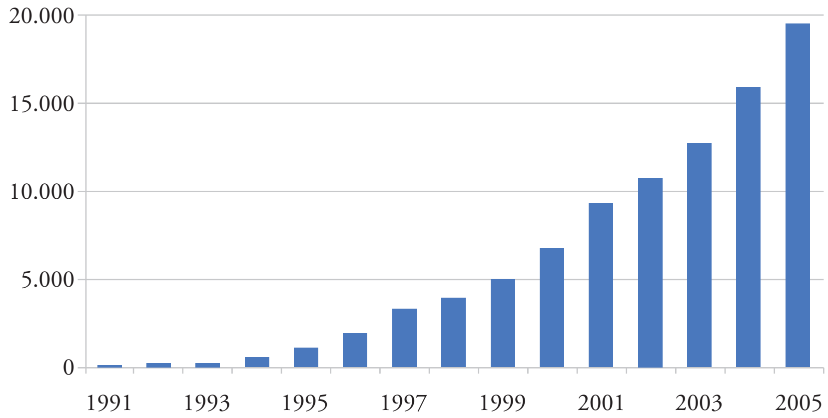
One of the key goals of foreign-owned MNCs is to produce in China, taking advantage of low labor costs to export to developed markets. Under this strategy, only the corporations' lower level offices are located in the country, while their headquarters remain abroad. These bureaucratic hierarchies do not readily allow for decision-making on changing goals regarding the Chinese market. At the same time, however, their greater involvement in China has been accompanied by a dependence on Chinese companies as local suppliers.

For the Chinese economy, the combination of domestic and export markets also enables the entry to the country of newcomers with mature product manufacturing foundations. Such newcomers enjoy an existing global supply chain that ensures quality and competitiveness. This synchronization between export development and a growing domestic market has created some of the fastest learners in the industry, of which Lenovo is again an example.

It is worth noting that Lenovo started out as a supplier to MNCs, but exploited all of the advantages described above to become the Chinese-owned company with the largest share of the local computer market, and even bought a major part of IBM: in 2004, the U.S-based firm announced the sale of its personal computer (PC) division to focus more on corporate servers and technology services. Lenovo, using profits earned in the Chinese market, had the resources to buy this division of the prestigious international company.

Graph 5 shows the rise of the computer market in China, which is mainly composed of Chinese companies.

Figure 5
Growth of China's domestic computer market



Source: Zhou (2008)

Lenovo is not China's only corporate success story; indeed, there are many more Chinese companies in the technology sector that have had similar trajectories. Another successful company is the ZGC Group, a spin-off from Tsinghua University which, for the first eight years of its existence, operated as the main sales representative of a Taiwanese scanner manufacturer, before developing its own brand of scanner using an array of internationally competitive vendors located along China's coastline. By the 1990s it had become the biggest manufacturer of scanners in China.

Similarly, the company Aigo created many fashionable models of MP3 and MP4 music players designed to appeal to young people in China, and went on to become one of the country's top-selling manufacturers of these devices. Finally, in the early 1990s, Huawei started to make telephone digital switches in Shenzhen to sell in smaller cities, as replacements for the far more expensive products of MNCs. It is now a major global manufacturer of consumer electronics and telecommunications products.

In China, local companies have succeeded in creating their own technology and substituting some MNC products. This phenomenon differs from traditional import substitution, whereby states protect domestic companies through tariffs. However, being competitive inside China does not necessarily translate into being competitive abroad. To achieve this, companies require additional learning. Fortunately for them, access to the huge Chinese market provides these companies with a kind of profit reservoir, which is key to supporting their international expansion and success.

The second successful phenomenon that this article studies is technology transfer in the automotive industry. According to Liu et al. (2004), the Chinese state has fostered this success by imposing certain political and economic conditions upon MNCs in such a way as to help accomplish its objectives.

By 2003 many of the world's leading automobile manufacturers had already established facilities in China. In that context, and under the terms dictated by the Chinese state, China succeeded in integrating the global automotive industry's entire production network. An important factor to highlight is the bargaining power of the Chinese state, given the strong desire of foreign-owned MNCs to gain access to both the fast-growing Chinese market and to a low-cost production location – a foremost concern of corporations in this industry. Leveraging its bargaining power to impose performance requirements, the Chinese state has successfully captured considerable technology transfers and exploited the value created by these firms.

