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China's Outward Investment under "Hierarchical Steering" and "Grassroots Internationalisation"

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ABSTRACT

The debate on China's outward investment largely focuses on its determinants: enterprises' interests and the role of the Chinese state. However, what these approaches often tend to ignore is that China is not a unitary outward-investing country. Instead, some Chinese provinces have been able to become the major drivers of China's outward investment and the investment outflows of these provinces emerge out of locality-unique contexts. This research looks at path-dependencies and encapsulates different provincial internationalisation trajectories to advance our understanding of China's overseas engagement. In investigating two "success stories" of provinces with high investment outflows, Jiangsu and Zhejiang provinces, two different forms of provincial internationalisation based on locality-unique political, economic, and social conditions are detailed. While investment outflows from both provinces were facilitated by cultures of local manufacturing industries, their internationalisation paths are conceptualised as either "hierarchical steering" or "grassroots internationalisation."

KEY WORDS

China; outward FDI; path dependence; networks; state–business relations

In 2000, China adopted the "Go Global Strategy," and incorporated it into its 10th Five-Year Plan (2001–2005) (NPC 2001). As a result, China's integration into the global economy gained new momentum. While China, during its reform and opening period, mainly focused on attracting foreign capital and allowed only a limited number of Chinese enterprises – mainly state-owned ones – to engage in overseas investments, the "Go Global Strategy" encouraged enterprises of any form of ownership to invest abroad (Jungbluth 2014, 102–104). Subsequently, China's annual outward investment flows began to increase from US$2.7 billion in 2002 to eventually $196 billion at its peak in 2016 (MOFCOM, NBS, and SAFE 2019, 6).[1] In less than two decades, China has become the world's second largest outward investor right after the USA and the largest outward investor among emerging economies across the globe (UNCTAD 2017, 14).

However, an aspect that is given insufficient attention in academic and political circles is that China is not a "unitary investor." More precisely, a shift has taken place in recent years, leading most of China's outward foreign direct investment (FDI) to come from provincial investors – particularly from enterprises owned by provincial and municipal

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governments and private enterprises – as opposed to central state-owned enterprises (SOEs). In 2015 these provincial investors accounted for 97% of Chinese outward investors; meanwhile central SOEs accounted for only 3% (MOFCOM, NBS, and SAFE 2016, 125). In addition, regional variation within China proves that some provinces and municipalities have higher outward FDI flows than others. That is, in 2019, China's top ten outward investing provinces and municipalities accounted for $72 billion in investment outflows, which corresponds to 81% of China's regional outward FDI, and to 62% of China's total outward FDI (MOFOCM, NBS, and SAFE 2020, 107, 160).[2]

This dominant role of provincial investment outflows is surprising. Unlike central SOEs, provincial investors are usually more prone to investment risks and failure caused by inadequate financial resources, scarce overseas experience, or limited access to important information (Interview, consultant, Ningbo, May 2017; Interview, manager, Datang, May 2017; Interview, manager, Hangzhou, April 2018). The present research argues that China's high provincial investment outflows are a perfect example of "multiple roads leading to Rome." Specifically, by focusing on individual provinces, this research examines two different approaches to successful provincial internationalisation, each shaped by locality-unique political, economic, and social legacies from each province. This study's findings indicate that outward investment takes place either under the frameworks of "hierarchical steering" or "grassroots internationalisation." While in some localities, provincial and local governments' policy support was critical for facilitating provincial internationalisation, in others it was the emergence of informal economic networks between business actors which helped to reduce investment risks and costs. Chinese provinces, thus, have significant autonomy in shaping their own investment patterns in terms of volume, sectors, and host countries; though the direction of their investments depends on local conditions they inherit from the past.

The analysis is based on two provincial-level case studies from the Yangzi River Delta region – Jiangsu province and Zhejiang province – which are both located along China's east coast. The focus on this region is justified by the fact that the Yangzi River Delta region is amongst the most internationalised regions in China and Jiangsu and Zhejiang are among the most successful cases of provinces with the highest investment outflows. Due to their unique economic legacies and developments, they allow for the investigation and presentation of different approaches to internationalisation. The findings draw from 71 interviews conducted during fieldwork between 2016 and 2019. Interviews took place in both Jiangsu and Zhejiang provinces, as well as in other parts of China and in Germany. Government officials, lawyers, scholars, and business actors provided opinions and data as interviewees. Additional data sources stem from participant observations from various occasions such as Chinese outward investment fairs, foreign investment exchange platforms, and training sessions for local government officials. Moreover, data come from a variety of government documents such as those pertaining to Five-Year Plans, regulations, and policy documents. Further sources of data included statistical yearbooks, outward investment bulletins, economic almanacs, as well as investment reports, media coverage, and company websites.

The findings make several contributions. Firstly, they acknowledge that the two standard theoretical determinants for China's outward FDI, enterprises' interests, and Chinese state interests are of relevance (see, for example, Child and Rodrigues 2005; Buckley et al. 2007; Wang et al. 2012; Li, Cui, and Lu 2014; He, Xie, and Zhu 2015). However, findings show how both determinants are conditioned by political, economic, and social locality-unique set-ups. Secondly, by investigating two cases claimed to be successful, this research adds to the literature on the role of Chinese provinces in international relations. The literature, thus far, has focused less on the most internationalised provinces, but instead on economically less-developed provinces (such as Yunnan, Guangxi, and Henan) and these provinces' roles in China's most recent foreign policy initiative, the Belt and Road Initiative (BRI) (see, for example, Li 2019; Rabe and Kostka 2021; Summers 2021). Thirdly, and related, previous works on more internationalised provinces have focused on China's reform and opening period and primarily upon inward FDI (Wei and Fan 2000). The present research thus moves the literature forward by focusing on outward FDI and by providing a timely update on the internationalisation of key provinces. Lastly, prior works have shown how history plays out in a regionally unique fashion in the path of China's domestic economic development (see, for example, Zelin 1991; Tsai 2002). This research expands upon those findings, showing how locality-unique path-dependencies also play out in China's interaction with the world.

Understanding China's Outward Investment

Previous studies on China's outward FDI have examined its drivers and determinants. Two main perspectives have emerged; that FDI is driven either by enterprises' interests, or by the role of the Chinese state. The first perspective finds that Chinese multinationals are similar to enterprises from Western countries in the sense that they ultimately seek access to markets, resources, and strategic assets (see Rui and Yip 2008; Sutherland 2009; Gonzalez-Vicente 2012; He, Xie, and Zhu 2015). In addition, and differing from investors from Western countries, Chinese investors are also found to aim to overcome domestic institutional pressure caused by competition with foreign multinationals operating in China (Luo and Tung 2007, 482), as well as corruption and bureaucratic hurdles (Stoian and Mohr 2016). The second perspective holds that China's outward FDI is a state-led phenomenon. Following this line of argument, the Chinese government is found to exert influence over enterprises' investment decisions by appointing and rewarding managers and by supporting selected investors with subsidies and tax advantages (Wang et al. 2012, 659; Gallagher and Irwin 2014, 4). As a consequence, Wang et al. (2012, 658) state that the Chinese state might impact enterprises' "willingness and ability" to invest abroad and may additionally cause enterprises to adhere to a national policy agenda and thereby determine investors' industrial focuses and investment outflow directions (see Buckley et al. 2007, 514; Sutherland 2009, 22; Li, Cui, and Lu 2014). Yet, some scholars are more sceptical about the argument that government structures are conducive to China's outward FDI. For example, Fornes and Butt-Philip (2014, 509) find that government support is in fact not so vital a factor for the internationalisation of Chinese enterprises. Wang et al. (2016, 82) point rather to the influence of financial constraints of private enterprises, which impedes outward investment.

