

Globalisation of Chinese Enterprises through Outbound Direct Investment: Evidence from Sri Lanka

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Abstract


The rapid proliferation of Chinese Outbound Direct Investment (ODI) has over the years been attracting worldwide attention due to its overwhelming presence and distinct characteristics which stands in contrast to other experiences from before. This paper examines these issues in the context of Sri Lanka focusing especially on operations of the State-Owned Enterprises (SOEs) and the Private Enterprises (PEs) of China. The study rests on data gathered from Chinese enterprises per structured questionnaire and interviews with functionaries thereof. The evidence presented here highlights the vital role played by the Chinese state and the Chinese business clusters in facilitating the stage for soft-landing for Chinese ODI in Sri Lanka. The findings also reveal the vertical and horizontal strategies for expansion by Chinese SOEs and PEs in the promotion of Chinese entrepreneurship in Sri Lanka.

Keywords: *Globalization; Institutional Supports; Business Network; Outbound Direct Investment; Firm-Specific Advantages*

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INTRODUCTION

Since the dawn of the new millennium, the increased presence of the Chinese Outbound Direct Investment (ODI) in the global stage has been attracting worldwide attention. Chinese ODI that was incipient in volume over the years through the late 1970s to 1990s, expanded rapidly to exceed, by 2015, the volume of Chinese Inward Direct Investment (IDI) which at the time was at USD 126 billion. Despite the conflicts of interests between China and some of its partners in trade over the years of the recent past, China continues to grow and remain in the spotlight as the industrial powerhouse of the world whilst, at the same time, it continues to promote its globalization endeavour through international trade and ODI. This emphasis in endeavour has been achieved particularly through enhancement of bi-lateral (through Free Trade Agreements, FTAs) and multilateral agreements (Jiang, 2010); encouragement given for Chinese firms to expand their overseas activities through ‘Go Out’ policy which China introduced in 2001 (Buckley et al., 2007); the promotion of the regional economic and social programmes for economic growth and redistributive justice; and the achievement through support and *stimuli* given directly and indirectly by ‘Belt & Road Initiatives’ (Huang, 2016) for the Chinese firms to expand their presence on a global scale.

These indicate that the institutional and policy-related emphasis in the promotion of Chinese International Trade and ODI activities have been significant. In consequence of these programmes of institutional and policy-related support, the Chinese entrepreneurs were able to structure and organise their activities in a manner that is specific for them and which emerged being distinct from those of the enterprises from the industrialised West. Some of these distinct characteristics of Chinese ODI include:

- a) Despite that a major share of investments emanated from the industrial West promulgated of the advantage of firm-specific-advantages that helped the firms cover their transaction-costs they faced in host countries, the Chinese firms were not subject to this condition in any significant way (Li-Ying et al., 2013; We, 2010);
- b) The Chinese firms, especially those involved in the development of the infrastructure facilities seem to have attributed greater consideration for long-term strategic advantages than for their short-term benefits by being able to maximise profits (Alon et al., 2014);
- c) In particular situations and circumstances, the Chinese ODI has been available and in some instances even growing in countries which have failed to exhibit clear and significant economic strength and political, social stability and strategic steadfastness (Chen et al., 2015; Li-Ying et al., 2013);

- d) Chinese entrepreneurs started to experience a rise in the cost of labour in China since the mid-2000s. However, according to Alon and others (2014) the Chinese ODI has never been determined by the locational advantage in labour offered by the host countries with which it had entered bi-lateral or multilateral agreements of economic cooperation;
- e) The Chinese enterprises in overseas territories are likely to be less reliant on host country institutions (Li-Ying et al., 2013) yet they are more likely to form specific links with each other amongst the Chinese enterprises which contributed for the proliferation of the Chinese investment in the host country as well as in the region (Li et al., 2017; Peng, 2012).

These observations show a strong contrast between ODI facilitated by China and by firms emanating from economies of the industrial west. It is, therefore, doubtful whether the classical FDI theory can be sufficient in explaining Chinese ODI (Buckley et al., 2007; Wei, 2010). In addition, the existing datasets from both public sector organisations as well as the international organisations seems only capable of covering macro-economic aspect of the subject (Buckley et al., 2007; Cheung and Qian, 2009; Kang and Jiang, 2012; Ross, 2015) and, therefore, there prevails significant paucity with regard to their application on Chinese ODI and how the networks between Chinese SOEs and Chinese PEs collaborate with each other in fostering and promoting their entrepreneurial endeavour.

The main purpose of this study is twofold: a) to examine the determinants of Chinese ODI, and b) to examine the network of collaboration between Chinese SOEs and Chinese PEs that fostered and promoted their entrepreneurial endeavour. Sri Lanka was selected as a case study for this analysis due to the following reasons: 1) It is in a strategic location which is located adjacent to one of the world's busiest ocean routes of sea transport where security and supports for ships are of paramount importance; 2) within a brief period of time starting from mid-2000 Chinese ODI has become the largest source of foreign investment in Sri Lanka in which both Chinese SOEs and Chinese PEs have been engaged in a wide range of economic activities including facilities related to infrastructure, real estate, telecommunication, financing and banking, transportation and hospitality.

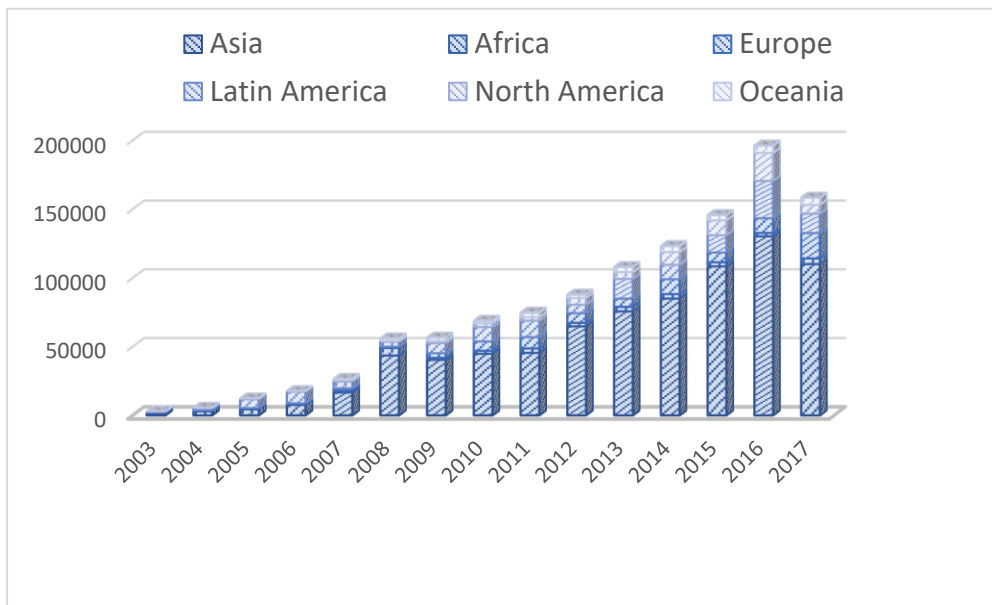
This study is based on data and information gathered from structured surveys and unstructured interviews with the senior management staff of the Chinese enterprises operating in Sri Lanka. As per literature available, this study makes it one of the first attempts to focus on an in-depth study of the Chinese ODI which makes it a significant addition to the existing literature on the subject.