Table 2
FDI in China's automotive industry, 2002

	Assembly	Production
USA	25.3%	21.7%
Germany	18.0%	12.4%
Korea	11.1%	11.5%
Japan	9.5%	21.8%
France	7.9%	2.3%
Italy	7.3%	0.9%
Hong Kong	7.2%	11.3%
Others	13.7%	18.1%
Total	100%	100%

Source: Liu et al. (2004)

More specifically, one strategy of the Chinese government was to promote the entry of foreign direct investment through joint ventures between foreign-owned MNCs and state-owned Chinese companies. China thereby consolidated activity in both the assembly and components productions sub-industries by gradually improving and adapting its strategies. As an example of these adaptations, in the period 1994-1996, the state temporarily stopped approving FDI in assembly production in order to promote component production in the country.

Table 3
Major joint auto-assembly ventures in China, 2003

	by contract (US$ million)	Chinese partners (%)	Location
Beijing Jeep (Daimler - Chrysler)	605	50	Beijing
Chang'an - Suzuki	191	51	Chongqing
Dongfeng - Citroen	1202	70	Wuhan
FAW - VW	1857	60	Changchun
Guangzhou - Honda	140	50	Guangzhou
Jinbei - GM	230	50	Shenyang
Nanjing - IVECO	363	50	Nanjing
Shanghai - VW	335	50	Shanghai
Shanghai - GM	1521	50	Shanghai
Chang'an - Ford	98	50	Chongqing
Sichuan - Toyota	67	50	Chengdu
Tianjin - Totyota	100	50	Tianjin
Yueda - Kia (Hyundai)	60	70	Yancheng
Nanjing - Fiat	363	50	Nanjing
Beijing - Hyundai	400	50	Beijing
Dongfeng - Nissan	2030	50	Wuhan y Guangzhou

Source: Liu et al. (2004)

The third element of China's economic success studied here is the internationalization of Chinese companies. Institutional factors can be considered a relevant explanation for this, insofar as a firm's activities are affected by its own institutional capacities and the institutional environment of home and host countries. Thanks to the reforms described here, China's institutional environment offers advantages for the internationalization of Chinese companies. However, there are still factors such as an underdeveloped financial market and other institutional constraints that companies seeking to internationalize must overcome.

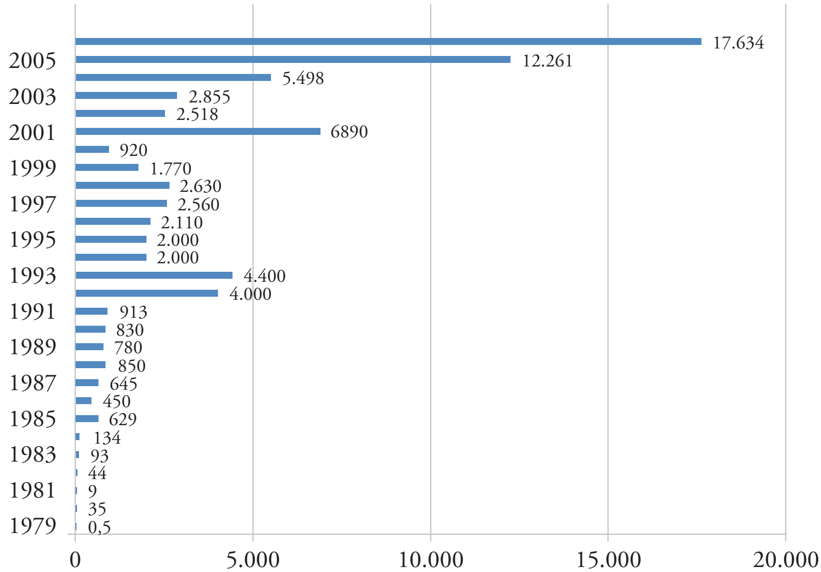
Some early studies have noted that the motivation for Chinese outward FDI shifted from being driven by political considerations in the early stages to market-seeking and asset-exploitation. Later studies affirm that the primary aim of Chinese MNCs that invest in developed countries is to gain access to advanced technologies. Thus, Chinese MNCs have been able to catch-up with their Western counterparts through technology transfer. It is worth noting that this strategy defies the classical theory that firms can only trade products from a position of comparative advantage. Indeed, Chinese MNCs are making outward investment to overcome their competitive disadvantages, and regard internationalization as a means of gaining competitive strengths in the technology sector. Other studies have noted that Chinese MNCs are also attracted by market size and host countries' natural resources.

