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UNIVERSITY OF CALIFORNIA  
Los Angeles

The Spaces and Times of Chinese Outward Foreign Direct Investment: Hong Kong,  
Pakistan, and California

A dissertation submitted in partial satisfaction of the  
requirements for the degree Doctor of Philosophy  
in Geography

by

Siyu Cai

2018



## ABSTRACT OF THE DISSERTATION

The Spaces and Times of Chinese Outward Foreign Direct Investment: Hong Kong,  
Pakistan, and California

by

Siyu Cai

Doctor of Philosophy in Geography

University of California, Los Angeles, 2018

Professor Eric Stewart Sheppard, Chair

The topic of Chinese overseas investment will only garner more attention as China's Belt and Road Initiative unpacks itself and more Chinese firms expand elsewhere globally. The literature on outward investment from China seems to be dominated by two prevalent analytical frameworks: a flexible and a focused paradigm. At its core, the focused camp utilizes a cost-benefit framework as its starting assumption to investigate Chinese overseas investment and transnational corporations whereas the flexible camp does not. While this Geography dissertation takes root in the flexible side, it nonetheless utilizes contributions from both sides to construct, what is referred here as, a geographic framework toward examining Chinese overseas investment. Designed as three stand-alone papers, it represents three case studies with analytical generalization on important

aspects of investment from China, analyzing Hong Kong, Pakistan, and California through the geographic concepts place, connectivity, and scale, respectively. Hong Kong, by one measure, is the largest destination for Chinese outward foreign direct investment flows and stock. Analyzing Hong Kong in terms of place flushes out the historic, economic, and cultural configurations that interact to make it such an important destination. To date, Pakistan is the flagship destination for the Belt and Road Initiative. Examining Pakistan through the concept of connectivity highlights the uneven power relations in the China Pakistan Economic Corridor. California is the most important destination for Chinese firms in the U.S. Utilizing the scale concept uncovers how Chinese firms navigate challenges at the state and the municipal scale in California, generalizing lessons for investment in the U.S. at the national scale. Drawing from a year of fieldwork in Beijing and two additional years of research in Los Angeles from 2015 to 2018, this work not only tackles three central destinations for Chinese transnational corporations, but also serves as a launching pad for future possibilities to examine Chinese investment in other parts of the world and to use a geographic framework when doing so.

The dissertation of Siyu Cai is approved.

John A Agnew

Chi-Fun Cindy Fan

Christopher C Tilly

Eric Stewart Sheppard, Committee Chair

University of California, Los Angeles

2018

*To Mom, Dad, Jason, Ty-Juana, and Alvin*

## Table of Contents

|   |            |
|---|------------|
| <b>1. Introduction</b>  | <b>1</b>   |
| <b>2. Paper One. The Power of Place: Hong Kong's role in Chinese overseas investment</b>                          | <b>18</b>  |
| <b>3. Paper Two. China's Belt and Road Initiative: Connectivity, place, and positionality</b>                     | <b>47</b>  |
| <b>4. Paper Three. The Golden State: Chinese investment in California at the state and the metropolitan scale</b> | <b>74</b>  |
| <b>5. Conclusion</b>  | <b>101</b> |



## List of Figures and Tables

|  |    |
|--|----|
| <b>Paper One, Figure 1:</b> China's outward FDI flows  | 24 |
| <b>Paper One, Figure 2:</b> China's outward FDI stock  | 24 |
| <b>Paper One, Figure 3:</b> Firm Survey Question Twenty-One  | 28 |
| <b>Paper One, Figure 4:</b> Firm Survey Question Twenty-Five   | 29 |
| <b>Paper Two, Figure 1:</b> The Six Economic Corridors   | 56 |
| <b>Paper Two, Figure 2:</b> The China Pakistan Economic Corridor   | 60 |
| <b>Paper Three, Figure 1A:</b> Chinese FDI Flows and Stock in California, 2000 to 2012                   | 83 |
| <b>Paper Three, Figure 1B:</b> Chinese FDI Flows and Stock in California, 2013 to 2017                   | 83 |
| <b>Paper Three, Table 1:</b> Shift Share Analysis of California's Leading and Lagging Sectors, 2013-2017 | 86 |

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## VITA

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# Introduction

There seem to be two prevalent analytical frameworks dominating the literature on Chinese outward foreign direct investment (FDI). The first can be described as a focused— or rigid, fixed, and definite— framework. The second can be alluded to as a flexible— or loose and elastic— framework. The starting assumption of the focused paradigm is that (Chinese) firms internationalize, that is, become transnational corporations (TNCs), based upon prior competitive advantage (Hymer 1960; Buckley and Casson 1976; Dunning 1981, 1992). It maintains that firms invest abroad due to having developed a set of competitive advantage factors they can deploy to expand. Such factors include tangible assets (large financial endowments, large labor pool, and advanced technologies) as well as intangible assets (managerial, marketing, and entrepreneurial talent). At its core, this side deploys a cost-benefit framework to investigate TNCs and FDI, whereby firms internationalize if the benefits of deploying their competitive advantage factors globally outweigh the costs of doing so. Many influential works on Chinese outward FDI have adopted this as the starting basis (e.g., Child and Rodrigues 2005; Buckley et al. 2007; Deng 2012). The flexible paradigm does not utilize a cost-benefit analysis as its starting basis, however. Whereas the focused camp consists largely of international business, economics, management and organization scholars, the flexible camp draws from disciplines such as sociology, and area, development, and legal studies. Paying less attention to competitive advantage factors, it takes a more contextual and historical approach to the issues surrounding Chinese TNCs' internationalization

process. Notable works on this side include Yeung and Liu (2008), Lee (2014, 2017), and Liu and Dunford (2016).

It is worth noting that the two sides are not separated methodologically, in terms of quantitative and qualitative analysis, such that the focused side mainly conducts quantitative studies whereas the flexible camp utilizes solely qualitative methods. As an illustration, the focused camp has produced compelling works utilizing advanced statistical methods (Buckley et al. 2007) but also sophisticated qualitative tools such as textual analysis (Ding 2012). Nor are the two camps distinguished by micro and macro level analysis. Thus the focused camp has conducted studies at the firm-level (Di Minin et al. 2010) as well as the global level (Peng 2012). The fundamental distinguishing feature is that one side takes the cost-benefit framework pioneered by Stephen Hymer and popularized by John Dunning as the starting basis whereas the other does not.

Given this backdrop, how does this Geography dissertation contribute to these literatures and writings on Chinese overseas investment? Chinese overseas investment can consist of foreign portfolio investment (FPI), treasury bond investment, and foreign direct investment. Zhang (2003) maintains that Chinese firms at the beginning of their internationalization process in the 1980s were mainly engaging in FPI and treasury bond investment because they did not have the incentives nor did they have the capacities to engage in FDI activities. While FPI and treasury bond investment have continued to the present, FDI has increased precipitously over the past decade and a half. This work only examines one facet of Chinese overseas investment—outward FDI—whereas FPI and treasury bond investment are beyond its scope.