While both perspectives provide important insights into the drivers and determinants of China's outward FDI, they remain incomplete. Due to their analytical point of departure focusing on the interests of either enterprises or the state, they tend to overlook that investment drivers do not function in the same way across China.

With this said, it is not new that China is often described as a decentralised country (Landry 2008, 3). Fiscal decentralisation, which started at the beginning of the reform and opening period, has historically increased local governments' expenditure responsibilities (Wong 1991, 693). At the same time, China's political cadre evaluation system incentivises local leaders in a top-down manner to achieve development targets; which leaders then try to combine with local interests and realities (Kostka and Hobbs 2012). Governments at the level below the central government thus not only implement but also negotiate and resist policies and laws in a regionally decentralised manner (Xu 2011). As a consequence, a "China as a unitary actor" view overlooks the facts that market forces and state interests do not work uniformly across the country and that local actors have a certain degree of autonomy in policy implementation (see Ye 2020).

More recent studies have picked up on the economic interests of provincial and local governments in the context of China's internationalisation. These works have paid particular attention to border provinces, such as Guangxi and Yunnan, and have often focused on selected projects, such as cross-border pipelines and industrial park and transport infrastructure development projects. The same research projects have also often presented the economic interests of and various strategies employed by local leaders engaging with the global economy (see, for example, Li 2014; Summers 2016; Wong 2018). Accordingly, sub-national governments actively promote their economic interests by, for instance, framing them in the language of the central government (Ye 2019, 709–710). Yet, due to these works' usual focus on economically less-developed provinces, their findings do not allow for broader claims which pertain to the highly internationalised provinces. Undoubtedly, a broader perspective on these provinces is required. This becomes especially clear when looking at studies discussing China's investment patterns. For example, the works of de Jong, Greeven, and Ebbers (2017, 200–201) find that China's outward FDI clusters in certain regions. More specifically, around 50% of China's outward FDI to the Netherlands clusters in Rotterdam, Amsterdam, and The Hague and originates mainly from five cities: Beijing, Shenzhen, Shanghai, Hangzhou, and Wenzhou. Similarly, Fladrich (2012) found that most of the Chinese investors in Prato, a city in northern Italy, are sourced from a single city in China: Wenzhou in Zhejiang province. Moreover, Bräutigam and Tang (2014, 82) show that certain provinces, including the provinces Jiangsu and Zhejiang, are also active in setting up special economic zones overseas. While these studies focused primarily on host countries, gathering further knowledge remains necessary in order to understand the provincial contexts by which these large investment outflows have emerged.

Towards an Alternative Approach: Historical Path-Dependencies

To better understand the domestic contexts in which China's provinces have become the country's most important outward investors, this research looks to path-dependencies. In this, the research follows Heilmann and Perry (2011, 5), who argue that historical dynamics remain crucial for the study of China's contemporary political economy. Similarly, Bramall (2003) posits that different conditions from the past remain as legacies in the present and thus serve as explanations for sub-national development outcomes. This can be seen when examining rural industrial growth in particular areas of China during the reform period. Zelin (1991) discovered this growth to be rooted in the pre-1949 economic landscape of traditional handicraft industries in certain regions. Likewise, Tsai (2002, 15) illustrates that various local approaches in dealing with the private sector depend upon the remnant economic legacies of the Mao era. By investigating the implementation of China's "Go Global Strategy" and the BRI, Ye (2020) uncovers historical legacies and offers comparative evidence on three cities: Chongqing, Ningbo, and Wenzhou. She contends that local institutions provide a local framework for how national strategies are implemented at local levels and that this allows for unique implementation outcomes from China's internationalisation strategies and initiatives (Ye 2020, 148–149).

The present research also aligns with Segal and Thun (2001, 558), who argue that developments at the local levels take place under China's broader national institutional

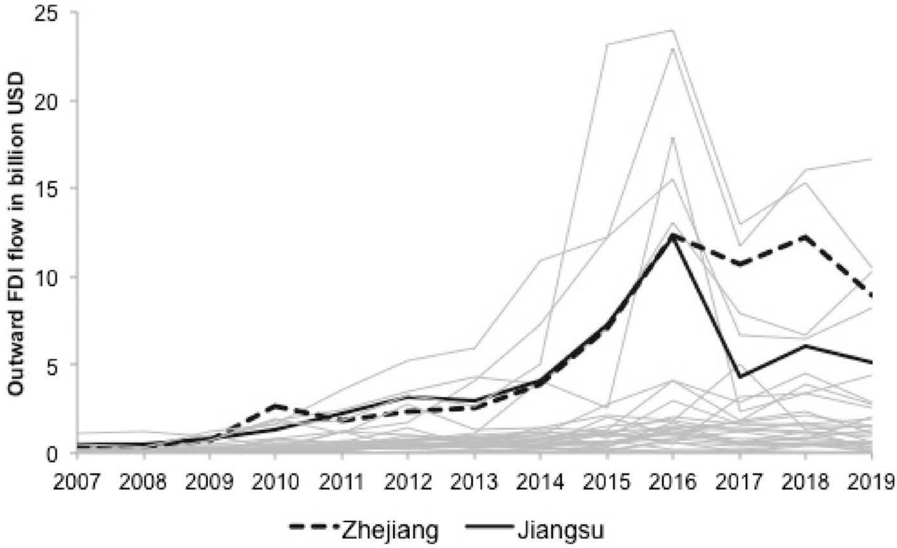

Figure 1. China's provincial annual outward FDI flows, 2007–2019 (in billion US$).
Source: Based on MOFCOM, NBS, and SAFE (2016, 145; 2020, 160).

framework, but are dependent upon unique local institutions. Accordingly, this research acknowledges the importance played by the central governments' investment strategies and initiatives. This applies most notably to the "Go Global Strategy" and the BRI, as well as other related policies and regulations which form China's national investment framework (Jungbluth 2014; MOFCOM 2015; NDRC 2017). It is clear that these plans and initiatives provide the overall structure that provincial and local actors navigate. Yet, they also provide windows of opportunity for provincial and local governments and enterprises to pursue their interests (Ye 2019, 711). Thus, without resorting to examining provincial and local conditions, it is expected that this national-level framework alone remains insufficiently complete for forming an understanding of the investment outflows of particular provinces. The following sections of this article expand upon these works by offering Jiangsu and Zhejiang as provincial-level case studies and then present the two different approaches of China's provincial outward FDI based on varying and locality-unique historical path-dependencies.