This paper is organised as follows. First, through a literature review, the performance of Chinese ODI in the global market and FDI environment in Sri Lanka were discussed. Second, the theoretical framework was formed since the theoretical foundations of ODI

and hypotheses were established for the present study. Third, the descriptive research methodology was formed, and primary data

From the firm’s perspective, the Chinese ODI was promoted primarily by certain Chinese state-owned enterprises and facilitated, since 2003, the emergence of PEs also to involve in ODI activities. By 2014, the number of PEs that were involved in ODI activities had reached a near point of balance between ODI and FDI of China (MOFCOM, 2015). However, there are some studies that show that Chinese ODI needs to address its comparative disadvantage rather than what has been the case traditionally for ODI emerging from other countries (Child and Rodrigues, 2005; Luo et al., 2010; Wang, 2014; Wei, 2010). For instance, a growing trend of the Chinese ODI in the industrially advanced countries has been to propagate their ODI through Merge & Acquisition (M&A) or through Joint Venture which assured them the access to strategic assets (Sun et al., 2012; Tan and Ai, 2015). Therefore, the endeavour to explore the specific advantages and comparative disadvantage for the Chinese enterprises makes it an essential component in understanding the determinant of Chinese ODI. Chinese ODI has accelerated South-South Cooperation of which the countries of Asia constitute those of the most prominent partners in trade (Yan. 2018). In comparison with what the rest of the world received, Asia as a region has received a greater portion of Chinese ODI than any other. According to COFCOM, the Chinese ODI flow in Asia, in 2014, amounted to about 69% of her global investment; and between 2006 and 2014, the total Chinese ODI targeted for Asia amounted to 68.5% of her global investment plan (Figure 1).

Figure 1: Regional Distribution of Chinese ODI Flow, 2003-2017 (Unit: in Mn USD)



Source: China’s Outward Foreign Direct Investment Bulletin, MOFCOM, 2009; 2017

Notwithstanding the factors that contributed to the proliferation of FDI *as per* traditional micro-economic considerations (i.e. market-seeking, resource-seeking, strategic-assets-seeking, and efficient-seeking) (Dunning, 2000), the locational choice influenced by the Institutional Factors constituted one key factor (Kang and Jiang, 2012). Therefore, the most important determinants for the proliferation of Chinese ODI in Asia is attributed to the Institutional Factors and which relates to the long-term strategic consideration for China and the host countries to receive Chinese ODI (Yan, 2018).

“One Belt, One Route” makes a noted strategy, *inter alia*, for South-South initiative for economic cooperation and which is derived from the Chinese external trade link of “Silk Road” of yesteryear (Yan 2018). However, this ancient practice is considered as a one-way flow of tradable goods. The ‘new initiative’ of ‘One Belt and One Route’ assembles economies of the region to focus on multiple ways of commercial links and economic cooperation (Yan, 2018). The purpose of the launch of AIIB is to further enhance these initiatives of commercial links and programmes of economic cooperation.

FDI Environment in Sri Lanka

Sri Lanka as an island located to the south of India in the southern territory of SAARC (South Asian Association for Regional Cooperation) region countries is a small economy in terms of GDP (USD 87.17 billion) with a population that amounts to 21.44 million. In per capita terms, the income with USD 4,065, Sri Lanka is the second best performing economy (other than the Maldives) in the SAARC region and with high achievements in human development (human development index 0.770).

Sri Lanka enjoyed a prominent position during the time of its Independence in 1948 (Rajapatirana, 1988), especially during the first decade the liberal trade and investment policy regime boosted Sri Lankan economic confidence (Athukorala et al, 2017). However, over the years since, the economy of Sri Lanka started to underperform, undermining its potentials, and making it lag behind most other Asian economies. One factor that contributes to it was perhaps the imposition of import-substitution industrialisation policies *a la mode* Keynes (Rajapatirana, 1988). However, in 1977, Sri Lanka became the first South Asian country to open itself from the hold of import-substitution policies (Amirthalingam, 2008) and the liberalisation package focused on monetary and fiscal policies (such as foreign exchange market and interest rate formal) and trade liberalisation that help the achievement of substantial international competitiveness (Athukorala et al., 2017).

Nevertheless, the economy continued to fail the attempts to upgrade itself partly due to prolonged civil-conflicts (both JVP insurrections of 1971 and 1987 and ethnic strife between 1983 and 2009) and the paucity with economic-policy instruments required for the resurrection of the economy and the absence with public-policy instruments necessary for the rejuvenation of the society. Throughout this period, Sri Lanka failed in achieving

the target set forth for itself as an Electronics Hub of the region. This was because those flagship industries that it envisaged to attract failed to set up assembly plants which led most other ancillary service firms being dropped out. Therefore, the firms that focused on investing in the country were those that categorised as the “labour-intensive” and “pollution-intensive” (including the textile and garments sector activities and the textile bleaching and leather tanning activities) manufacturing sector set up in the country (Wignaraja, 2008).

Soon after the end of civil strife in 2009, the FDI increased noticeably especially in sectors such as tourism and real estate. However, the tradable sectors including the manufacturing remained low and which was less than 30% of total approved investment between 2010 and 2015; in terms of the number of such firms declined during the same period (Athukorala, 2017). The lack of clear policy and the inability to maintain policy consistency had impacted on export-oriented FDI. This comprehends the sudden suspension on tax concessions given for FDI and which was in contrast with what the government had declared to restore incentives for export production; nationalisation of several firms with foreign capital participation under the pretext that they ‘underperformed’ or ‘underutilized’ without convincing media commentaries (Athukorala et al., 2017).