According to the institutional proposal, the system in which a MNC is inserted will affect its behavior and decisions. Thus, the choice and form of entry to a market is a result of the firm's response to pressures arising from the external environment, as well as its internal organizational practices and routines. China has undergone almost three decades of economic reforms and rapid private-sector growth, which now accounts for more than one-third of its economic output; however, state control of China's economy is still prevalent. Of the 30 Chinese MNCs with the largest volumes of outward FDI in 2004 and 2005, almost all were state-owned.

The evolution of outward FDI from China is strongly related to the proposal and implementation of laws and regulations governing China's overseas investments. Indeed, the beginning of the impetus for FDI ocurred with the adoption of the Open Door Policy at the end of 1970s. At that time, the most common form of international investment was to set up representative trade offices in overseas markets.

The second important impetus for internationalization came in the middle of 1980s when, for the first time, a body of regulations was codified to govern overseas investment and operations, leading to the rapid growth and diversification of Chinese MNCs, including new manufacturing firms. Thus, by the end of 1997, China had more than 5,356 enterprises with international operations, distributed across more than 140 countries.

Figure 6
China's outward FDI (US$ million)



Source: Ge (2009)

Institutional factors are relevant in explaining the internationalization of Chinese MNCs on three levels: institutional government; institutional industry; and institutional corporate factors (Ge, 2009). At the government level, one example is China's "Go Out" strategy implemented in the mid-1990s, whereby the state encourages large state-owned businesses to become internationally competitive corporations through mechanisms such as listings on domestic and overseas stock markets, increasing research and development expenditures, public offerings, mergers and acquisitions, restructuring, cooperation, and so on.

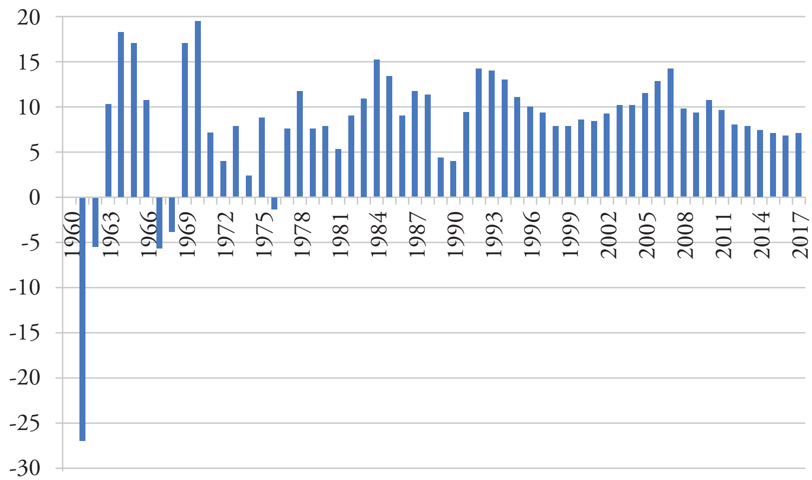
The Chinese government has been active in providing firms with capital and resources. Likewise, it has participated actively in various bilateral and multilateral arrangements to protect overseas investment, gradually relaxing foreign exchange controls and promoting preferential credit through, for example, the Supportive Credit Policy on Key Overseas Investment Projects.

When it comes to industry, the successful implementation of industrial strategies relies on collaborative interaction between government and business actors. Domestically, Chinese firms are facing a much more competitive environment than ever before, and this intensive competition is driving many Chinese firms to internationalize. Furthermore, with the strong support and assistance of local levels of government in China, numerous economic development zones and high-tech parks have been established in various coastal cities and provinces.

