

THE LOGIC AND LIMITS OF CHINA'S OUTWARD INVESTMENT

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CHALLENGES OF CHINA'S INTERNATIONALIZATION

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

A comparative puzzle: authoritarian state-business relations in the context of globalization

PUZZLE: APPARENT POLICY AMBIVALENCE

Beijing Takes Over Anbang, Insurer That Owns Waldorf Astoria



The Waldorf Astoria hotel, a symbol of New York elegance, will be under the control of the Chinese government. Karsten Moran for The New York Times

By Keith Bradsher and Alexandra Stevenson

Feb. 22, 2018



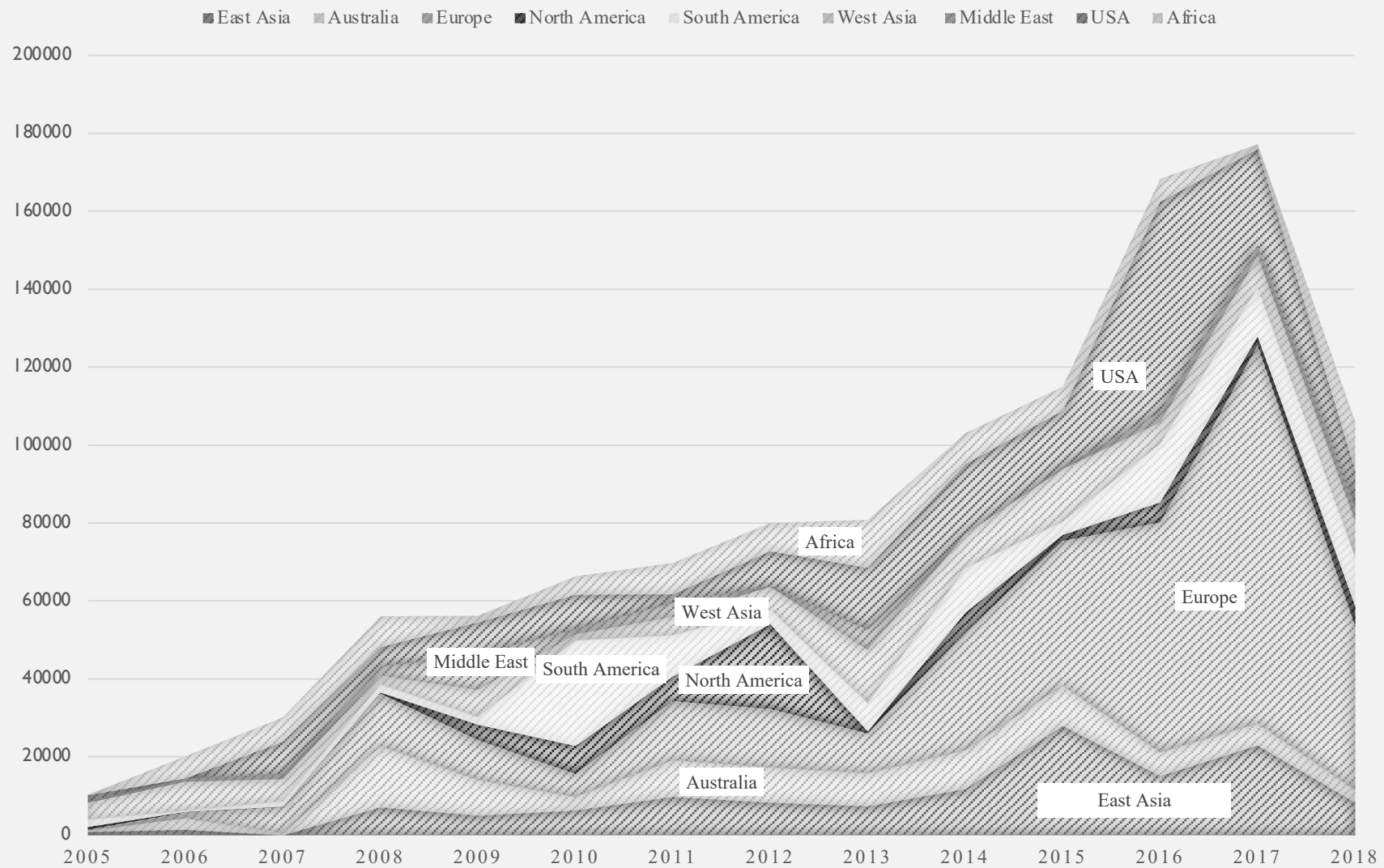
Xi Jinping speaks at 5th anniversary celebration
of BRI, proposes “recalibration” August 2018



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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

VARIETIES OF OUTWARD CAPITAL

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 1: A Typology of Capital in Contemporary China

Capital Type	Tactical	Competitive	Crony
Logic in outward investment	Political prestige for managers; political power for the Chinese state	Capital accumulation; pursuit of revenues and profits through access to markets and greater efficiency	Refuge from the state; safety; personal wealth and security through asset expatriation
Likely Firm Sources	Firms owned by the state; some national champions; sectors related to national security or with strategic value	Firms not reliant on the state for critical inputs	Firms reliant on political connections for inputs; firms whose strategies depend on political connections and special access
Examples	Sinopec; COSCO; Huawei	Alibaba; Huawei; most SMEs	Anbang Insurance; HNA
State Policy Treatment	Deploy and discipline	Enable	Restrain