In addition, labour shortages seem to be a hurdle and prevent manufacturing-oriented FDI. However, such shortages may largely be due to limitations from Sri Lankan characteristics of the structure of the economy. For instance, abundant labour source in rural area was not able to smoothly move into the urban/industrial centres in western province as it lacked appropriate living conditions for the domestic migrants; most of the people preferred public sector jobs which led private sector firms to face labour shortage whilst it created financial burden and inefficiency for the country; the lack of institutional mechanism for job opening information could disseminate country-wide (Athukorala, 2017).

In recent years, the State of Sri Lanka has put more efforts in attracting FDI that incorporate strategic-locational advantages in her effort to motivate sustained economic growth for her. For instance, the traditional industries (the handloom industry, etc) and the plantation sector activities (rubber, tea and spice growth) that earned little value-addition to the economy was to be sought to be gradually replaced with more skill-intensive and technology-oriented activities including IT, banking, financing, logistics, and education and other high value-added industrial sector activities.

Sri Lanka emphasised also on the development of the infrastructure sector activities. Despite Sri Lanka received funds and donations (under various development aid programmes initiated from the West) from international donors such as Sweden, Finland, Norway, Canada, USA and the UK that accelerated Mahaweli Projects during early 1980s

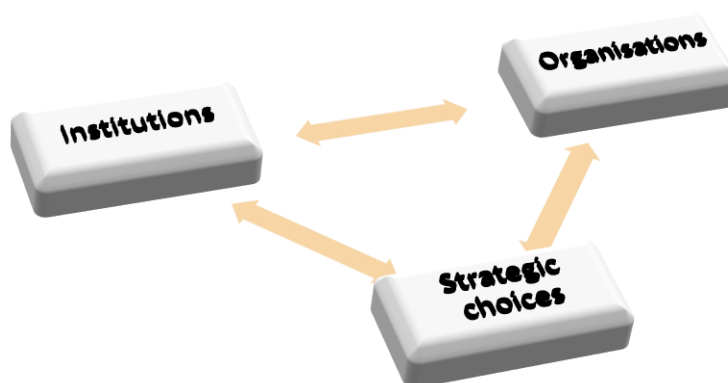
(Levy, 1989) there were other donors such as Japan, China, India and South Korea that became associated with major infrastructure projects to initiated in the country. Sri Lanka has given greater importance on FDI that leads to infrastructure development activities which it believes would provide greater stimuli for sustained and high economic growth.

THEORETICAL FRAMEWORK

A wide range of theories that concern the FDI activities have been developed following especially the observations of MNEs emanated, for the most part, from the industrialised economies of the West and which state and underline the firm-specific-advantages to have been the key driving force behind the emergence of the phenomenon of FDI. This emphasises the firms have been motivated by their profit-maximisation endeavour. In this endeavour, according to Berning and Holtbrugge (2012), Dunning's Eclectic Paradigm has been most frequently applied by researches on Chinese ODI.

The Chinese firms do not exhibit firm-specific advantages of the style of the firms that emerged from the industrial West, instead, they receive a great deal of home-country support which shows greater promise for them. In an attempt to elaborate this, the Institutional Approach has been used which shows itself to be the 'third leg' of the 'strategic tripod' that support the proliferation of the Chinese ODI (Figure 2). Several studies (Buckley et al., 2007; Chen et al., 2015; Yang and Stolterberg, 2014; Wei, 2010) have indicated the significance of the Institutional Approach to be an essential part of the theoretical framework that explains determinants of the Chinese ODI. Therefore, this study applies the theoretical framework that amalgamates the traditional FDI theories with the Institutional Approach. Figure 2 outlines the integration of the Institutions, Organisations, and Strategic Choices over Chinese ODI.

Figure 2: Institutions, Organisations, and the Strategic Choices



Source: Peng, 2000, 2002, 2009

Thus, the Eclectic Paradigm highlights the firm-specific microeconomic determinants for the establishment of the ODI (Dunning 2000) amalgamated with the Institutional Approach of (Kang and Jiang, 2012). These include:

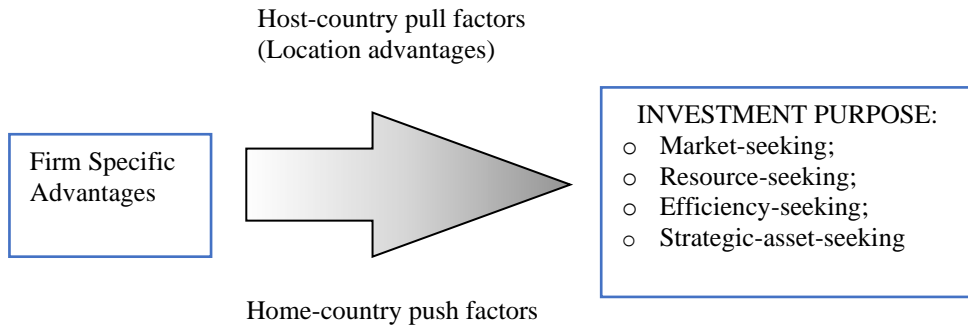
1. Natural resource-seeking
2. Market-seeking
3. Efficiency-seeking
4. The strategic asset-seeking as:
 - i. Accessing (a) popular brands, (b) viable technologies, and (c) management technologies
 - ii. Securing and establishing strategic alliances

The Institutional Approach highlights the presence of a set of institutional variables that motivate the ODI and which are supposed to be ‘coarse’ and ‘universal’ (Peng, 2009) in their manifestations. However, in wider macro-institutional consideration, the ODI related institutional variables have been considered in areas embracing ‘institution-relatedness’, corruption index, institutional distance, and legal origin (Peng *et al.*, 2009). Notwithstanding these, in the present context, the institutional variables comprehend the variables focused on strategic alliance-seeking, through:

- i. Establishment of economic cooperation with countries in which the proliferation of Chinese ODI is preferred
- ii. Allocation of funds for enterprises seeking to establish and proliferate Chinese ODI in those preferred territories
- iii. Allocation of funds for countries which seek to obtain loans for the establishment and proliferation of Chinese ODI
- iv. Development of infrastructure activities (i.e. through development aid and other grants) that can facilitate establishment and proliferation of Chinese ODI activities
- v. Promotion of core-enterprises through grants etc. that are considered favourable in establishing and proliferation of Chinese ODI.

The research framework for Chinese ODI is illustrated (Figure 3). For the purpose of this study, relevant data and related information were gathered *per* questionnaire circulated amongst the functionaries of the Chinese firms operating in Sri Lanka, and then *per* unstructured interviews conducted with staff of a choice of these Chinese firms as well as the economic policymakers. The sample size is 12 and represents 48% of Chinese firms operating in Sri Lanka (based on data provided by MOFCOM, accessed in 2017 June). The firms cover a range of ten (10) sub-sectors including construction, manufacturing, trade, telecommunication, transportation and logistics, finance, hospitality, government to government project service provider, real estate, and management consultations.