At the corporate level, Chinese firms have overcome several institutional constraints via networks and relational assets to bridge institutional gaps, and obtain institutional support from the state to this end. Moreover, establishing networks with foreign firms has provided opportunities for Chinese firms to enhance their technological and innovation capabilities, increase their competitiveness, and exploit personal connections overseas.

The accomplishment of these "indeterminate goals" has boosted China's fast rates of economic growth over time, as can be seen in Graph 7. In recent decades, China averaged double-digit annual economic growth until 2013, before stabilizing at around 6% -- the so called "New normality" of China. Therefore, China's economic success is the culmination of past achievements such as the strategies described in the present article.

Figure 7
China's economic growth rates (%)



Source: http://databank.worldbank.org

4. Conclusion

The present article relates China's economic growth to the accomplishment of three "intermediate goals": (i) technological development; (ii) industrialization; and (iii) the internationalization of Chinese companies. Early strategies, such as the attraction of inward FDI, helped China along the road to becoming the largest producer and exporter of manufactured products in the world. These intermediate goals have given rise to specific achievements and outcomes such as the development of technological products (a foremost example of which is the computer brand Lenovo), and the development of China's automotive industry. These achievements were made possible by the strong bargaining power of the Chinese state over foreign-owned MNCs. Finally, the internationalization of Chinese companies has enabled technology transfers from the developed world as well as access to natural resources from the developing world.

Recent reforms in China have also contributed to improving the quality of the institutional framework, along with economic modernization and growth. Yet although the strategy of attracting huge volumes of inward FDI has been successful, it alone would not have been enough to sustain the country's economic growth. Indeed, improvements in institutional quality have also been a foundation for the country's economic achievements. According to the World Bank's Worldwide Governance Indicators, China has performed particularly well in two variables: (i) government effectiveness and (ii) rule of law.

The CPC has been the major actor in all of the reforms enacted in recent decades, prompting an economic boom from which other actors, such as the local private sector and foreign firms, have benefitted. Thus, against the backdrop of the country's fast rates of economic growth, the private sector has been able to sustain and increase its profits while the government maintains political stability. On the other hand, China's institutional context is still ambiguous, leading to different predictions about the future of China as a world power; for example, there are those who perceive a "Chinese threat," and others who envisage a peaceful power.

China's policies in recent decades have combined moderate political reforms and delays in democratization with ongoing, aggressive economic reforms, the latter focused on the three aforementioned intermediate goals. It is reasonable to infer that without modest improvements in the quality of the political system, the major economic achievements would have not been possible; that is, many of the reforms were dependent on the political stability that has characterized the country. For example, government effectiveness has provided the legitimacy required for the government to afford public services and human capital. Likewise, rule of law has provided the basic conditions for the accomplishment of private projects, and the contracts necessary to develop infant industries.

All this is to say that China's economic success cannot be explained entirely by conventional wisdom. For one, improvements in institutional quality are also important for understanding China's current development. The country's policies have been marked by a gradualist approach, with the result that the state remains highly active in the economy; for example, the industrial landscape in China is still dominated by state-owned companies, as well as relatively strong state intervention. Moreover, the internationalization of Chinese companies was a product of political stimulus rather than market forces, even if the latter became more relevant over time.

Moreover, the internationalization of Chinese firms defies conventional wisdom about how companies go abroad to capitalize upon their comparative advantage; Chinese companies that go abroad are often disadvantaged in terms of lack of technology, and aim to secure technology transfers. However, once Chinese companies successfully develop products with comparative advantages, they are able to consolidate their internationalization processes.

The current "Trade War" between China and the United States, declared by President Trump, may be motivated by a desire to restrict China's technological development and improvements while also diminishing its economic growth. Indeed, China is currently recognized as the manufacturing center of the world, and its next aim may be to become the technological center of the world. In this framework, Chinese multinational corporations play a role in consolidating both economic growth and leadership in terms of high technology. Although that role has been framed and formalized as part of the overarching One Belt, One Road policy, financial constraints remain an obstacle to achieving these goals.

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