

CITY UNIVERSITY OF HONGKONG

香港城市大學

Institutional Strategies of Chinese Firms

in “Belt and Road” Countries:

Evidence from Select Infrastructure Cases

中資企業在“一帶一路”國家的制度策略：

基於基礎設施案例的實證研究

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Abstract

Infrastructure investment is a key component of China's "Belt and Road Initiative" (BRI or B&R). Research to date has focused more on the geopolitical, macroeconomic, and government policy dimensions of the subject, rather than on individual firms and their investment behaviors. This research employs a qualitative case study approach and probes five infrastructure projects in three countries.

In addition to developing a comprehensive understanding of the selected cases, this research explores what institutional strategies Chinese firms have utilized to make and operate these investments and why. This research also applies concepts of new institutional economics regarding private property rights, transaction costs, and externalities as key guiding lenses in interpreting these case stories and investors' institutional strategies. It aims to derive implications or lessons of success and failures for policy makers, investors, and researchers pursuing similar opportunities.

It is found that Chinese investors have been aware of the institutional challenges in these B&R countries. Hence, they have proactively devised a range of strategies and plans to confront them head-on. These firm strategies can generally be divided into Adaptive, Additive, and Transformative categories. These strategies are designed and executed to enhance property or contract rights security, suppress transaction costs, and / or capture positive externalities created by their investments.

Chinese firms implementing the B&R projects and the BRI in general could become a catalyst agent to incite institutional reforms in these countries. Recipient governments should take advantage of these foreign direct investments to foster structural reforms in their economies and transform their economic environment more conducive to foreign and private capital. Private investors should and can proactively devise strategies and push host government for institutional change to improve security and commercial viability of their investments.

It is also noted that market firms tend to be more efficient and effective in executing government programs, including the BRI, than governments themselves. The investor-operator joint venture model practiced by the B&R firms may represent a solution to the institutional and economic challenges confronting these B&R nations. International agencies are advised to back up and take advantage of market firms in implementing their aid / development programs.

The BRI has become a major capital allocation guide for the Chinese state and Chinese state-owned enterprises. It is found that the B&R projects and related funding are best operated by following market practices and process in order to achieve their intended objectives.