Designed as three stand-alone papers (to be submitted to academic journals), this dissertation constructs three case studies examining important aspects of Chinese outward FDI. It surveys FDI in Hong Kong, Pakistan, and California, respectively, deploying in turn the geographic concepts of *place, connectivity, and scale*. The empirical contributions are derived from analyzing three major destinations for Chinese TNCs, each important for different reasons and revealing different aspects of Chinese firms' internationalization process. The analytical contributions come from crafting what it is referred to here as a "geographic framework" toward investigating investment from China. Although this framework falls more under the flexible camp, it takes seriously both camps' analytical contributions. Put otherwise, it constructs a geographic view by building on the literature's two prevalent paradigms. If successful, this work not only tackles three central destinations for Chinese firms, but also serves as a launching pad for future possibilities to examine Chinese FDI in other parts of the world and to use a geographic outlook when doing so.

## **2. Hong Kong, California, and Pakistan**

Hong Kong, California, and Pakistan represent three distinctive moments in Chinese outward FDI. Chinese firms invested in Hong Kong when they ventured abroad for the first time in the 1980s when China reconnected with the international community after three decades of isolation during the Maoist era. As Chinese firms increased their international investments during the 1990s and 2000s, they ventured into mature economies like the U.S. and California. As for Pakistan, it is only with the announcement



of the Belt and Road Initiative by Xi in 2015 did Chinese businesses flock there in substantial numbers.

Additionally, these three places serve as major destinations for Chinese outward FDI in relation to other major destinations. Hong Kong is by far the largest destination for Chinese outward FDI, attracting \$7.81 trillion USD in FDI stock through 2016 (monetary value is in USD unless noted otherwise). The Cayman Islands (\$1.04 trillion), British Virgin Islands (\$887 billion), The U.S. (\$606 billion), and Singapore (\$334 billion) round out the top five (Statistical Bulletin 2016). California is the top destination for Chinese capital in the U.S., attracting \$29.7 billion of FDI stock as of 2017. The other four states rounding out the top five are New York (\$27 billion), Virginia (\$15.4 billion), Illinois (\$10.2 billion), and Kentucky (\$9.3 billion) (Rhodium Group 2018). Pakistan is the top destination for Chinese capital out of all the participating BRI countries, attracting \$54 billion worth of projects as of 2017. Myanmar (\$24.5 billion), Sri Lanka (\$13 billion), Saudi Arabia (\$10 billion), and Laos (\$5.8 billion) are the next four biggest BRI destinations (Bloomberg 2017).

Beyond these factors, I chose to analyze Hong Kong, Pakistan, and California for other reasons. Hong Kong has attracted over 60% of total outward FDI flows and stock in 2016 (Statistical Bulletin 2016). However, it is widely known that the bulk of the FDI flows to Hong Kong does not stay there: it either transitions to final destinations elsewhere, or it 'round trips' back to China for tax benefits. According to Xiao (2004) and Garcia-Herrero et al.'s (2015) calculations, 30% of China's FDI inflows stay in Hong Kong, 30% transition to other destinations, and 40% represent round-tripping FDI. Yet the city

nevertheless is an important destination. Despite its importance, scholarship on Chinese outward FDI has neglected Hong Kong's role. To fill this gap, I utilize place (Pred 1984, Agnew 1987) to make sense of the city's role in shaping Chinese investment. Rather than tackling foreign portfolio investment and foreign direct investment accounting issues, this paper investigates the political, economic, cultural, and historical reasons that mold Chinese investment in Hong Kong.

Pakistan, through the China Pakistan Economic Corridor (CPEC), is the flagship destination for the Belt and Road Initiative (BRI) to date. As the flagship project of China's most ambitious international expansion strategy, CPEC is extremely important to the Chinese government. This paper utilizes the geographic concept of connectivity (Sheppard 2002, 2016)— focusing on place and positionality— to analyze investment in Pakistan, also raising questions of potentially more general applicability for other developing host countries in the BRI. Like Pakistan, other developing host economies in the Initiative generally welcome investment from China to enhance infrastructure, constructing dams, power plants, railways, and roads.

California makes up over 20% of the United States' FDI stock from China during 2000 to 2017 (Rhodium Group 2018). But Chinese corporations face substantial barriers in the U.S., stemming from investing in a mature economy whose regulatory and legal system differs vastly from China's. Examining California can thus be a launching pad toward investigations of other American states, such as New York. This paper utilizes the geographical concept of scale (Brenner 2004) to examine how Chinese firms navigate

challenges at the state and the municipal scale in California, generalizing lessons for investment in the U.S. at the national scale.

### **2.1 Why Case Studies?**

The three papers represent three case studies. Yin (2009) makes a compelling argument that case studies contain generalizing power. According to him, there are two commonly recognized way of generalizing: statistical generalization and analytical generalization. Many critics of case studies often overlook the fact that although case studies are less relevant for statistical generalization, they nevertheless can enable analytical generalization. In his terms:

A fatal flaw in doing case studies is to conceive of statistical generalization as the method of generalizing the results of your case study. This is because your cases are not “sampling units” and should not be chosen for this reason. Rather, individual case studies are to be selected as a laboratory investigator selects the topic of a new experiment. Multiple cases, in this sense, resemble multiple experiments. Under these circumstances, the mode of generalization is analytical generalization, in which a previously developed theory is used as a template with which to compare the empirical results of the case study (page 38).

Along these lines, he claims that case studies have as much generalizing power as surveys, experiments, or archival analysis. With this backdrop, this dissertation illustrates how the three case studies not only offers empirical contributions, but also contain analytical generalizations.

### **3. Empirical Methodology**

This dissertation utilizes sources from a year of fieldwork conducted in Beijing from 2015-2016. First, working with Professor Ma Xiulian of the Chinese Academy of Governance, I undertook a Firm Survey of a group of middle-to-high level managers of Chinese TNCs who were taking a training course there in Spring 2016 (see Appendix

One). While the Firm Survey is not a randomized sample, it nevertheless provides valuable information on an influential group of actors who foreign researchers have faced problems in accessing: managers and directors shaping Chinese overseas investment. There were 53 respondents, the majority middle-aged, highly educated, employed in their respective firms for over ten years, and predominately male. Beyond collecting basic background information, the Firm Survey focused on aspects of firms' internationalization process. Questions included firm investment strategies, geographic and industrial choices, and challenges faced abroad in developing and developed countries.