Figure 3: Research Framework



Source: Author Constructed

Despite the relatively small size of the sample, it (the sample) has been considered relevant and appropriate for: (1) although Chinese ODI is one of the largest sources of FDI of Sri Lanka, these investments have been conducted by a small number of Chinese firms with large investment portfolios, in particular, in the infrastructure-related megaprojects, and therefore, a certain number of such firms with absolute dominance in the market were selected and interviewed; (and 2) notwithstanding this, there were also a few small-sized firms that also engaged in non-infrastructure related projects and which were selected and interviewed. Thus, this should provide a comprehensive picture of the behaviour of the Chinese ODI in Sri Lanka.

ANALYSIS AND DISCUSSIONS

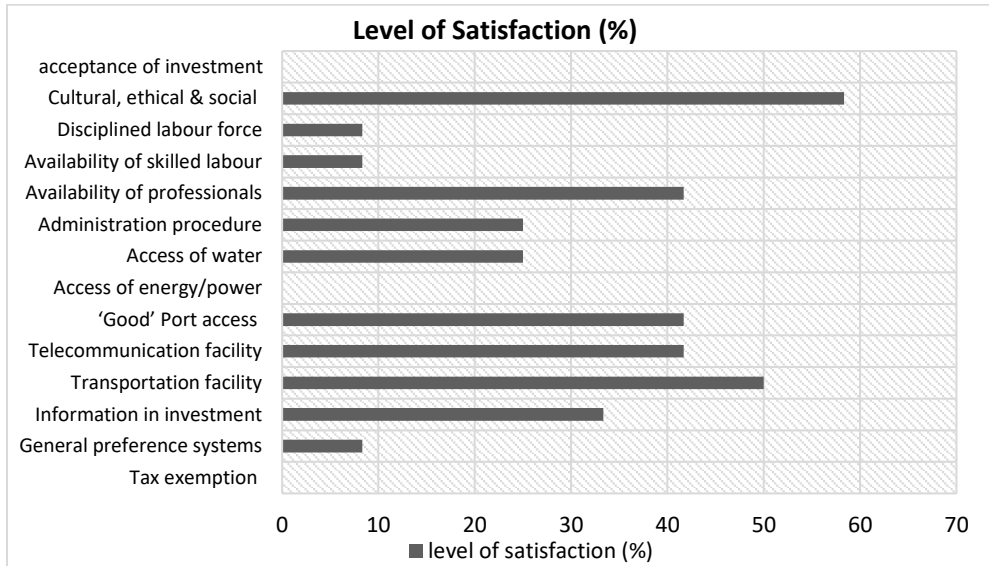
The findings of the survey are been analysed and discussed in terms of Host Country Factors, Home Country Factors, Firm-Specific Advantages, and of the Key Investment Purposes of Chinese ODI in Sri Lanka.

The Host Country Factors and Chinese ODI in Sri Lanka

Host Country Factors that attract FDI have been regarded as Location Advantages. These factors are measured as 'threshold values' for firms to choose their ODI destinations (Tanggapan et al., 2011). However, in the case of Sri Lanka, the location advantages measured by Chinese firms seem not highly positive in their estimations.

As illustrated in the Figure 4, the attraction of Sri Lanka as a country for Chinese ODI has been rather limited by any measure. If the level of satisfaction above 40% is considered acceptable, there are only five (05) branches of activities that reached such levels and which include transportation and telecommunication facilities, the ports-access, availability of professionals, and the presence of cultural, ethical and societal acceptance of the investment.

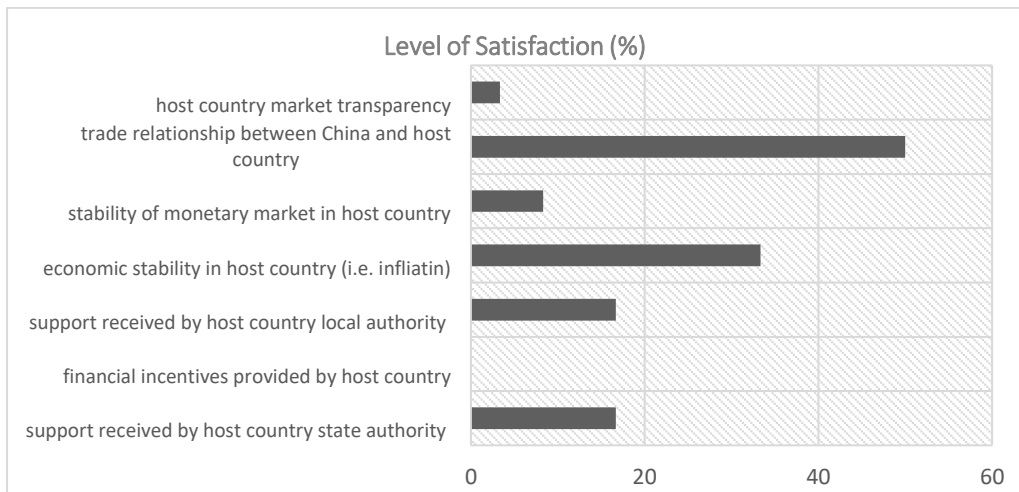
Figure 4: The Attractiveness of Host Country to Chinese ODI



Source: Author Constructed

From the host country investment climate point of view (including both macroeconomic factors and the host country institutional environment), the attractiveness of Sri Lanka as an ODI destination for Chinese firms seem not to be in favour either (Figure 5). Chinese ODI is of 'mild satisfaction' towards the trade relationship between China and Sri Lanka. However, transparency in the local market, monetary and economic stability are considered to be of 'location disadvantage'.