Jiangsu and Zhejiang: "Two Success Stories"

Jiangsu and Zhejiang are both among China's top outward investing provinces. Figure 1 shows that, up until 2016, their annual investment outflows increased steadily at rates almost identical to one another. Investment outflows amounted to around $12 billion for each province in 2016. In the same year, Jiangsu ranked third among Chinese provinces in terms of outward FDI stock and fourth in terms of outward FDI flow. In comparison, Zhejiang ranked fourth in terms of outward FDI stock and third for outward FDI flows, with the municipalities Beijing, Shanghai, and Tianjin excluded (MOCFCOM, NBS, and SAFE 2017, 17, 28). Despite these similarities, Jiangsu's investment outflows in the subsequent years declined significantly, which followed the trend of China's overall decline in foreign investment (MOFCOM, NBS, and SAFE 2020, 160). This decline was likely a result of restrictions imposed in 2017 to curb "irrational investments," such as in the real estate industry (NDRC, MOFCOM, PBoC, and MOFA 2017). Zhejiang's investment outflows decreased less abruptly – so that in 2017, Zhejiang's outward FDI volume was more than twice that of Jiangsu's (MOFCOM, NBS, and SAFE 2020, 160).

Both provinces' investment outflows are spread around the world, but tend to be directed particularly towards Western countries and Southeast Asia.[3] For instance, Jiangsu invests predominantly in the USA, Australia, Germany, Japan, though also in Singapore, Indonesia, Korea, Cambodia, and Vietnam (Jiangsu Bureau of Statistics, and Jiangsu Research Unit of the National Bureau of Statistics 2011–2017). Key destinations for Zhejiang's enterprises also include the USA, Germany, and Indonesia, but additionally include Italy, Myanmar, and India (Zhejiang Department of Commerce 2017). In terms of the origin points of these investments, both provinces show variation. Investments within Jiangsu particularly originate from its southern cities, such as Suzhou, Nanjing, Changzhou, and Nantong. In 2016, these southern cities accounted for 73% of Jiangsu's approved investment projects (Jiangsu Bureau of Statistics, and Jiangsu Research Unit of the National Bureau of Statistics 2011–2017). Investment outflows from Zhejiang originate particularly from the provincial capital, Hangzhou, as well as from Ningbo, with the latter accounting for around one-third of Zhejiang's total outward FDI stock in 2016 (MOFCOM, NBS, and SAFE 2019, 65). In terms of sectorial distribution, both provinces invest especially in manufacturing- and trade-related industries, but also engage in overseas infrastructure and construction projects (Jiangsu Bureau of Statistics, and Jiangsu Research Unit of the National Bureau of Statistics 2011–2017; MOFCOM 2016, 147). Private enterprises remain vital for these projects in both provinces. While a major share of Jiangsu's outward FDI is sourced from privately-owned as opposed to state-owned enterprises, this imbalance is even more heavily weighted towards private enterprises in Zhejiang. In 2014, private enterprises, especially those of small and medium sizes, accounted for more than 90% of Zhejiang's investment projects (*ZJOL,* July 8, 2014; Jiangsu Bureau of Statistics, and Jiangsu Research Unit of the National Bureau of Statistics 2011–2017).

All in all, Jiangsu and Zhejiang are not only similar in terms of their shared successes in being among China's most important outward investing provinces, but also in the fact that their investment patterns resemble one another. However, the two historic geneses which led to these "success stories" differed significantly according to locality-unique development paths.

Jiangsu's path towards becoming a major Chinese outward investing province can be best described as "hierarchical steering." Jiangsu's internationalisation and high investment outflows came with guidance from provincial and local governments, in that they first sought to attract inward FDI and, at a later stage, actively supported local enterprises in investing abroad. This development took place within a context of a favourable industrial structure existing in southern Jiangsu, which existed because of structural legacies from the pre-reform period and the existence of large enterprises in the region.

The approach followed by Zhejiang province, by contrast, can be defined as "grassroots internationalisation" and had a more adaptive character. Zhejiang's conditions at the outset of the reform and opening period were different from Jiangsu's because the province lacked infrastructure and provincial and local governments followed a more reluctant stance in furthering provincial internationalisation. It was therefore provincial small- and medium-sized family businesses which adapted to new circumstances during this period. Families revitalised their network-based private business arrangements, which existed already during pre-Mao times. These close-knit local business networks allowed later for mutual assistance for those investing abroad (Hang 2011; Shen 2013). Later, this revival and expansion of bottom-up business activities and their adaption towards new sectors allowed for the emergence of more high-level investment outflows. It was only after the introduction of the "Go Global Strategy" that the provincial government developed more tailored outward investment policies to bring about further outward FDI.

Thus, in sum, both provinces inherited favourable conditions from the pre-reform era which proved fruitful for the later development of high outward FDI. Yet, "hierarchical steering" and "grassroots internationalisation" were two different approaches based on different path-dependent functions of provincial and local governmental intervention in the economy, as well as different local contexts during the early reform and opening period.

Jiangsu: "Hierarchical Steering"

Jiangsu has long been among China's most economically developed provinces, even before the founding of the People's Republic in 1949. Yet, noteworthy economic disparities within the province existed already during these earlier periods and these disparities continue to shape Jiangsu's economic landscape even today. The southern parts of the province were historically home to advanced handicraft and textile industries (Wei 2004, 100, 104). Thus, several Jiangsu cities were important commercial centres during earlier periods. Adding to this, many of these cities were connected via the Grand Canal with Beijing to the province's north and with Zhejiang province directly to its south. For example, Jiangsu's southern city of Changzhou was, by the 1920s, an important base for the textile industry (Nee and Opper 2012, 58–59). In its northern parts were fertile plains, which provided a solid basis for agriculture (Wei 2004, 104; Nee and Opper 2012, 48). In addition to textile, handicrafts, and agriculture, Jiangsu's iron and chemical industries had begun developing during the Republican period. For instance, local chemical production has been expanding in Nanjing, the provincial capital, since the late 1930s (see Nee and Opper 2012, 58; Nanjing.Gov. 2016).

Based on these earlier economic conditions, intra-provincial disparities widened throughout the Mao era. With industrialisation under the Great Leap Forward during the 1950s and 1960s, China's central leadership chose to develop a state-owned heavy industry with coal, energy, and heavy machinery production in northern Jiangsu, using the local agricultural production as a support base (Wei 2004, 104). In addition, Nanjing received further investments into its already well-developed chemical industry, as well as into its electrical, mechanical, and steel production during this period (Nee and Opper 2012, 58). The businesses in the textile and handicraft industries, which had existed in the province's southern townships and villages throughout the Republican period, were mainly transformed into collective township and village enterprises (TVEs) (Wei 2004, 95, 104).