Additionally, I undertook 46 semi-structured interviews with Chinese and non-Chinese professionals, many whom work in Chinese TNCs and others with experience working with Chinese TNCs. These interviews lasted an hour to an hour and a half on average. Prior to each interview I conducted as much background research on the interviewee's firm and industry as possible, designing my questions based upon this research as well as previous interviews. These interviews are a more randomized sample than the Firm Survey. One strategy I employed was to follow up with interviewees after the interview to ask them to recommend or reach out to other contacts for me to interview, leading to interviewees from other firms and industries. After experimenting with taking notes and recording the sessions in the first few interviews, I decided against it. I found that the conversations flowed much better without a notepad and recording device presence in the room. I instead brought my laptop to the interview site, transcribing each session immediately after it finished. These interviews complement the

Firm Survey, providing more qualitative data points to complement the quantitatively oriented Firm Survey (although it also generated qualitative data).

My Beijing fieldwork is supplemented by two additional years of research I did after returning to Los Angeles, from 2016 to 2018. The nature of the dissertation— three case studies on Hong Kong, Pakistan, and California— required me to collect primary data for three places. For the Hong Kong study, I gathered and examined data from the Hong Kong government. For the Pakistan paper, I examined Pakistani government documents on projects in the China Pakistan Economic Corridor. For the California chapter, I analyzed data from the California Governor’s Office. Secondary data was also collected through academic articles, private research group reports, and newspaper accounts. Overall, this dissertation contains three years of data collected in Beijing and Los Angeles from 2015 to 2018.

The dissertation is constructed as follows. Paper One tackles investment in Hong Kong, asking: What makes Hong Kong an important destination for Chinese overseas investment in terms of place? How does Hong Kong’s geographic, economic, and cultural configuration shape Chinese investment? Paper Two examines the Belt and Road Initiative, concentrating on the China Pakistan Economic Corridor. It asks: How does Pakistan as a place shape the context in which Chinese investment is materialized via the Belt and Road Initiative? How do the different positionalities of key actors in the China Pakistan Economic Corridor shape Chinese investment in Pakistan? Paper Three investigates investment in the U.S., focusing on California. It asks: What makes California at the state and the metropolitan scale attractive to Chinese TNCs? What can

analyzing investment in California at subnational scales reveal about national-scale Chinese investment in the U.S.? The conclusion teases out some broad empirical lessons, discusses how each case study justifies analytical generalization, and lays out this work's limitations while suggesting future possibilities.

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**Appendix One: Questionnaire on Chinese Enterprises' Overseas Investment**  
(Translated from the original in Chinese)

The literature shows that Chinese transnational corporations (TNCs) face a deep learning curve when investing abroad. An important reason being the deep cultural differences between Chinese firms and host countries, in turn impacting corporate cultural practices, governance structures as well as legal, tax, and accounting matters. This study seeks to bridge the differences between Chinese TNCs and host countries. The questionnaire mainly asks about your firm's overseas investment strategies, your assessment of Chinese overseas investment, and how Chinese TNCs can eliminate misunderstandings with host countries.

**I. Background Information**

1. Your year of birth:

- a. 1950s
- b. 1960-1965
- c. 1966-1969
- d. 1970-1975
- e. 1976-1979
- f. 1980 or later

2. Your gender:

- a. Male
- b. Female

3. Highest Degree Attained:

- a. Technical College (or below)
- b. Bachelor's
- c. Master's
- d. PhD

4. Your parent company's headquarter\_\_\_\_\_ (Please fill in name of the city)

5. Your current department is in:

- a. head corporate division\_\_\_\_\_ (please refer to question six)
- b. affiliated company of the head corporate division (please refer to question seven)

6. Your current corporate division's role is mainly:

- a. investment
- b. human resources
- c. finance

- d. planning and development
  - e. other:
7. How long have you been with the parent firm?
- a. less than a year
  - b. one to five year
  - c. six to ten years
  - d. eleven to twenty years
  - e. more than twenty years

8. How many employees do your parent firm have?
- a. less than 1,000
  - b. 1,000 to 10,000
  - c. 10,000 to 50,000
  - d. 50,000 to 100,000
  - e. more than 100,000

## **II. Overseas Investment**

Note: If you are at the head corporate office, please describe the head corporate office; if you are at a subsidiary, please describe the subsidiary

9. Does your firm engage in overseas investment projects (If not, please skip to Part III)
- a. yes
  - b. no

10. How many people do your firm employ overseas?
- a. less than 100
  - b. 100 to 500
  - c. 500 to 3,000
  - d. 3,000 to 10,000
  - e. more than 10,000

11. When was the first time your firm invested abroad?
- a. before 1990
  - b. 1991 to 1999
  - c. 2000 to 2008
  - d. 2009 to 2013
  - e. after 2013

12. The primary reason why your firm invested abroad:
- a. expand market size
  - b. align with the “Going Out” policy
  - c. help transform traditional industries

- d. the firm's own expansion policy
- e. other:

13. What is your firm's main industry domestically? (can select multiple answers)

- a. finance
- b. natural resources
- c. manufacturing
- d. real estate
- e. other service industries
- f. other industry:

14. What is your firm's main industry internationally? (can select multiple answers)

- a. finance
- b. natural resources
- c. manufacturing
- d. real estate
- e. other service industries
- f. other industry:

15. The bulk of your firm's overseas investment is in:

- a. developed countries
- b. developing countries

16. What region is your firm's overseas investment currently located? (can select multiple answers)

- a. Asia
- b. Oceania
- c. Africa
- d. Europe
- e. Latin America
- f. North America

17. What region does your firm plan to invest in the future? (can select multiple answers)

- a. Asia
- b. Oceania
- c. Africa
- d. Europe
- e. Latin America
- f. North America

### III. Overseas Investment Strategies

18. What is your experience with overseas investment?

- a. current experience
- b. no current experience, but have previous experience
- c. no current or previous experience, but knowledgeable due to other reasons
- d. no current or previous experience, and not knowledgeable of topic

19. What are the obstacles for Chinese firms in developed countries? (Please select the top two)

Obstacle One: \_\_\_\_\_

Obstacle Two: \_\_\_\_\_

- a. cultural factors
- b. political factors
- c. economic factors
- d. late comer disadvantage
- e. other factors:

20. What are the obstacles for Chinese firms in developing countries? (Please select the top two)

Obstacle One: \_\_\_\_\_

Obstacle Two: \_\_\_\_\_

- a. cultural factors
- b. political factors
- c. economic factors
- d. late comer disadvantage
- e. other factors:

21. What is the biggest obstacle Chinese TNCs need to overcome abroad?

- a. talent
- b. trust
- c. technological gap
- d. other:

22. Which advanced due diligence services are most important for Chinese firms' internationalization process?

- a. legal
- b. accounting
- c. tax
- d. marketing
- e. consulting
- f. other:

23. When Chinese firms invest abroad, what kind due diligence firms are sought after?

- a. the big four (Deloitte, PWC, KPMG, Ernest & Young)
- b. foreign firms outside the big four
- c. domestic state-owned corporations
- d. domestic private corporations
- e. other:

24. What is the biggest advantage that Chinese firms possess when investing abroad?

- a. government support
- b. China's domestic economy
- c. talent
- d. financial reserves
- e. other:

25. Which of the following is the most important for Chinese TNCs to increase their market standing abroad?

- a. research and development
- b. marketing and product techniques
- c. employees with overseas experience
- d. clear policies from the government
- e. other factors:

26. When Chinese firms invest abroad, what methods should they employ to deal with host country governments? (Please select the top two):

Method One: \_\_\_\_\_

Method Two: \_\_\_\_\_

- a. direct communication (formal)
- b. direct communication (informal)
- c. business associations
- d. other consulting agencies
- e. other:

#### **IV. Domestic and Foreign Relations**

Please rate the following statement between 1 and 10, 1 is strongly disagree and 10 is strongly agreed

27. Chinese firms' domestic market performance impact overseas performance [ ]

28. The Chinese government's policies impact firms' overseas investment [ ]

29. The corporate culture in China differs from abroad [ ]

30. The corporate governance structure in China differs from abroad [ ]

31. The central government announced the Belt and Road Initiative in 2015, what did the policy present to your firms in terms of opportunities and challenges?

32. From your view, what should Chinese firms do abroad to quicken their “learning curve”?

# Paper One. A Special Place: Hong Kong's role in Chinese outward foreign direct investment

**Abstract:** The literature on Chinese transnational corporations and outward foreign direct investment has widely analyzed determinants, entry modes, and location factors associated with Chinese firms' internationalization process. This literature has largely neglected the role of geography, however. The geography of Chinese overseas investment revolves around Hong Kong, a place that accounts for over half of China's outward FDI flows and stock. This paper seeks to examine why Hong Kong plays such a prominent role in China's outward FDI by conceptualizing the former in terms of place. Place is conceptualized as an area that incorporates a set of social relations, in which these social relations are constructed through a historically contingent process that link together forces at both the local and the global scale. More specifically, a trifold framework of locale, location, and sense of place associated with Hong Kong is employed. Drawing from firms' annual reports, fieldwork in Beijing, and government documents, this work finds that prominent social forces shaping Hong Kong are its economic, cultural, and historical configurations in relations to that of mainland China.

**Keywords:** *Place, China, Hong Kong, transnational corporations, outward foreign direct investment*

## 1. Introduction

The systematic FDI data that the Chinese government has released since 2003 shows a steady and continuous increase of overseas investment from what is by some measure the world's largest economy<sup>1</sup>. Chinese outward FDI flows increased from a pedestrian \$2.7 billion in 2002 to a sizable \$145.67 billion<sup>2</sup> in 2015 (2016 Statistical Bulletin). This remarkable increase has propelled China to surpass Japan, Germany, France, and the U.K. as the world's second largest source of FDI flows after the U.S., also ranking eighth in terms of FDI stock (2015). The bulk of this increase, however, has accumulated in a special place: Hong Kong. It accounts for 61.6% of China's outward FDI flows and 59.8% of outward FDI stock in 2015 (Statistical Bulletin 2016), a result of it being an increasingly important destination for Chinese investments over the past

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<sup>1</sup> China has surpassed the U.S. as the world's largest economy when measured by power purchasing parity. When measured by nominal gross domestic product metrics, China is second after the U.S.

<sup>2</sup> These amounts reflect constant dollar values, normalized to the year the Statistical Bulletin was published.

decade. While the British Virgin Islands and the Cayman Islands have been the other top destinations for China's overseas investment, over the past decade, a substantial amount of FDI has been shifted from these destinations to Hong Kong. In 2003, when FDI flows to these three regions amounted to \$2.17 billion out of a total of \$2.85 billion, composing 76.14% of the total. The picture had not changed much by 2015, when 69.9% of total FDI flows (\$101.85 billion out of \$145.67 billion), went to these three regions. What has changed during the past decade, however, is the composition within these three destinations. In 2003, the British Virgin Islands and the Cayman Islands, respectively, took up 7.37% and 28.42% of total FDI flows, declining to 1.3% and 7%, respectively, in 2015, falling from a combined 35.79% of China's total FDI flows to just 8.3%. Hong Kong's share during the same period, meanwhile, grew from 40.35% to 61.6%.

The literature on Chinese overseas investment (Deng 2012, 2013; Quer et al. 2015) has adequately analyzed important aspects of Chinese firms' internationalization process, it has however neglected Hong Kong's role. To fill this gap, I draw on conceptions of place to make sense of Hong Kong's important role in Chinese overseas investment. I bring geographers' work on place (Pred 1984, Agnew 1987) to bear on the current literature on Chinese overseas investment, to investigate Hong Kong's role in shaping Chinese firms' overseas FDI. Due to the nature of the available data, this paper does not address foreign portfolio investment—entry of funds sometimes for speculation—in Hong Kong. It cannot speculate to what degree Hong Kong serves as an intermediate stop for Chinese firms to channel capital out of China (Section Three). Instead, this paper investigates the structural and fundamental forces that shape Chinese investment in



Hong Kong. It asks: What makes Hong Kong an important destination for Chinese overseas investment in terms of place? How do Hong Kong's geographic, political, economic, and cultural configurations shape Chinese investment?

The paper is structured as follows. Section Two reviews the current literature on Chinese TNCs and outward FDI, highlighting the gap this paper seeks to address. Section Three examines methodological issues with official statistics on Chinese outward FDI, motivating my own methodology for collecting and analyzing data. Section Four examines Chinese TNCs' perspectives toward investing internationally, drawing from fieldwork carried out in Beijing. Section Five, the bulk of the paper, conceptualizes Hong Kong's role in Chinese overseas investment in terms of place, merging literature from International Business and Geography. Section Six concludes by discussing the merits and limitations of the paper.

## **2. Literature review**

To date, the literature on Chinese transnational corporations (TNCs) and outward FDI is mainly built upon conceptual and empirical scholarship in the international business literature, originating from the likes of Hymer (1960), Buckley and Casson (1976), and Dunning (1981, 1992). The starting assumption is that firms internationalize, become transnational corporations, based on prior competitive advantage. In this view, firms invest abroad because they already have developed a set of competitive advantage factors they can deploy to expand internationally. These factors can include tangible assets, such as extensive financial endowments, a large labor pool, and advanced

technologies; they can also include non-tangible assets such as managerial, marketing, and entrepreneurial talent. At its core, these pioneer scholars have deployed a cost-benefit framework to analyze transnational corporations, whereby firms internationalize if the benefits of deploying their competitive advantage factors abroad outweigh the costs of doing so.