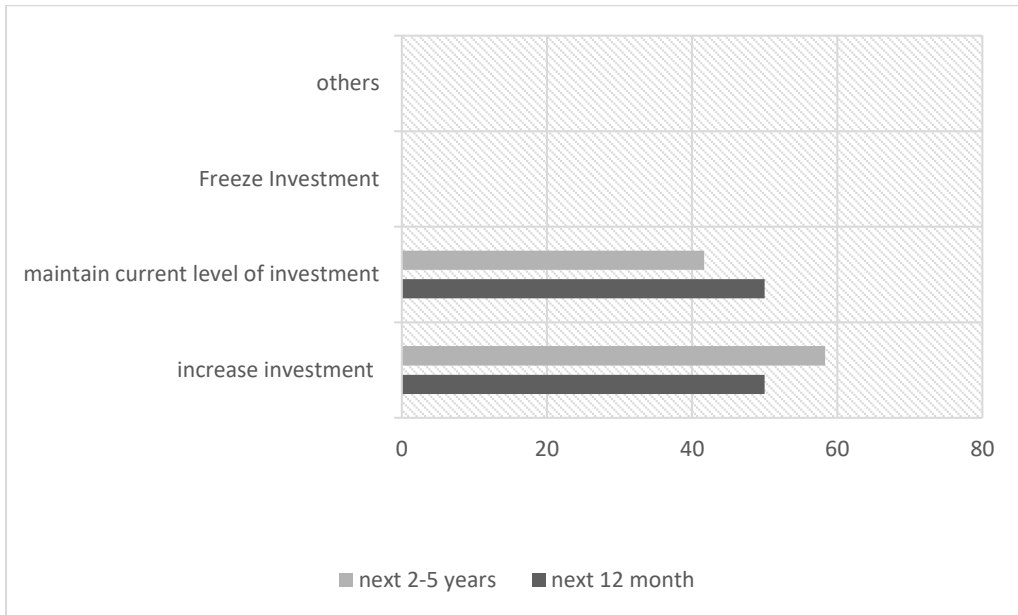
Figure 5: 'Investment – Climate' in Sri Lanka



Source: Author Constructed

Despite host country factors that are of disfavoured by Chinese firms, the findings of the investment plan of the Chinese firms show significant contrast in their conduct towards investment. For the next 12 months followed by the survey conducted in 2017, half of the firms interviewed aimed to increase their investment, and for the subsequent 2-5 years, more firms were expecting to increase their investment (Figure 6).

Figure 6: Investment Plan of Chinese firms in Sri Lanka

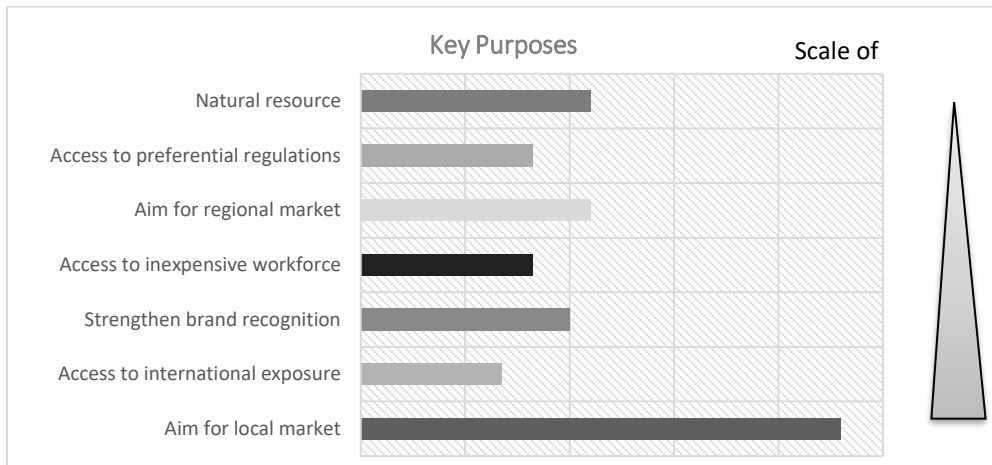


Source: Author Constructed

Firm-Specific Factors and the Chinese ODI in Sri Lanka

At the firm-level (from an endogenous perspective), the determinants of ODI contribute directly to the business strategies. Figure 7 shows that most important factor for Chinese ODI in Sri Lanka has been the expansion of their local market (Buckley et al., 2007; Drogendijk and Blomkvist, 2013; Sutherland and Ning, 2011); and, more than 90% of the respondents noted it as the most important factor that contributed to their decision to invest in Sri Lanka. In terms of assuring oneself the international exposure and being able to strengthen brand recognition as part of strategic asset-seeking have shown certain importance in encouraging Chinese ODI in Sri Lanka. However, it should be noted that these strategic-assets play only a supporting role to the key-motivation of the entrepreneurs which is different from Chinese firms operating in the industrialised West where they apply Merge & Acquisition as entry mode for securing the access to global brands, technology and international market (Li et al., 2017; Wang, 2014). For the remainder of the sample, the *stimuli* factors for investment have been different from those determinants valid for most other MNEs from the industrialised economies (Wei, 2010).

Figure 7: Ranked Opportunities availed by Chinese ODI in Sri Lanka



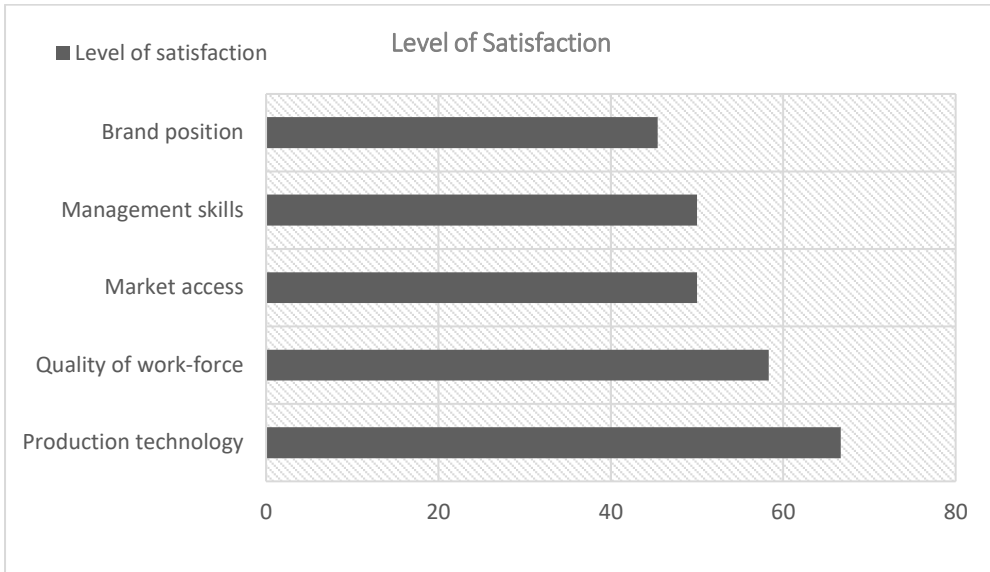
Source: Author Constructed

To have the access to ‘cheap labour’ (efficiency-seeking), the expansion of the markets of the region *via* the host country market, the access to preferential tax and/or other benefits regulation, and the securing of the relatively easier access to natural resources (resource-seeking) have not played any significant role in the strategies of Chinese ODI in Sri Lanka.