Based on these disparate initial conditions in northern and southern Jiangsu, provincial economic development during the subsequent reform and opening period beginning after 1978 built upon these unique starting conditions, meaning that the regional differences within the province continued to exist.

Jiangsu's Post-1978 Hierarchical Steering

During the reform and opening period, Jiangsu's provincial and local governments, as in other parts of China, became interested in and even pressured towards generating revenues for expenditures within their jurisdictions (Wong 1991, 693–694). However, the economic conditions in northern Jiangsu were unfavourable for this due to the economic legacies of the state-owned heavy industry and the stagnating agricultural sector, which both resulted in a more limited scope for significant structural transformation (Wei 2004, 104). By contrast, the economic structure of TVEs in southern Jiangsu offered better starting conditions (Oi 1995, 1138; Wei and Fan 2000, 466). As Oi (1995, 1138) shows, local governments seized this opportunity and offered preferential support to TVEs. Later, many TVEs were restructured and privatised (Ho, Bowles, and Dong 2003). Government authorities in Jiangsu during the early reform and opening period thus followed an active stance of economic steering. The resulting economic growth in the province, based on government intervention and TVEs, became known as the "Southern Jiangsu model" (Wang 2008, 28).

Provincial and local governments were not only active in developing their local economies, but were also proactive during the province's early stages of internationalisation and actively invited foreign investment (Huang 2009, 152–153). Through economic reforms, the central government began to re-open cities along China's coast for international trade and inward investment in 1984. As for Jiangsu province, the first two cities to re-open to the world were Nantong in southeastern Jiangsu and Lianyungang in Jiangsu's northeast (Wei and Fan 2000, 462). This was followed by Suzhou, Wuxi, Changzhou, and then 12 southern counties in 1985 and four additional cities and 29 counties in 1988 (Cai and Liu 2002, 495). The political wind from the central government and the pressure upon provincial and local governments to generate economic growth pushed Jiangsu leaders to independently take additional steps to attract foreign multinationals. The provincial government thus regarded inward foreign investment as being equally important as trade and economic co-operation and therefore opened additional cities, counties, and towns via its own authority to attract foreign capital (Cai and Liu 2002, 495–497, 499). Moreover, local governments opened their own local development and export processing zones. For instance, the Kunshan county government, in close proximity to Shanghai, feared being sidelined by that economic giant; thus, it successfully developed its own economic zone in the 1980s to attract foreign investment (Chien and Zhao 2008; Lee 2012, 6). With the goal of improving Jiangsu's accessibility for foreign multinationals, leaders were also in favour of connecting the region's infrastructure to Shanghai; most notably via a new expressway to Nanjing, which was completed in the mid-1990s (Interview, scholar, Hangzhou, May 2017).

The step-by-step opening process to attract inward FDI was accompanied by supportive policies from the provincial government. Already in 1986, Jiangsu's provincial government issued "Several Provisions to Encourage Foreign Investment." This scheme allowed preferential treatment for foreign investors, including tax reductions and exemptions, guarantees of access to sufficient raw materials, and funding for projects. In addition, approval procedures for projects were simplified, while government departments were mandated to improve their efficiency in relation to foreign investors (Provincial Government of Jiangsu Province 1986). Furthermore, the Provincial People's Congress issued additional regulations in the same year "On the Administration of Economic and Technological Development Zones," which directed parties to "encourage foreign companies to build factories or plants," and included several additional support policies (Standing Committee of Jiangsu Provincial People's Congress 1986).

As a result of the multi-level, top-down, support mechanisms coming from central, provincial, and local governments, Jiangsu province created a favourable environment for foreign investment and turned into one of China's five major destinations for foreign multinationals. In 1996, Jiangsu was among China's five major investment destinations (alongside Guangdong, Fujian, Shandong, and Shanghai), which together received 65% of China's total inward FDI (Cheung and Ping 2004, 30–31). However, within the region, as before, it was southern Jiangsu which benefited most from this government support, due to its close proximity to Shanghai and its strong manufacturing base. In 1995, southern

Jiangsu received around 72% of all foreign investment to the province (Wei and Fan 2000, 462). Meanwhile, the geographically less accessible and economically less attractive north continued to lag.

From the 1980s and onwards, China eased its regulations on outward investment projects and enterprises from Jiangsu province began to invest overseas. These early outward investment projects remained minor until the introduction of the "Go Global Strategy"; Jiangsu's established manufacturing industry proved an asset in this. For instance, the state-owned Panda Electronics Group carried out one of Jiangsu's first overseas investment projects by establishing a trading branch in the USA in 1986 (Ceng 2010, 59; Interview, scholar, Nanjing, October 2016). During the mid-1990s, further investments followed under the label of "Processing Foreign Trade Outside of the Country" (*jingwai jiagong maoyi*), which referred to both the export of product components and to the establishment of local assembly in the target country. This affected, for instance, lawnmowers which were exported to the USA and were assembled there (Interview, government official, Nanjing, October 2016). Other examples include the opening of trading offices by SOEs – for instance in Germany's port city of Hamburg (Interview, advisor, Nanjing, September 2016).

For Jiangsu, the government's open stance towards attracting foreign multinationals was conducive of early outward investment projects. Enterprises in Jiangsu were put in favourable structural positions for establishing commercial contacts with foreign multinationals as early as in the 1980s. Some of these first contacts later developed into opportunities for experience overseas (Interviews, scholars, Hangzhou and Nanjing, April and May, 2017). An example is Jiangnan Mould and Plastic Technology (JMPT), a company from Jiangyin in the province's south, which began by producing components for the automobile industry, such as for Germany's Volkswagen production in Shanghai (JMPT 2019; Volkswagen 2021). Based on this early co-operation, Robert Cao, the son of JMPT's owner, spent several weeks in the German state of North Rhine-Westphalia in the early 1990s. While the aim of his journey was to gain a better understanding on the production of car bumpers and the operation of related machines (*Die Welt*, April 28, 2010; NRW.INVEST 2014), this early stay laid the groundwork for JMPT establishing its subsidiary in Düsseldorf in 1998. Importantly, this investment was also a result of the good partnership relations between North Rhine-Westphalia and Jiangsu province; a bond which had existed since the late 1980s. This co-operation became the basis for further investments. In 2004, Robert Cao signed an agreement for the rental of office space for the "Düsseldorf China Center," which would serve as the home for an official Jiangsu province office in North Rhine-Westphalia and which would provide space to host and provide cultural activities and business-related services (*RP Online,* June 14, 2004; NRW.INVEST 2014). Hence, these business networks among Chinese domestic enterprises and foreign multinationals in China facilitated China's outward FDI and influenced companies in their overseas internationalisation in terms of, for example, their location choices (Ning and Sutherland 2012; Hertenstein, Sutherland, and Anderson 2017).