International business scholars writing on Chinese TNCs have largely taken this cost-benefit framework as the starting basis. Quer et al.'s (2015) meta-analysis of 112 papers published between 2002 and 2014 identifies three major categories of scholarship. First, are scholars analyzing the determinants of Chinese outward FDI (Hong and Sun 2006; Deng 2007; Song et al. 2011). They find that firm capabilities, industry factors, institutional factors, and home country effects are amongst the major determinants of Chinese outward FDI<sup>3</sup>. Regardless of ownership—State-Owned Enterprises or private firms—Warner et al. (2004) maintain that closely connected firms benefit from state support to venture abroad. Song et al. (2011) relatedly claim that the 1999 'going out' policy is a key driver of overseas investments. For example, the Chinese state rescaled the 'going out' policy in Southeast Asia's Mekong region to push firms into this region (Su 2012).

Second, are those analyzing entry modes of Chinese firms (Deng 2009; Lin 2010; Yamakawa et al. 2008). Papers examine entry mode choices, entry mode decision-making factors, and the drivers of mergers & acquisitions. Chinese TNCs engage directly in mergers & acquisitions to seek ownership advantages such as high-value trademarks and

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<sup>3</sup> These are mainly push factors. Deng (2012; 2013) argues that the literature needs to do a better job of theorizing factors to explain the destination of FDI: pull factors.

advanced production techniques (Huang and Wang 2011). They also have set up research and development centers in Western Europe and North America during the past decade to take advantage of the two regions' highly trained and specialized workforce (Diminin et al. 2012). Luo and Tung (2007) assert that Chinese TNCs seek to acquire strategic assets— such as nanotechnologies, microprocessors, and advanced aviation equipment— from developed countries. They also aim to purchase brands, distribution networks, and management skills from more established TNCs (Rugman and Li 2007).

Third, is the analysis of location factors (Tsui et al. 2004; Sautman and Yan 2008; Nolan and Zhang 2002, 2003). Amongst the most commonly studied factors are home country and host country factors, political risk, and cultural distance. Buckley et al. (2007) assert that Chinese TNCs perceive risk differently relative to developed countries' TNCs. The former tends to invest in host regions with higher political risk, which the latter tend to avoid. In terms of cultural distance, Globerman and Shaprio (2009) maintain that Chinese firms face a heavy liability of foreignness because they come from a distinctive institutional and social environment. China's institutional environment is centralized and state-controlled; its management culture is based upon relationships (Tsui et al. 2004). Sinophobia in host countries also may undermine Chinese investments (Peng 2012).

This literature has done a solid job examining critical aspects of Chinese overseas investment, but it offers no analysis of place, the subject of extensive geographical scholarship. Pred (1984) argues that place is the result of a historically contingent process, whereby the reproduction of social norms interwoven within place are not

subject to universal laws but vary with historical circumstances. Massey (1994) constructs a relational view of place that integrates the global and the local. Rather than being conceptualized as territories with confined boundaries, places should be thought as areas that incorporate a set of social relations constructed through forces and scales beyond place, a way of thinking that links a place to places beyond, be it at the regional, the national, or the global scale (Sheppard 2016 calls this connectivity-based thinking). Similarly, Agnew (1987) conceptualizes place as the nexus of the structuring of social relations. He views place—consisting of locale, location, and sense of place—as providing the context in which agency interacts with social structure. I elaborate on his tri-fold framework below, after reviewing and analyzing macro statistical trends of Chinese FDI in Hong Kong.

### **3. Hong Kong: a numbers game**

There has been a precipitous yet methodical rise of Chinese outward FDI from 2002, when the Chinese government first promulgated such data. By 2015, Chinese outward FDI flows and stock stood at US \$146 billion and \$1,098 billion, respectively, ranking second and eighth worldwide, respectively. As Figure 1 and Figure 2 detail, the bulk of this increase has targeted Hong Kong (61.6% and 59.83% of total Chinese outward FDI flows and stock, respectively, in 2015)<sup>4</sup>. Of these, 39.8% of China's outward FDI flows to Hong Kong were in leasing and business services, with 18.3% in financial services,

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<sup>4</sup> Closer examination shows that the percentage of total flows has been increasing from 2003 to 2015, whereas the percentage of total stock has been decreasing. These contrasting trends suggest that round tripping and transitioning FDI have been outpacing actual FDI terminating in Hong Kong.

15.9% in wholesale and retail trade, 6.4% in manufacturing, and 6.1% in real estate in 2015 (2016 Statistical Bulletin).

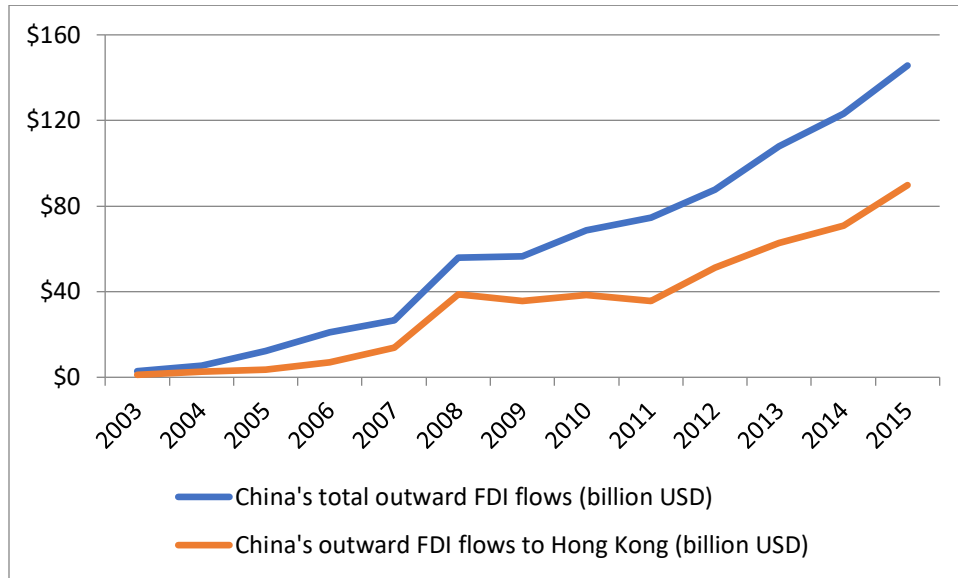


Figure 1: Chinese outward FDI flows, 2003 to 2015 (Source: Statistical Bulletin, various years)