Alibaba

United States

**Alohar Mobile, Amblin Partners,
Auctiva Corp., EyeVerify, Kite
Heavy Industries, ShopRunner,
SingleFeed**

Singapore

**Lazada SouthEast Asia
Quantum Solutions
Wormhole Technology**

India

**One 97 Communications
Paytm Mobile Solutions**

Hong Kong

**A-RT Retail Holdings Ltd
GoGo Tech
Meizu Telecom
SCMP Group
SunArt Retail Group**

Thailand

Ascend Money

South Korea

Hanbit Soft

COMPETITIVE CAPITAL: SMALL AND MEDIUM ENTERPRISES

“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

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

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

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

Russia (2)
Metals, real estate

Israel (3)
Tech, holding companies

Germany (6)
Apparel, holding, amusement

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

Portugal (2)
Insurance, healthcare

France (5)
Holding, Apparel, Amusement

United Kingdom (3)
Oil & gas, amusement, mining

Belgium (2)
Holding companies, real estate

CAPITAL AND THE CHINESE STATE

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

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CRONY CAPITAL GENERATES POLITICAL RISKS

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

Advanced Rail
Aviation Equipment
Agricultural Machinery
Medical Devices
**MADE IN
CHINA 2025:**
GLOBAL AMBITIONS BUILT
ON LOCAL PROTECTIONS
Robotics
Electrical Equipment
High-Tech Maritime
Vessel Manufacturing
Next-Generation IT
New Materials
New-Energy
Vehicles
Biomedicine
High-End Numerical
Control Machinery



U.S. CHAMBER OF COMMERCE

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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

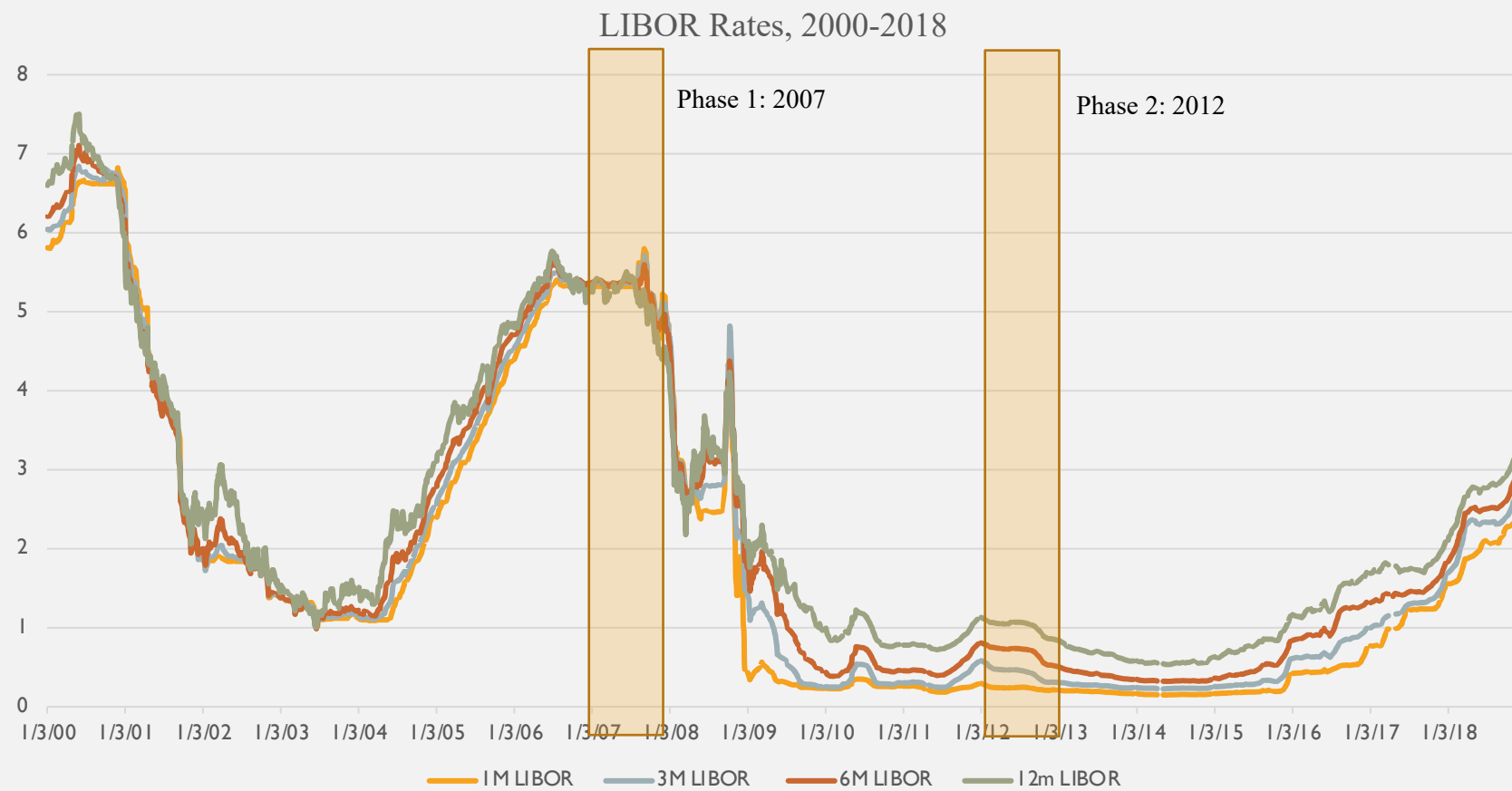
Hambantota Port:

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





Top: “Port City” Development

Left: Hambantota Port

RENEGOTIATION

Sirasena 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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