Jiangsu's Proactive Stance since the "Go Global Strategy"

After the introduction of the "Go Global Strategy," Jiangsu's rate of outward investment gained velocity. China's central government chose provinces for select investment projects and, for example, allocated Jiangsu province the development of the Khalifa Industrial Zone in the United Arab Emirates. Jiangsu was especially suitable for selection as an investor due to its substantial experience with development zones, having already built a plethora of them within the province (Various interviews, government officials, Nanjing, November, 2019). It also had experience developing economic zones overseas, such as in

Cambodia and Ethiopia (Bräutigam and Tang 2014, 82). In that way, the central government furthered investments via provinces which had already proved successful in developing overseas projects.

In addition, Jiangsu's provincial and local governments seized the opportunity of China's new climate of provincial internationalisation and mirrored the "Go Global Strategy," creating a priority in its own provincial Five-Year Plans to encourage domestic enterprises to invest abroad. In line with Jiangsu's pathway of "hierarchical steering," the 10th Five-Year Plan (2001–2005) also set a priority to the restructuring and reform of the provincial institutions, to provide them with capacities for overseas investment. This was carried out alongside the establishment of an efficient system of institutionalised oversight over outward investing businesses (Government of Jiangsu Province 2001). The subsequent Five-Year Plans also followed this path and placed an emphasis on support policies and highlighted the development of a regulatory framework of foreign investment laws and regulations, a service system, and, importantly, a system for improved cross-departmental co-ordination (Government of Jiangsu Province 2006; 2011). This meant, for example, the establishment of investment approval centres in southern Jiangsu to increase the speed and to facilitate approval procedures for overseas investment projects. Other examples include increasing capacity for information sharing across provincial departments and the building of linkages between government, business, and financial actors (Interview, government official, Nanjing, October 2016).

Moreover, additional policy documents from Jiangsu's provincial government specified the areas into which the province's outward investment was to be encouraged; the government thereby signalled preferences towards individual sectors, countries, and investors (General Office of the Government of Jiangsu Province 2015). For instance, after the central government's announcement of the BRI in 2013, Jiangsu's provincial government published "Opinions on Seizing the Opportunities for Constructing the 'Belt and Road Initiative' and Improving the Work on Overseas Investment." The provincial government highlighted the goal to "support advantageous industries of the province in expanding their overseas production and operations" such as in textiles, chemicals, and photovoltaic industries. The document also highlighted host countries and companies to be actively promoted (General Office of the Government of Jiangsu Province 2015). The provincial government identified "backbone enterprises" and selected priority projects by first targeting domestic enterprises likely to carry out successful projects in specific areas (Government of Jiangsu Province 2016a). In other words, the selected enterprises are those which are comparatively large or those which already have a history of overseas experience and a reasonable expectation that they will succeed in the future (Various interviews, government officials, Nanjing, November 2019).

One such enterprise was the Xuzhou Construction Machinery Group (XCMG) from northern Jiangsu (General Office of the Government of Jiangsu Province 2014). The company describes itself as the successor of Huaxing Iron Works, founded in 1943 and which, in the late 1950s, started to produce industrial machinery such as cranes (XCMG 2019). Since 2011, XCMG has expanded to Germany's North Rhine-Westphalia. In that year, XCMG acquired a majority stake in the German hydraulics company Fluitronics, with the acquisition providing the groundwork for follow-up projects. In 2012, XCMG established a research centre to the cost of €50 million in Europapark Fichtenhain, the home of Fluitronics (*Westdeutsche Zeitung*, September 19, 2011).

Other examples of Jiangsu's overseas presence include a multitude of construction and investment projects being implemented or planned in Southeast Asia. Indonesia has long been a major destination for Jiangsu's enterprises and, in 2019, the provincial government outlined how Jiangsu's enterprises would be promoted in the country. For example, the Provincial Department of Housing and Urban-Rural Development published a list of qualified enterprises which were to be supported in "going global." In addition, Jiangsu's provincial government announced that it would hold an investment promotion conference in Jakarta in 2019 to encourage companies from Jiangsu and from Indonesia to sign co-operation agreements for projects ranging from smart city development to green building construction. The conference was a collaboration between the Provincial Department of Housing and Urban-Rural Development, the Provincial Department of Commerce, and the Provincial Foreign Affairs Office, together with the Indonesian counterparts (Government of Jiangsu Province 2019).

Interestingly, Jiangsu's approach under the BRI also reflects its proactive stance towards provincial internationalisation. For the Jiangsu government, as outlined in the 2014 "Opinions of the Provincial Government on Seizing the Opportunities for Constructing the 'Belt and Road' and Improving the Work on Overseas Investment," the BRI is a means to explore new areas of growth, promote domestic innovation, and access new markets and resources (General Office of the Government of Jiangsu Province 2014). Yet, unexpectedly, Jiangsu was excluded from the central government's first major document which outlined the goals for the BRI: the "Vision and Actions on Jointly Building Silk Road Economic Belt and the 21st Century Maritime Silk Road," published in 2015 (NDRC, MOFA, and MOFCOM 2015). Nevertheless, Jiangsu drafted its own plans for its engagement under the BRI and could do so because it had the necessary resources. Jones and Zeng (2019, 1426) write that Jiangsu was thus able to "ignore" the central government's decision. Furthermore, the province's 13th Five-Year Plan (2016–2020) and the 14th Five-Year Plan (2021–2025) both included large sections on the BRI and had become more detailed than earlier plans, outlining the importance of improving the regulatory system for the provinces' outward investment and strengthening the support system for enterprises through additional policies and laws (Government of Jiangsu Province 2016b; *Xinhua Daily*, February 16, 2019; Government of Jiangsu Province 2021).

In sum, Jiangsu's structural economic legacies and actions taken by the provincial and local governments led to favourable conditions for the province's enterprises to invest abroad. The examples illustrate that initial government openness towards internationalisation and prioritisation of selected outward investment projects incited a path-dependent function which significantly contributed to turning Jiangsu into one of China's most important provinces for outward investment. In practice, this means that enterprises are more likely to align certain investment decisions with government plans, as, in doing so, enterprises might receive support in the form of, for instance, tax advantages (Interview, manager, Changzhou, May 2017).

Zhejiang: "Grassroots Internationalisation"

As with Jiangsu province, Zhejiang has long been one of China's most developed provinces. However, its path towards integrating with the global economy and becoming one of the country's major outward investment provinces has been more circuitous and surprising. Zhejiang province is located to the south of Jiangsu and Shanghai and, with its mountainous terrain, lacks arable land and resources – making it a significantly different geographical landscape to Jiangsu.

Nevertheless, or even because of the lack of alternative sources for making a living, this geographical landscape contributed to a genesis of a local entrepreneurialism, which distinguishes Zhejiang from many other Chinese provinces. Indeed, commercial traditions have existed in Zhejiang since the southern Song Dynasty (Liu and Zheng 2013, 93). In addition, the infrastructure of the Grand Canal connected Zhejiang with the northern parts of China (Nee and Opper 2012, 56).