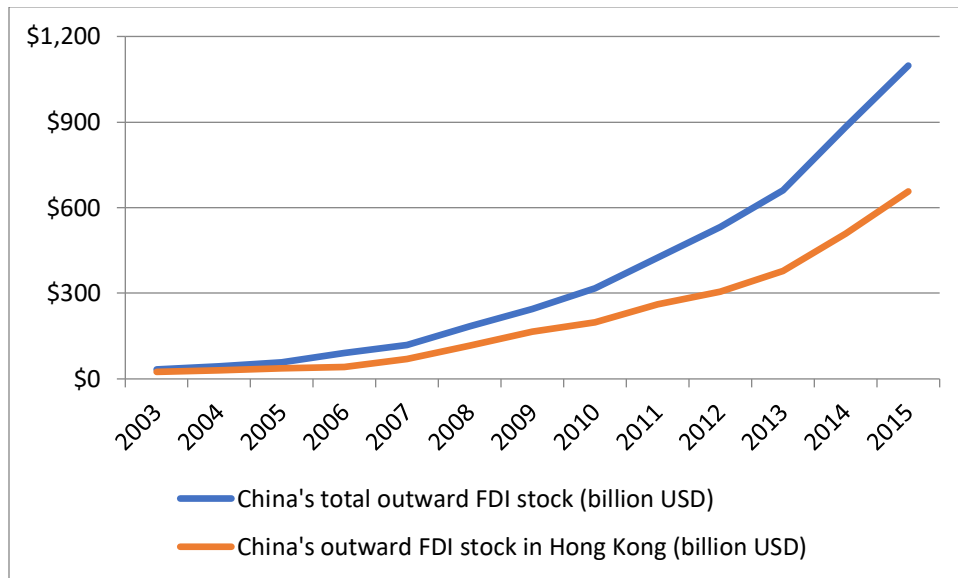


Figure 2: Chinese outward FDI stock, 2003 to 2015 (Source: Statistical Bulletin, various years)

Several scholars have pointed out shortcomings, however, in the data published in *China's Statistical Bulletin of China's Outward Foreign Direct Investment* (Statistical Bulletin). Indeed, Sutherland and Anderson (2015) argue that any scholarship drawing

exclusively on official data must be treated with considerable caution. The official data are problematic in several ways (Amighini et al. 2014; Garcia-Herrero et al. 2015). The Statistical Bulletin only requires firms to report the first rather than the destination of their international investments, failing to track how much of this FDI continues to other destinations or is round-tripped back to China. With respect to Hong Kong, Garcia-Herrero et al. (2015), following Xiao (2004), calculate that 30% of China's FDI inflows stay in Hong Kong, 30% transition to other destinations, and 40% represent round-tripping FDI. Yet there is no consensus among scholars about this breakdown (Amighini et al. 2014; Sutherland and Anderson 2015).

Underneath such numbers, Chinese TNCs' investment in Hong Kong takes a variety of forms depending on the firm and industry in question. For example, Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Ltd., one of mainland China's leading exporters of steel pipes with production bases and offices all over the world, has a major investment presence in Hong Kong. Subsidiaries in Indonesia, Saudi Arabia, Dubai, Singapore, North America, and Africa contribute to its annual production capacity of 3.38 million tons. Yet the company invests heavily in the Hong Kong regional economy, including the Kai Tak Development District Cooling System, the Hong Kong-Zhuhai-Macau Bridge, and the Central-Wan Chai Bypass (Chu Kong 2016).

The China Railway First Group (HK) Co Ltd., the Hong Kong subsidiary of The China Railway Group Ltd., has increased its presence in Hong Kong. Through a joint venture project with a Hong Kong and Australian firm, it won contract rights to build the track work and overhead line system of the Guangzhou-Shenzhen-Hong Kong Express

Rail Link (China Railway 2017), creating 800 management and entry-level jobs in the city. Tewoo Group Co Ltd., one of China's largest metals, energy minerals, and chemicals trading firms, ranked 146<sup>th</sup> in the Fortune Global 500 in 2015, also has invested substantially in Hong Kong. Tewoo established its Hong Kong subsidiary, Tewoo Group (HK) Ltd., through acquiring a 15,000 square feet office space in a prime Hong Kong business district, Wan Chai (Tewoo Group 2017).

Given these data limitations and varying investment forms, this paper attempts to tackle Hong Kong's role from a different perspective, focusing on unraveling the structural forces underlying China's investment into Hong Kong. To do so, it utilizes several data sources from 12 months of fieldwork conducted in Beijing, 2015-6. First, working with a local collaborator<sup>5</sup>, I undertook a Firm Survey of a group of middle-to-high level managers of Chinese TNCs who were taking a training course at a university in Beijing in spring 2016. I also draw on 46 interviews I conducted with Chinese and non-Chinese professionals working in Chinese TNCs on aspects of Chinese overseas investment. Finally, I examine Chinese TNCs' annual reports, paying particular attention to their actual investment projects in Hong Kong. Additional sources include government documents, news articles, and consulting reports.

#### **4. Chinese Transnational Corporations' Perspectives**

As Chinese TNCs go abroad for the first time in mass numbers, it is important to analyze their perspectives on international investment, i.e., what they perceive to be the

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<sup>5</sup> I am thankful for Professor Ma Xiulian of the Chinese Academy of Governance for helping me carry out this survey.

most important factors influencing their overseas direct investments. Child and Rodrigues (2005) argue that scholarship trying to make sense of Chinese firms' internationalization process must account for the relevance of domestic institutional factors. Dicken (1992, 1994, 2016) makes a similar claim, that geography matters to transnational corporations: a sending country's institutional characteristics significantly shape how its firms act abroad. In this spirit, I examine how China's domestic institutional ecology shapes its firms' outward FDI strategies.

My survey and interview results reveal a common and reoccurring issue: respondents strongly feel that Chinese TNCs do not yet possess the necessary domestic human talent to be internationally competitive. They stress that Chinese firms have a shortage of employees with enough overseas experience; that there is a shortage of experienced decision-makers in managerial and executive positions; and that China needs to develop systematic and institutional channels to increase employees and managers' overseas experience.

The Firm Survey was not a randomized sample, but nevertheless provides valuable information on a key group of actors who foreign researchers have faced difficulty in accessing: middle-to-high ranking managers shaping Chinese overseas investment. There was a total of 53 respondents, the majority middle-aged (between 42 to 57 years old), highly educated (many with a Master's degree), employed in their respective firms for over ten years, and predominately (all but two) male. Beyond collecting basic background information, the Firm Survey focused on key aspects of firms' internationalization process. Questions included firm investment strategies, geographic



and industrial choices, and challenges faced abroad.

The answers document respondents' concern about the lack of talent being a major obstacle faced by their firms (Figures 3 & 4). From Question 21, "What is the biggest problem Chinese TNCs need to overcome abroad?" Figure 3 shows that 68% of the respondents view talent as the biggest issue that their respective firms need to resolve to be internationally competitive. From Question 25, "Which of the following is the most important for Chinese TNCs to process to increase market standing abroad?" Figure 4 shows that 53% of the respondents prioritize employees with overseas experience as a key ingredient for FDI success abroad.

