THE LOGIC AND LIMITS OF CHINA’S OUTWARD INVESTMENT

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An international political economy puzzle: home country policy in authoritarian regimes

A comparative puzzle: authoritarian state-business relations in the context of globalization
Xi Jinping speaks at 5th anniversary celebration of BRI, proposes “recalibration” August 2018
An international political economy puzzle: home country policy in authoritarian regimes

A comparative puzzle: authoritarian state-business relations in the context of globalization
Data from AEI China Investment Tracker
COMMON CONCEPTIONS OF CHINA IN THE WORLD

China, Inc

CCP, Inc

Party-state capitalism

Debt-trap diplomacy

All in common: a challenge to a global liberal order
HOW HAS CHINA’S MOVEMENT OUT PROCEEDED?

Not:
Highly strategic
Coordinated
Consistent with Beijing’s interests
Political sophisticated with international security as bottom line

Instead:
Experimental
Fits and starts
Campaign-driven
For firms, frequently commercial
Responsive to domestic security concerns
Indeed inconsistent with some global order.
Discretion as a bottom line.
ARGUMENT

Different logics of accumulation explain outward investment: capital types based on domestic political status

Chinese state treats these different forms of capital differently, which helps make sense of the PRC’s approach to managing outward investment

Set of campaigns (adjusted over time) + domestic regulation
LIMITS TO CHINA’S OUTWARD INVESTMENT

Political risk in conflicting goals of crony, competitive and tactical capital

Experimental, rather than strategic, approach generates risks… and then learning

Central role of politics and party-state generates global backlash and limits the tactical and competitive efforts of firms
Open Economy Politics (OPE): “relevant political actors and their interests are defined by their production profile or position in the international economy.” (Lake 2009)

Beyond ownership (Chen & Rithmire 2020; Milhaupt and Zheng 2015; Bai, Song, Hsieh and Wong 2021)

Empirical examples: Huawei & ZTE, CEFC
<table>
<thead>
<tr>
<th>Capital Type</th>
<th>Tactical</th>
<th>Competitive</th>
<th>Crony</th>
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<tbody>
<tr>
<td>Logic in outward investment</td>
<td>Political prestige for managers; political power for the Chinese state</td>
<td>Capital accumulation; pursuit of revenues and profits through access to markets and greater efficiency</td>
<td>Refuge from the state; safety; personal wealth and security through asset expatriation</td>
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<td>Likely Firm Sources</td>
<td>Firms owned by the state; some national champions; sectors related to national security or with strategic value</td>
<td>Firms not reliant on the state for critical inputs</td>
<td>Firms reliant on political connections for inputs; firms whose strategies depend on political connections and special access</td>
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<tr>
<td>Examples</td>
<td>Sinopec; COSCO; Huawei</td>
<td>Alibaba; Huawei; most SMEs</td>
<td>Anbang Insurance; HNA</td>
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<tr>
<td>State Policy Treatment</td>
<td>Deploy and discipline</td>
<td>Enable</td>
<td>Restrain</td>
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“In Myanmar we have a local friend who can help us understand the situation. If we go to Vietnam or Indonesia and there are anti-Chinese problems, I can’t ask my government for help, and I have to pull out and lose my investment. This money took me two decades to earn in China, and I can’t throw it away.”

- SME owner, Shanghai 2017
CRONY CAPITAL

A logic somewhat unique to authoritarian regimes, but not to China.