In pre-modern times, the area's limited resources were efficiently utilised. For example, Qingtian Stone from the southern part of Zhejiang was utilised by locals to develop stone carving techniques, with which they produced and sold stone artefacts (Thunø 1996). The socio-economic situation in the province during Republican times was characterised by small business activities. These contributed to a comparatively well-developed manufacturing industry, which allowed locals to enjoy higher living standards than in most other parts of China. By the 1930s, Zhejiang had developed into a centre for modern factory production within the wider region of the Yangtze River Delta region (Nee and Opper 2012, 43).

These developments meant that Zhejiang could develop an international trade exchange, focused on two coastal cities, Wenzhou and Ningbo. Both had trading ports with vibrant international shipping connections to Japan and Southeast Asia having existed for several centuries (Nee and Opper 2012, 55; Liu 2019, 49). Qingtian stone was traded internationally for some 300 years, with merchants even reaching Europe (Thunø 1996, 277–278). In addition, Zhejiang had international migration patterns, which accelerated during the Republican era when the Qingtian stone trade declined (Live 1995). When the industry collapsed, some individuals migrated overseas, often to factories of Europe or in self-made overseas small-scale businesses (Live 1995; Thunø 1996, 283). This emigration took place corresponding to British and French labour recruitments mostly taking place in the Shandong peninsula, which transported workers to Europe from Shanghai, not too far from Qingtian (Skeldon 1996, 450).

During the 1920s, around 20,000 people from Qingtian settled in European cities including Berlin, Paris, Milan, Hamburg, Rotterdam, and Amsterdam, with many deciding to stay (Skeldon 1996, 450). After the first individuals settled, chain-migration followed; yet this time it was not only workers from Qingtian but also merchants from the neighbouring city of Wenzhou which maintained close trading relations with Japan via its trading port. When commercial relations between China and Japan came to a halt in 1931 in line with China's imposed trade boycott, these merchants were prompted to seek new opportunities (Liu 2019, 49). Thus, this early migration from Qingtian and Wenzhou saw the emergence of a Zhejiang diaspora in Europe (Skeldon 1996, 451).

During the Mao era, however, this situation changed. Zhejiang's location, in close proximity to the politically sensitive Taiwan Strait, was a reason for the province to be excluded from state investment. The resulting lack of financial resources meant that living conditions dropped to resemble those of poorer provinces (Nee and Opper 2012, 43–44). Ningbo's economy declined and in Wenzhou living standards decreased significantly (Nee and Opper 2012, 54–56). One result was that individuals in Wenzhou, beginning the 1960s, engaged in illegal activities such as the private production of goods in rural households and the selling of these goods through illegal markets (see Parris 1993, 245). These activities became a starting point for Wenzhou's socio-economic development during the reform and opening period and for subsequent private sector development (Parris 1993, 245). Later, these activities further expanded to other parts of the province (Wang 2008).

Zhejiang's Post-1978 Grassroots Economic Development

With a lack of industry and arable land, the starting conditions for Zhejiang at the outset of the reform and opening period in the late 1970s were different from Jiangsu's. These conditions set the tone for Zhejiang's own development path. With little alternative, individuals around Wenzhou expanded their small businesses, utilising an established culture of self-help (Parris 1993, 245; Wang 2008, 29; Nee and Opper 2012, 50). Some businesses also worked under the guise of SOEs, registered as collectively-owned enterprises (*dai hong maozi*), and engaged with the informal finance channels (Tsai 2002, 130). Parris (1993, 250) suggests that these still illegal private commercial initiatives were a way for individuals to make a living. Local leaders thus "opened one eye, saw the development and closed it again" (Interview, scholar, Hangzhou, April 2017). Economic activities in Zhejiang thus emerged in a bottom-up fashion, such as was the case in both Wenzhou and, with more local government promotion, also in Taizhou (Qian and Shi 2008, 108; Wang 2008, 29–30).

At first, small businesses produced simple but labour-intensive items, such as toys and clothes. Over time, some of these business activities transformed into larger family workshops and even into factories producing more complex goods (Liu and Zheng 2013, 93; Interviews, scholars, Hangzhou, 2017). During the 1990s, family businesses expanded from the region around Wenzhou and Taizhou, reaching across the province (Wang 2008, 9). As a result, locality-specific small business networks contributed to the formation of regional industrial clusters focusing almost entirely on the production of singular goods for large markets, as is the case in Ningbo (clothing), Yueqing (low-voltage electrical equipment), and Yiwu (small general merchandise) (Wang 2008, 14, 20). This type of economic development became known as the "Zhejiang phenomenon"; the model was notably different from the TVE-based "Southern Jiangsu model" of government top-down economic steering (Wang 2008, 28–29).

This comparatively early hands-off approach, of Zhejiang's provincial and local governments passively seizing economic development opportunities provided by the local bottom-up entrepreneurial initiatives, was also vital to the province's initial steps towards engaging with the global economy. Although provincial and local governments in Zhejiang were, like those in Jiangsu, in need of revenues to provide local expenditures for infrastructure and service delivery, their early approach towards internationalisation was quite different. They were less interfering in domestic economic development but were also more reluctant towards actively inviting foreign investment (Huang 2009, 152). Although the central government had begun to open cities in Zhejiang in 1984, Shen (1998, 68–69) writes that Zhejiang's officials lacked an understanding of the importance of inward investment and lacked an urgency in attracting foreign multinationals. Hence, provincial policies were not as ambitious as in Jiangsu (Shen 1998, 69). Even in specific locations like Wenzhou, where then-party secretary Li Qiang pushed for the construction of a development zone, inward FDI by foreign multinationals remained small due to a combination of reasons. Preferential policies were not as ambitious as in other coastal cities, and either migrants from Wenzhou provided investment, or other domestic entrepreneurs would make use of their abundant capital and privately finance the relevant projects (Ye 2020, 168–169). Furthermore, being close to Shanghai was not taken as an opportunity for economic development, but rather Zhejiang's leaders worried that local enterprises would relocate to the larger city (Interview, scholar, Hangzhou, May 2017), depriving Zhejiang of an important tax base. Whereas Jiangsu's leadership was eager to improve its infrastructural connections to Shanghai, leaders in Zhejiang delayed the construction of an expressway linking Shanghai with Hangzhou (Interview, scholar, Hangzhou, May 2017). This reluctance on economic opening from the provincial and local governments, combined with the province's less developed infrastructure, made Zhejiang less attractive to foreign multinationals (Shen 1998, 69–70). As a result, Zhejiang's inward FDI lagged far behind Jiangsu's, amounting only to 4% of China's total inward FDI in 2000, compared to Jiangsu's 16% (Cheung and Ping 2004, 31). As a result, unlike Jiangsu, leaders in Zhejiang did not create the same opportunities for Zhejiang's enterprises to establish the types of contacts with foreign multinationals which they could use for their overseas expansions (Ning and Sutherland 2012; Hertenstein, Sutherland, and Anderson 2017).