Although there are MNEs that aim for qualified yet comparative inexpensive labour of Sri Lanka, the Chinese firms have not been lured by this condition either. This may due to several reasons, including; a) despite the increase in labour costs in China, the overall production cost still remain competitive in China; b) although the most prominent investments that the Chinese ODI is involved with is in the construction sector, the interviewees in the construction sector have shown no sign of preference in their investment decision-making for employing the local labour/professionals/technicians. This, to a large extent, is because of the language and culture barriers between the two countries, and the paucity with the levels of required sophistication by Chinese standards with the local labour force. For this reason, perhaps, there is a tendency for the Chinese firms in Sri Lanka to employ increasing numbers of Chinese employees than the local professionals with them.

These reflected the strength of Chinese firms operating in the Sri Lankan market. When compared the firm-specific-advantage the Chinese firms had in comparison with those the indigenous firms enjoyed, the Chinese firms exhibited stronger advantage in production technology, and mediocre advantages in the case of the skilled and qualified workforce, the market-access and management skills (Figure 8). However, when concerned with brand-recognition in the local market, the Chinese firms seem needed to further promote their endeavour in that regard

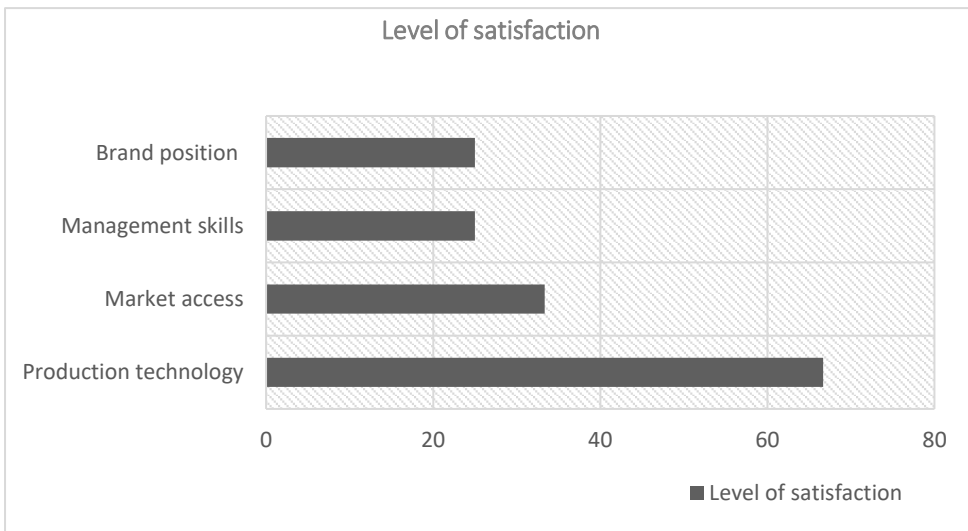
Figure 8: Strength of Chinese firms compared with those of Sri Lanka



Source: Author Constructe

In comparison with the international standards, as figure 9 illustrates, most of the Chinese firms lack concern about firm-specific advantages. Except for the production technology when concerning some firms and which have been assessed by them as a competitive advantage, with level of satisfaction 50% above the average, the rest of the firm-specific factors show the lack of concern in this regard.

Figure 9: Chinese ODI firms and the International Standards

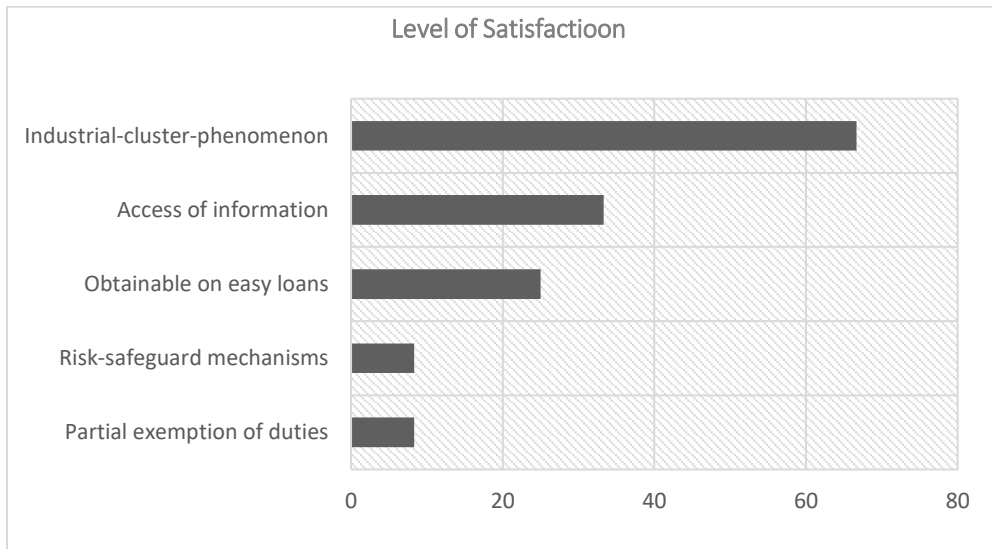


Source: Author Constructed

Home-Country Factors that Affect Chinese ODI

The Chinese institutions have shown a great deal of enthusiasm in promoting Chinese ODI in countries that have entered bi-lateral and/or multilateral agreements on economic and trade cooperation with China.

Figure 10: Satisfaction level of the Chinese firms owing to support received from home-country



Note: Over 40% as satisfaction benchmark

Source: Author Constructed

Figure 10 illustrates that the representative of the communities of Chinese ODI already operating from the host-country endeavour to attract Chinese firms, the satisfactory level of which was at 67%. The institutional supports received by the Chinese firms including the access to information from the public sector authorities of China on public policies related to Chinese ODI and other related information, the ability for Chinese firms to obtain ‘easy-loans’, the partial or full exemption for Chinese firms from tariffs and duties, and the risk safeguard mechanisms the Chinese firm operative in Sri Lanka seem to be of less significance. However, this may be due to those Chinese companies with different characteristics of the ownership share different levels of support from Chinese authority, therefore, the result was further divided into the categories of ownership that are grouped into SOEs and PEs.

Table 1 illustrates that the SOEs receive more of both financial and non-financial support from the Chinese state authorities than the non-SOEs would not be able to access with the same ease. However, both SOEs and non-SOEs enjoy strong links with each other in

the Chinese entrepreneurial community in host countries. These links are referred to as Chinese Network ('Guanxi') Buckley et al., 2007; 2008; Wei, 2010) that have built networks of cooperation within their entrepreneurial community (figure 10).