Illegitimate capitalists in authoritarian regimes:
Privileged/ illicit access to some resources (Shleifer and Vishny 1993)
Short time horizons (Akerlof and Romer 1993 on “looting”)
Anbang Insurance (92+ 1257 entities)

Belgium
(?)
2014: Delta Lloyd Bank SA
Fidea NV

Netherlands
(562 million)
2015: Castor Holdco
2016: Doubletree
2017: REAAL NV

South Korea
(2.2 billion)
2014: Tongyang Life Insurance, Co.
2016: Allianz Se

Canada
(1.2 billion)
2016: Ivanhoe Cambridge
Retirement Concepts Senior Services

United States
(11 billion)
2014: Waldorf Astoria
2015: Fidelity
2016: Strategic Hotels & Resorts
Fosun (623 + 750 entities)

Barbados, Bahamas (2)
Holding companies, real estate

Israel (3)
Tech, holding companies

Germany (6)
Apparel, holding, amusement

Russia (2)
Metals, real estate

Portugal (2)
Insurance, healthcare

France (5)
Holding, Apparel, Amusement

Belgium (2)
Holding companies, real estate

United States (5)
Insurance carriers (Ironshore, Inc., Meadowbrook, Aurora National)

United Kingdom (3)
Oil & gas, amusement, mining
Campaigns: mobilization, propaganda, typical life-cycle involves over-enthusiasm and tweaking (Looney 2020; White 2006; Cell 1968; Lieberthal and Oksenberg 1988)

BRI
Made in China 2025
LIMITS TO CHINA’S OUTWARD INVESTMENT

Political risk in conflicting goals of crony, competitive and tactical capital
Opinion: Luckin Will Cast Doubt on Chinese IPOs in America

By Joel Gallo

Customers wait at a Luckin Coffee store on April 3.
TACTICAL CAPITAL OVERSHADOWS COMMERCIAL MOTIVES

"China’s ZTE, Saved by U.S., Has a Checkered Past and Shaky Future"

The Chinese telecommunications company ZTE got into trouble with the United States Department of Commerce for violations of trade controls on Iran and North Korea. Gilles Sabrié for The New York Times
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WHAT IS THE BRI?

No map, no centralized control, not the beginning of China’s OFDI, no formal data

A campaign (mobilization, propaganda, typical life cycle involves over-enthusiasm and tweaking)
How China Got Sri Lanka to Cough Up a Port
BASIC FACTS

Hambantota Port:

Phase I (niche non-container cargo) 2007: $307 million at 6.3% + 0.75%
Phase II (container port) 2012: $757 million at 2%
Both ExIm Bank, China Harbor Group

Port City: FDI from China Harbor Group, $1.4 billion since 2014
LIBOR Rates, 2000-2018

Phase 1: 2007
Phase 2: 2012
Sirisena challenges Rajapaksa in late 2015, wins narrowly early 2016
- Ran on renegotiating debt
- Suspended Port City project

Two offers:
China Harbor offered $750 million for 65% (excluding container terminal) ($1.136 billion valuation)
China Merchants: $1.12 billion for 85% (port + zone + city concept) ($1.4 billion valuation)

Final agreement:
85% at same valuation, three tranches within 2017, CMG to supply equipment for container terminal
AND ELSEWHERE…

**Malaysia**

Infrastructure: East Coast Rail

27 bn MLR to 81 bn MLR

Extra funds when back into ruling party’s election coffers

2018 surprise election → renegotiation

Real estate: FDI elsewhere; land reclamation, mixed use luxury

**Myanmar**

Infrastructure: Kyaukphyu Port (7.9 bn) in FDI, termed and JV

3 phases

CITIC

Real estate: New Yangon City

Land reclamation, mixed use luxury
CAPITAL AND THE CHINESE STATE

Campaign adjustment over time

- BRI “recalibration”
- National Agency for International Development and Cooperation (国家国际发展合作署）
- CCDI goes abroad

Made in China “do not emphasize”

Regulatory Adjustments: capital controls (2016) + domestic regulation
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CONCLUSIONS

Domestic sources of constraint for PRC’s global footprint

“State capitalism” (Bremmer 2016; Kurlantzick 2016) overestimates and underestimates the power of the state

Party-state capitalism (Pearson, Rithmire, & Tsai 2020) not so easily contained

Discretion as the core approach (Weiss and Wallace 2020; Cf Steinfeld 2010)
THANK YOU!

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