Yet, as they developed, Zhejiang's small- and medium-sized enterprises (SMEs) were in need of new export markets. Without a government providing opportunities for commercial contacts with foreign multinationals within China, these enterprises first engaged in the export of goods and, after having become more familiar with the local business environments, established small-scale manufacturing sites in these host countries. For instance, Yuemei, a private textile company, started to export goods to Nigeria and, in 2004, set up a small factory in the country. By reinvesting its earnings, Yuemei expanded its textile operation and started to develop a value-chain-based private industrial estate which, until 2009, attracted five additional enterprises (Shen 2013). The existence of close-knit groups based on business networks and family ties within Zhejiang allows SMEs to maintain close contacts to owners of overseas subsidiaries (Hang 2011; Shen 2013). Additionally, the existence of the domestic industrial clusters allows them to go abroad together by expanding their complete domestic value-chains to other countries (Hang 2011). These domestic networks among individuals working for the local SMEs are thus a way to get information about host countries and projects, and, in that way, to reduce investment risks (Hang 2011; Shen 2013). The result was that enterprises from Zhejiang invested abroad in a manner known as "investing abroad in groups" (*baotuan zouchuqu*), which was far less common among Jiangsu businesses (Interview, scholar, Nanjing, May 2017).

Business Networks and Private Entrepreneurship since the "Go Global Strategy"

The early trade-related investment projects by Zhejiang's enterprises, and the investment patterns based on business networks, persisted long after the introduction of the "Go Global Strategy." For example, small trade enterprises from Ningbo started to invest in Canada in the mid-1980s which was followed by investments to the USA and Germany in the 2000s (Interview, government official, Ningbo, May 2017). An interviewee stated that even through the 2010s, "most of the investments were trade related investments. Offices with two or three people have been opened" such as in Germany to import products such as umbrellas, clothes, and LED lamps (Interview, advisor, Hangzhou, May 2017).

A more institutionalised form of "investing abroad in groups" developed with the introduction of the "Go Global Strategy," with investments directed towards industrial parks and shopping malls. These investments came primarily from the specialised markets of cluster cities in Zhejiang. Funding came especially from private capital from within Wenzhou, but also from places such as Shaoxing and Yiwu. Investors from these cities established markets in countries such as in Brazil, Cameroon, South Africa, and the United Arab Emirates (Wang 2008, 14; Ye 2020, 165). For example, the private company China's Daily Necessities Metropolis from Zhejiang's city of Taizhou established a commodity distribution centre in the United Arab Emirates in 2003 and subsequently attracted around 60 small- and medium-sized retailers and wholesalers (see Huang and Renyong 2014, 6). Shopping malls offer advantages in the form of the reduction of costs and risks for investors, as mall developers may offer lower rents for shops and, in addition, may also provide accommodation for these investors, allowing them to avoid dealing with complex housing situations in the host countries (Huang and Renyong 2014, 9). Since companies try to reduce costs and risks, investors thus tend to cluster in specific host cities. As one interviewee put it: "of course it can happen that companies then go to places where they find already other companies from Zhejiang as opposed to other cities; for example to Vietnam's Long Jiang and not to Ho Chi Minh City" (Interview, advisor, Hangzhou, April 2018). This clustering not only enables outward investment, but also incites path-dependent investment patterns. With rising wages and with environmental standards in China starting to increase, local enterprises also started to move their production abroad. For instance, enterprises from the industrial clusters in Haining and Datang (where leather goods and socks are produced, respectively) have started to move production to countries in South Asia and Central Asia (Interview, entrepreneur, Datang, May 2017; Informal interview, scholar, Haining, April 2018).

Moreover, and in contrast to the large enterprises in Jiangsu which have developed since Republican China, many enterprises in Zhejiang are comparatively young, but have shown significant adaptability in changing and adjusting their core business practices towards new economic areas. In that way, earlier bottom-up private sector development later transformed into outward FDI, often directed towards new sectors, especially those in the automobile industry and the digital economy. For instance, Geely was founded as a private manufacturer in Taizhou in 1986. While Geely at first produced refrigerator parts, it entered the motorcycle industry in 1994 and only three years later the automotive industry (ZGH 2020). In 2006, the company acquired almost 20% of Manganese Bronze Holdings – the manufacturer of the traditional London Taxi – followed by a 100% acquisition of the Volvo Car Corporation in 2010, from Ford (ZGH 2020). Similarly, Ningbo Joyson Electronics, a supplier for the automobile industry with its headquarters in Ningbo, was founded in 2004 (Joyson Electronics 2020). Between 2011 and 2016, it made several large investment deals; for example, in the German companies Preh, Quin GmbH, and TechniSat Automotive (Köth and Otto 2017) and in the Japanese Takata company (*Bloomberg*, June 26, 2017). This adaptive character also allowed for the development of Zhejiang's digital economy, especially in its capital Hangzhou. For example, China's private e-commerce giant Alibaba was founded in 1999 in Hangzhou; Alibaba later invested significantly in the Southeast Asian fintech industries via its mobile payment platform provider Ant Financial. Examples of such investments include investments into Lazada, eMonkey, and Paytm (*Reuters*, March 10 and April 2, 2018; *Reuters,* December 19, 2019). From this it becomes clear that the province's diverse economic structure and its entrepreneurialism was conducive to investment expansion. The earlier, less complex forms of trade-related investments had allowed enterprises to gain international experience.

Similar to Jiangsu, Zhejiang's provincial government has included the "Go Global Strategy" and the BRI in its provincial Five-Year Plans. However, although Zhejiang's Five-Year Plans highlight the importance of encouraging provincial companies towards overseas investment, they do not put the same level of importance on developing an institutionalised investment framework, such as that of Jiangsu (Government of Zhejiang Province 2001a). While the provincial government published "Guiding Opinions on speeding up the implementation of the 'Go Global' Strategy" in 2001, these same words did not find their place as a priority in the subsequent 11th Five-Year Plan for 2006–2010 (Government of Zhejiang Province 2001b; Government of Zhejiang Province 2006). Hence, while Jiangsu was already at the stage of building a more formalised foreign investment framework, Zhejiang remained, in its five-year priority outlines, at the more abstract level of "encouraging" foreign investment (Government of Zhejiang Province 2001a; Government of Zhejiang Province 2006). This comparatively slow process also manifests itself at the sub-provincial level. For instance, for Ningbo, the government of which is more active than those of other Zhejiang cities, the "Go Global Strategy" was used as a means to attract inward FDI instead of furthering outward investment. As such, the

Strategy supported Ningbo's internationalisation in a sense that a domestic export processing zone, which had received State Council approval already in 1992, was finally completed in 2002 (Ye 2020, 160).