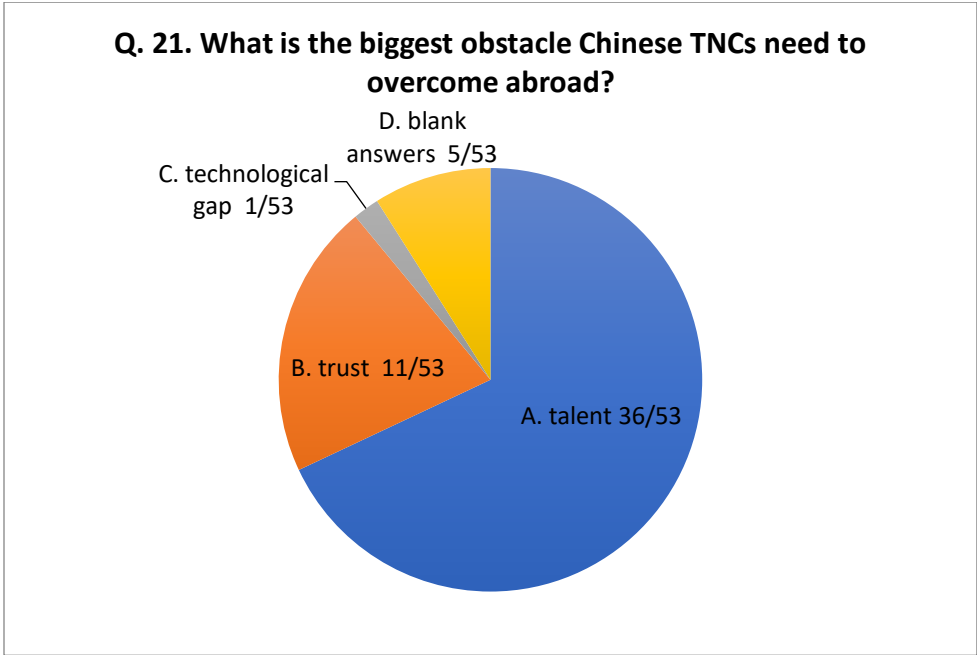
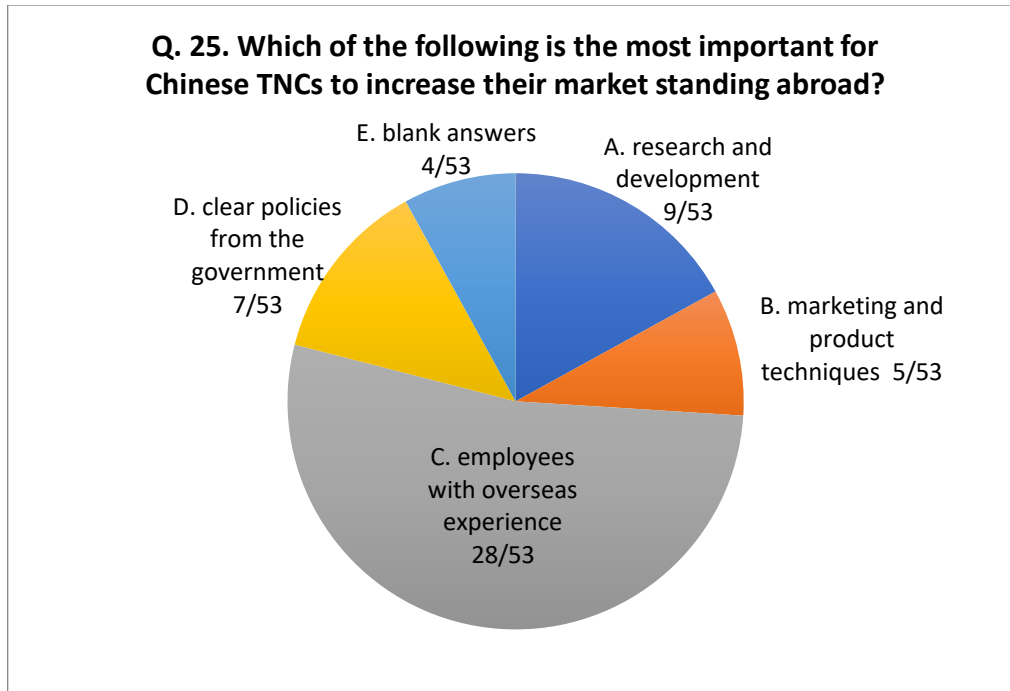


Figure 3: Firm Survey Question 21 (Source: Firm Survey)



**Figure 4: Firm Survey Question 25 (Source: Firm Survey)**

The survey results are reinforced by the interviews I undertook with Chinese and non-Chinese professionals on aspects of China’s overseas investment, many working in Chinese TNCs and others with experience working with Chinese TNCs. Interviewees repeatedly stressed that Chinese firms need to develop systematic channels for enhancing employees’ and managers’ overseas experience. A manager at a State-Owned Enterprise (SOE) in the publishing industry claimed: “the top priority is to make substantial efforts to systematically develop high-end talent” (Personal Interview 3, Beijing 2015). He reasoned that this is not simply a problem in his firm nor is it exclusive to the publishing industry; rather, it is a systematic problem facing Chinese firms across industries. A manager at a SOE with a large overseas investment portfolio gave a similar answer, suggesting that one way to develop better overseas management teams is by creating systematic changes to the labor pool that Chinese TNCs can draw from:

[Chinese TNCs] must accelerate the development and deployment of overseas talent. We must introduce systematic mechanisms to develop managers' decision-making ability when it comes to overseas investments. In short, we need to develop better [overseas] management teams (Personal Interview 33, Beijing 2016).

In addition, my interviewees note that their firms need to hire due diligence services when engaging in outward FDI activities. A manager at a medium-size SOE urges that his firm “use the best professional service available in law and accounting firms, finance and labor lawyers, security and political consultants” (Personal Interview 15, Beijing 2015). In his view, Chinese firms must hire foreign consultant firms because mainland Chinese firms are not yet capable of offering such services at a world-class level. Another interviewee recommends that firms “research the host country’s economic, political, and legal system” (Personal Interview 23, Beijing 2016), and a manager at a large manufacturing firm goes as far as to argue that firms need to “hire an intermediary firm to provide information about the host country’s legal and economic system” (Personal Interview 27, Beijing 2016).

These survey and interview results suggest that the domestic institutional environment in China is not yet able to produce an adequate pool of human talent for Chinese TNCs to be internationally competitive. Chinese firms are short of employees with adequate overseas experience at both the general level and the managerial level. Therefore, many Chinese firms seek to hire outside due diligence services—ranging from legal, security, and accounting expertise to marketing, sales, and public relations skills—to compensate for their talent shortage. Where can Chinese firms turn to for sound international investment advice and world-class due diligence services? Hong Kong, with its close geographic, economic, and cultural proximity, is a logical choice.