Table 1: Incentives received from China and the ownership of China ODI

	Value	SOE	Non-SOE
Access of information		✓	
Obtainable on easy loans		✓	
Partial exemption of duties			
Risk-safeguard mechanisms			
Industrial cluster phenomenon		✓	✓

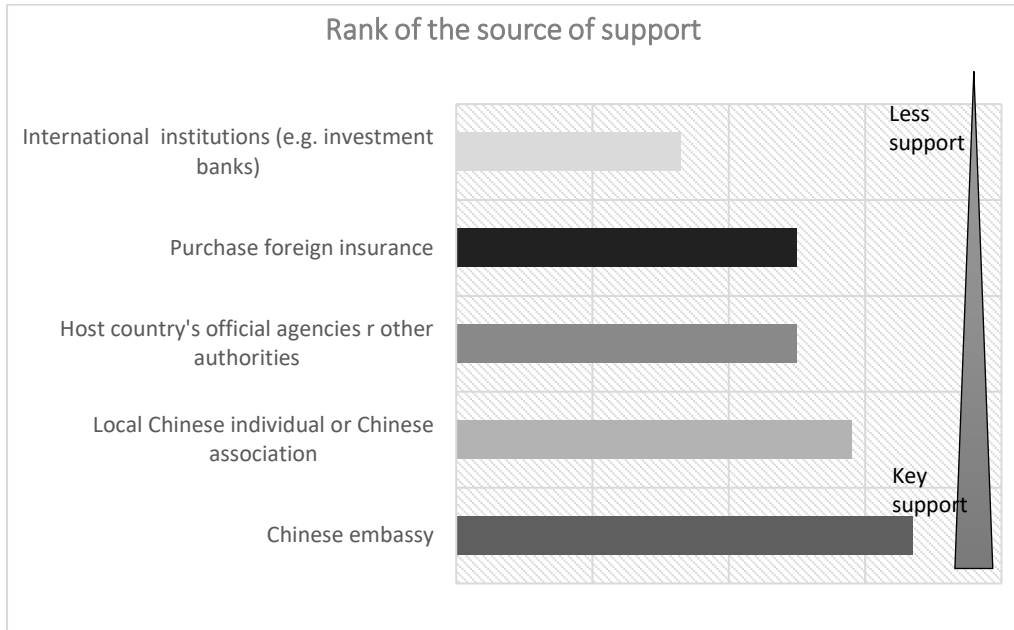
Cumulative Percentage
at level 2 is more than 40%

Source: Author Constructed

As SOEs enjoy more of both financial and non-financial supports from the Chinese state than PEs do, the SOEs developed more of a complementary relationship with PEs than a competitive relationship. For instance, the SOEs in general conduct projects related with infrastructure design and development that have been playing a central role in the acceleration of the activities that are conducted by PEs such as those including real-estate development, transportation sector development, trade-in machinery and equipment, and various services such as financial or consultation services. This indicates two levels of complementarity: first, the Chinese SOEs being complementary with the operations of the PEs and, second, the Chinese ODI being complementary with trade and commerce which promote vertical expansion of the activities of the firm through their businesses which bear similarity with Chinese ODI in some African countries (Drojendijk and Blomkvist, 2013).

Figure 11 illustrates further of the importance for the Chinese firms of the institutional support received in home country institutions. Despite the fact that the Chinese firms operating in Sri Lanka are not highly satisfied with 'Risk-Safeguard Mechanisms' put in place by various Chinese authorities (Figure 10), the majority of the Chinese investors (67% of respondents) consider the support they receive from the Chinese Embassy in the host country and/or other state-level organisations related with China to be in the first place which shows a fair share of ambiguity in their reference to significance (or insignificance) of the Chinese authorities in conduct of the affairs of the firms.

Figure 11: Strength of the source of “support” received by Chinese ODI



Source: Author Constructed

The second most important option is to seek support from Chinese organizations or Chinese private individuals (businesspersons) operating in the host country. This further confirms the supposition that the Chinese firms are greatly satisfied with the presence of the prevailing Chinese ODI. This further indicates that there is a great deal more complementarity in relations between the Chinese firms operating in Sri Lanka and less competition (Figure 10).

Marine Silk Road Strategy between Sri Lanka and China

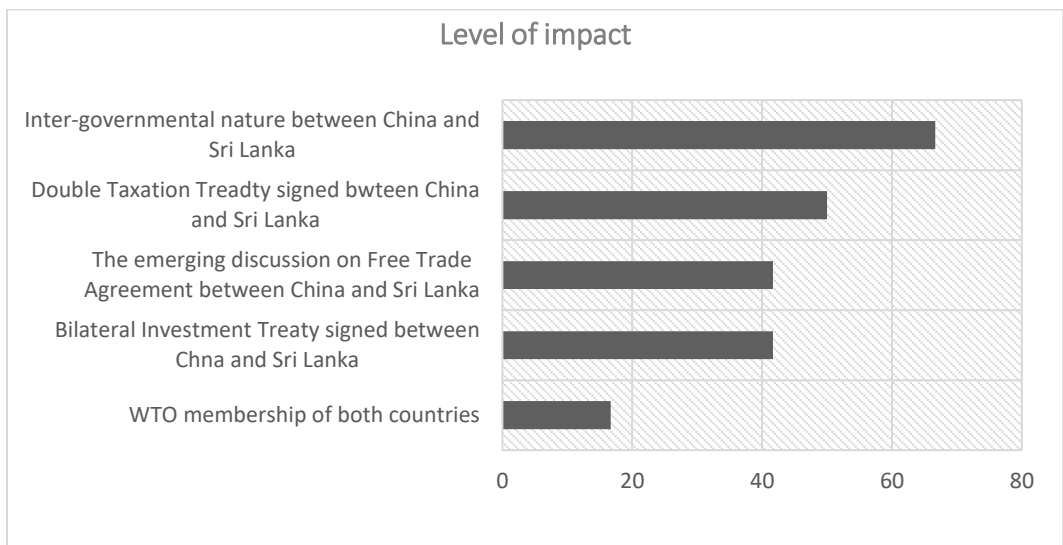
Chinese firms do not just receive direct support merely from home country confirming institutional advantages given in support of their operations, but the ‘strategic policies’ that China has launched (in cooperation with Sri Lanka) also impact on the investment behaviour of the Chinese firms in Sri Lanka. Figure 12 illustrates that the inter-governmental nature, particularly in the diplomatic relations between China and Sri Lanka, have been positively impacted upon the activities of the Chinese firms.