In 2011, Zhejiang's provincial government could still announce that it would "guide" enterprises in their overseas activities. At the same time, however, the Government of Zhejiang Province (2011a) emphasised that it was "more important to stimulate the internal motivation of enterprises in 'going out'," which emphasised the importance of enterprises' own interests in Zhejiang's outward investment. It was only with the 12th Five-Year Plan (2011–2015) that the official language changed to emphasise a reform of the management system for overseas investment, as well as to highlight the importance of improving investment guidance, with the aim of reducing the risks for Zhejiang's enterprises investing abroad (Government of Zhejiang Province 2011b). This trend of Zhejiang's government becoming more active developed as a means of coping with China's economic slowdown (Informal conversation, scholar, Hangzhou, April 2018). Hence, Zhejiang's 13th and 14th Five-Year Plans became more sophisticated in terms of the province's global presence. However, Zhejiang's 13th Plan did not match Jiangsu's priorities of an institutionalised service, policy, financial, and legal support system. Its 14th Plan focuses on using the BRI as a means for domestic economic development, while Jiangsu's refers to plans of specific projects in selected countries (*Xinhua Daily*, February 16, 2019; Government of Zhejiang Province 2016; Government of Jiangsu Province 2021; Government of Zhejiang Province 2021). In recent years, the service system for enterprises in Zhejiang has expanded, with multiple actors, such as consultants or government departments, now providing information for enterprises. As the point of contact for foreign companies and embassies, the provincial government holds information about possible investment projects and about host country environments; enterprises largely rely upon these forms of information (Interview, government employee, Hangzhou, April 2018; Interview, entrepreneur, Hangzhou, April 2018). In this way, the provincial government has thus developed informal modes of influence over provincial investment patterns. Yet, provincial enterprises still mention difficulties related to accessing such information. For instance, difficulties exist in bureaucratic overlap, which makes it difficult for investors to understand the political stakeholders' responsibilities, applying for government funds and in registering a foreign investment project, due to frequently changing criteria (Interview, entrepreneur, Datang, May 2017; Interview, advisor, Hangzhou, April 2018).

In sum, Zhejiang's internationalisation and outward investment process has been facilitated by the entrepreneurialism of provincial businesses. In the Republican period, entrepreneurs from Zhejiang were already venturing abroad and, during the Mao era, had developed illegal local businesses as a means of survival. Later, local business networks and support structures among entrepreneurs allowed for the successful growth of some of new enterprises and their successful expansion abroad. As such, Zhejiang's outward investment style followed a character which can be defined as "grassroots internationalisation"; this is a unique character which encompasses the bottom-up development of local businesses. Additionally, the role of the provincial and local governments has been less as "hierarchical steering" structures when compared to Jiangsu province.

Conclusions

This research has shown that Jiangsu and Zhejiang have followed locality-unique paths of integration into the global economy, which allowed for the provinces to become "success cases" of provinces with high outward investment. Jiangsu's approach has been facilitated through "hierarchical steering" resulting from the provincial and local state interests of integrating into the global economy – first via inward FDI and then through outward FDI. By contrast, the starting conditions for Zhejiang province at the outset of the reform and opening period were less favourable for internationalisation and supporting outward FDI, with its leaders more reluctant to attract foreign multinationals or support outward FDI. Zhejiang's outward FDI therefore followed a process of "grassroots internationalisation" with enterprises more independently grasping emerging opportunities, supporting each other, and with the provincial leaders only later starting to play a more important and supportive role.

Despite these differences, which particularly apply to the roles of provincial and local governments, Jiangsu and Zhejiang share noteworthy similarities in the form of traits which were necessary for the two provinces to become two of China's largest outward investing provinces. These similarities relate to the two provinces' historic manufacturing industries during pre-Mao times. More recently, provincial manufacturing enterprises needed new markets for their goods and therefore started to look for production sites outside China. In addition, both provinces hold comparatively large enterprises which, today, can undertake high-value investment deals. While in Jiangsu some of these enterprises date back to the late Republican period, enterprises in Zhejiang emerged in line with the province's adaptive business traditions after the introduction of the reform and opening period.

Reflecting on the literature on state interests and marketisation as the major explanations for China's outward FDI, the results of the case studies in this article showcase that both perspectives matter, but that locality-unique contexts ultimately play an important role when it comes to which of state interests and marketisation feature more prominently. While in Jiangsu province the provincial and local governments have been more active in their local economies, the provincial and local governments in Zhejiang, by contrast, have been more reluctant, which thus provided more leeway for private interests. In this context, a limited perspective on central government policies – "China as a unitary actor" – falls short in providing sufficient explanations for China's outward investment. Such a view of China as a unitary actor tends to ignore or downplay regional variation and over-emphasises dependence on China's central government when considering actual policy implementation.

The two modes of "hierarchical steering" and "grassroots internationalisation" identified in this article are not immune to change. Nor does this analysis seek to obscure intra-provincial differences between localities or between administrative layers. Of note in this regard is that Jiangsu, although having followed a more provincial and local government guided process, also held city authorities which were reluctant to support outward FDI – as was the case for Changzhou. While Changzhou was proactive in attracting inward FDI (Nee and Opper 2012, 59), this did not persist in terms of encouraging outward FDI, with the city's municipal government being interested in production facilities remaining in place rather than moving abroad (Interview, manager, Changzhou, May 2017). Likewise, provincial departments of commerce and development and reform commissions are the major actors in making and implementing provincial investment policies. By contrast, the provinces' tax departments are cited as having been more reluctant towards outward FDI, fearful of declining tax revenues.

More broadly, tracing the processes of provincial integration paths and unearthing historic enabling legacies demonstrate that becoming "success cases" was a long process. Nor can provincial successes be attributed to single factors. Instead, a chain of favourable conditions and beneficial decisions was necessary. By contrast, provinces with less favourable starting conditions are confronted with significant hindrances towards integration with the global economy – be it due to their geographical location, their legacies of heavy industries, or due to a lack of manufacturing capacities and international experience. What becomes clear from considering regional variation is that China's mounting outward FDI, especially its rise up until 2016, has been facilitated by the domestic developments and economic interests of a few provinces.

Notes

1. This research uses official data from the Chinese Ministry of Commerce (MOFCOM) to provide a general picture on China's outward investment patterns. However, data on Chinese outward FDI need to be treated with caution. This is because official statistics include data of investments directed towards offshore financial centres and tax havens, including Hong Kong, the British Virgin Islands, and the Cayman Islands. These investments might be redirected to China as inward FDI or may be further directed towards other countries. As a result, official statistics are usually biased in terms of investment volume as well as geographical and industrial composition. For more information related to data issues associated with Chinese outward FDI statistics, see Schüler-Zhou and Schüller (2009), Sutherland and Anderson (2015), and Sutherland, Hennart, and Anderson (2019).
2. This refers to non-financial outward FDI, which in 2019 encompassed 85% of China's total outward FDI flows (MOFCOM, NBS, and SAFE 2020, 90).
3. Hong Kong is an important destination for investments from Chinese provinces. For instance, in 2016, 26% of Jiangsu's total approved investment projects were directed to Hong Kong (see, for example, Jiangsu Bureau of Statistics, and Jiangsu Research Unit of the National Bureau of Statistics 2011–2017).

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