The finding also illustrates the fact that other policies related to economic collaboration plans between China and Sri Lanka including Bilateral Investment Treaty and Double Taxation Treaty do have only a very mild impact on Chinese ODI. In addition, the emerging discussion on Free Trade Agreement has also boosted the confidence of Chinese ODI (figure 12) towards their increasing economic activities in Sri Lanka. These strategic policies as a symbol of economic cooperation between the two countries appear

to render a significant positive impact on long-term plan and development of Chinese ODI in Sri Lanka.

‘The Maritime Silk Road’ is a part of the ‘One Belt One Route’ (OBOR) initiative that developed and introduced since President Xi assumed office in 2013. Despite it derives from a concept century old, OBOR emerged to be a strategy recognized by all within a very period of time and which was due, *inter alia*, to the rapid growth of Chinese ODI in overseas territories of China.

Figure 12: Policy Related Factors Impact on Chinese ODI



Note: Over 40% as satisfaction benchmark

Source: Author Constructed

Sri Lanka has been considered to be one of the most important strategic locations for OBOR which the public sector authorities, officials and business communities from both China and Sri Lanka have recognized and have put immense effort to promoting. Sri Lanka has the geographic advantage in promoting marine safety, security and economic sustainability for China in her global strategy and Sri Lanka happened to be a crucial location for China helping her to protect her trade and related activities with, in particular, the countries of African, European and West Asia region.

For instance, Colombo the Port City and Hambantota Port Projects are two major Chinese ODI projects in Sri Lanka the involvement with which by the public sector of China has been highly prominent. Colombo Port as one of the most important international seaports in South Asia has the potential to develop as a regional transportation network in South Asia and an economic hub in which China could play a significant role as a partner by contributing to regional economic growth and development.

As per interviews with some officials the Colombo Port City development exhibits strong relations to long-term prospects for regional economic growth, development, and international cooperation. The same has been postulated by other researchers as well (Rathanayake, 2015). The Hambantota Port is one of the centers for safety and security in maritime transportation between China and the countries of European, African regions and West Asian regions. Hambantota also includes a special industrial zone which has the potential to ushering for Sri Lanka, China, and other countries of the region the potential for economic growth through increased investment and trade (Rathanayake, 2015).

The modes of Chinese ODI in Sri Lanka also renders the public sector organizations of Sri Lanka in many ways. This includes the public sector policy-making of Sri Lanka whose purpose is to usher *stimuli* for sustainable economic growth. For instance, in 2019 the FDI promotion events organized by various local government organizations and other agencies like Ceylon Chamber of Commerce of Sri Lanka have emphasized the need to promote Private Public Partnership (PPP) through investment conferences, business meetings with Chinese delegations and to encourage Chinese firms to cooperate with local SOEs and/or authorities. Such an endeavor for the part of the authorities of Sri Lanka indicates further the prominence of Chinese ODI and its long-term growth and development objective in Sri Lanka.

CONCLUSION

The aim of the paper was to investigate the determinants for rapid and prolific growth in Sri Lanka of Chinese ODI, over the past few decades, examine the investment activities of the Chinese firms in the country and, examine the network of collaboration between Chinese SOEs and Chinese PEs that fostered and promoted their entrepreneurial endeavour. For the purpose, the paper drew upon data and information gathered by way of structured questionnaire and unstructured interviews from representatives from firms operating in Sri Lanka.

As in the case with research established from before, Chinese ODI has generally been motivated by its desire for market-seeking, resource-seeking, and strategic-assets-seeking. This is evident with its approach for the establishment of Chinese firms from a global perspective. However, with reference to experiences from Sri Lanka, the case has been different. The proliferation of Chinese ODI in Sri Lanka has had little to do with the need to acquire the supplies in the country of industrial raw materials by China or the availability in the country of cheap but skilled labour. There is little evidence that Chinese ODI has in Sri Lanka been interested in securing access to foreign brands. However, international exposure and the strengthening of brand recognition have been considered as an important factor when it concerns strategic-asset-seeking by Chinese firms in Sri Lanka.

In the case of Sri Lanka, the Chinese ODI has been promoted and supported primarily by the Chinese state institutions by way of various strategies and mechanisms that had the purpose of compensating for various weaknesses inherent with the firms for promoting themselves on their own. The support furnished, thus, comprehends primarily the macroeconomic stimuli allocated for these firms. This includes the financial and non-financial support allocated for them in different considered situations. This was aimed at assuaging the consequences for the Chinese firms due to host-country policy-related-risks. However, the poor infrastructure development in the host-country has also been an indicator of the market potential for the Chinese construction firms. These institutional supports facilitated by Chinese authorities have reduced substantial investment costs and risks, and these supports are heavily guided by South-South cooperation of China such as Belt and Road Initiatives to further their global economic ambition.

The institutional support granted in benefit of the Chinese firms in Sri Lanka does not just come from Chinese authorities alone. Instead, they come also from the structured business networks which are referred to as ‘Guanxi’ among Chinese firms.

This study argues that the Chinese firms have structurally linked themselves through ‘Guanxi’ network of collaboration with each other by way of both horizontal and vertical links. The horizontal aspects of relations refer to activities that refer to the sharing of management know-how and coping mechanisms that help them overcome (or reduce) possible investment risks. The vertical aspect of relations refers to attempts made by SOEs to share the project with smaller Chinese firms (occasionally the PEs that may provide them with services related to transportation, trade, finance, management and information consultation, and to catering and leisure activities. Despite that some of these services are complementary in character and are small scale, this indicates the significant strength of the impact made for the projects by these Chinese networks of contact.

Therefore, from the theoretical aspect, this study confirmed that the amalgamation of FDI theory Electric Paradigm with Institutional Approach is most appropriate in explaining the proliferation of Chinese ODI in Sri Lanka.

This paper also noted that business network, ‘Guanxi’, has been observed significantly amongst various types of Chinese firms investing in Sri Lanka and which involve both SOEs and PEs. The PEs tends to engage in the supply of ancillary services for contracts holding major projects. However, the absence of indigenous firms in the network of ‘Guanxi’, the trickle-down is rather limited in scope. ‘Guanxi’ remains largely a network of relations for the Chinese firms inhabited by Chinese nationals or ethnic Chinese belonging to Chinese diaspora in the world. Thus, there is the need for further study that addresses this issue in relation to how the major Chinese firms would endeavour tackling this issue in the future as well as how Chinese ODI activities in other countries of the remainder of Asia (where there is a relatively larger population of diaspora Chinese).

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