## 5. Why Hong Kong?

Drawing from Bourdieu (1977), Giddens (1979, 1981), and Pred (1984), Agnew (1987) conceptualizes place as the nexus of the structuring of social relations. His conception of place entails a threefold definition: locale, or the settings within which social relations are constituted; location, the relative location of the geographical territory encompassing these social relations; and sense of place, a felt sense of what life is like at a specific time and place. In this section, I apply this trifold framework to Hong Kong as a place, to make sense of its role in Chinese overseas investment.

First, consider locale. Locale is the informal or institutional settings within which social relations are constituted. Here, I mainly focus on the institutional settings in which Chinese overseas investment into Hong Kong is composed. These settings include stock market arrangement, free trade agreement, private and public-sector arrangements, labor market structure, and political set up. Hong Kong's financial infrastructure matches the standards of global cities (Sassen 1991), namely New York, London, and Tokyo (Meyer 2015). The Hong Kong Stock Exchange is one of the world's major stock markets where many leading TNCs— Western, Japanese, and Korean ones— are listed. More specifically, there are 1,758 companies listed as of July 2017 with a total market capitalization of \$3.8 trillion. Relatedly, Hong Kong is home to roughly 1,400 regional headquarters, 2,500 regional offices, and 3,600 local offices of transnational corporations from all over the world.

A dynamic and healthy labor market compliments Hong Kong's world-class financial infrastructure: 3.75 million of Hong Kong's 7 million inhabitants are employed,

with an unemployment rate of just 3.3% in 2017. Moreover, in large part due to over 150 years of British colonial rule the city is engrained with tacit Western business knowledge. English is relatively prevalent amongst the professionals—locals and expats—working in the city’s most important industries— tourism, financial services, trading and logistics, and professional services. Many of these professionals are graduates of Hong Kong’s most prestigious universities—namely the University of Hong Kong, the Chinese University of Hong Kong, and the Hong Kong University of Science and Technology—as well as respectable universities in the U.S. and Europe.

Hong Kong’s private sector includes a host of professional service firms specializing in finance, legal services, tax, risk assessment, and international certification. Local firms work with and compete against local branches of leading international management consulting firms, such as Deloitte, Ernst & Young, and McKinsey & Company, constituting a world-class hub of expertise for Chinese transnational corporations to tap. The Hong Kong government also has set up an assortment of public institutions to further Hong Kong’s role as Asia’s premier financial center. These include the Hong Kong Monetary Authority, the Hong Kong International Arbitration Centre, and the Hong Kong Development Council (GovHK 2017). Moreover, the city follows international accounting standards, like that of the World Bank and the International Monetary Fund, and it has a Western-type legal system that delineates and protects property and intellectual rights. Perhaps more importantly, its private and public arrangements enable Hong Kong to act a major hub for the internationalization of the RMB (InvestHK 2016). Hong Kong is the first place outside mainland China to develop a

RMB bond market, and the first as well as the largest offshore market to launch investment products denominated and settled in RMB.

In addition to the city's economic infrastructure, its political set up also plays an important role that is attractive to Chinese TNCs. The 'one country, two systems' arrangement has given Hong Kong an institutional advantage over mainland cities like Shenzhen, Guangzhou, and even Beijing and Shanghai (Shen 2016). Unlike its mainland counterparts, Hong Kong is run and managed by publically elected politicians and bureaucrats. Moreover, its functional democracy is perceived by the international business community as a prerequisite for its role as a global financial hub (Economist 2014). Even the series of street protests that erupted in the city from September to December 2014 (the Umbrella Movement) to protest Beijing's attempt to reform the city's electoral system did not cause any noticeable decrease of FDI at the aggregate level, although mainland Chinese tourism did decrease. But the Umbrella Movement does illustrate tensions between the local populace, the city government, and Beijing over democratizing and civil liberty rights, issues that can potentially disrupt FDI.

Other institutional settings include the following. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) is a formal free trade agreement signed by the two sides into law on 29 June 2003. Given the unique 'one country, two systems' arrangement, CEPA is not named a free trade agreement, but its essence is that of one. Like other free trade agreements, such as the North American Free Trade Agreement (NAFTA) between the U.S., Canada, and Mexico, CEPA greatly enhances the economic integration of mainland China and Hong Kong through zero to low tax tariffs,

deregulation of rules, and borders-opening initiatives. As stipulated in its Legal Text, the Arrangement covers three broad areas: trade in goods, trade in services, and trade and investment facilitation. Since CEPA was signed in 2003, ten supplement texts have been added between 2004 and 2013 to further integrate trade and investment between the two sides (CEPA 2017).

Another institutional factor is the closer integration of the two Chinese stock markets with the one in Hong Kong. The Shanghai-Hong Kong Connect (Shanghai Connect) was launched on 17 November 2014, followed shortly by the Shenzhen-Hong Kong Connect (Shenzhen Connect) on 5 December 2016. The latter mirrors the same principles and design as the former, due to space constraints I will only discuss the former in detail. The Shanghai Connect is essentially a mutual stock market platform connecting the Shanghai Stock Market and the Hong Kong Stock Exchange, created to benefit both sides. For China, the Shanghai Connect (and the Shenzhen Connect) serves as a feasible and controllable institution for cross-boundary RMB flows by mainland Chinese investors—individuals and firms—further opening China’s capital accounts and internationalizing the RMB. For Hong Kong, the Shanghai Connect (and the Shenzhen Connect) brings the city greater market liquidity and more business opportunities with mainland investors (Stock Connect 2017).

Second, consider location. Location is defined as the relative geographical area encompassing the settings for social interactions. Here, I analyze not only the physical distance, but also the economic, historic, and cultural proximity binding Hong Kong and Chinese TNCs together. These include Hong Kong’s location, historic gateway role, and

cultural attractions. Located across from Shenzhen, Hong Kong is situated in Guangdong province. Via the Guangzhou-Shenzhen-Hong Kong Express Rail Link, to be implemented in phases between 2011 and 2018, a trip between Guangzhou and Hong Kong can be as fast as 45 minutes whereas to get from Shenzhen to Hong Kong, or vice versa, can take just 15 minutes. From Beijing to Hong Kong, it takes 3 hours and 40 minutes via 20 daily flights. Shanghai to Hong Kong takes 2 hours and 40 minutes, with 33 daily flights. Perhaps more importantly, Hong Kong is located within five hours' flight of half of the world's population, close to East Asia, Southeast Asia, and South Asia. This dynamic location is further boosted by a world-class transportation network that includes the Hong Kong Subway, the Port of Hong Kong, and the Hong Kong International Airport.

Hong Kong's economic proximity to Chinese TNCs and overseas investment is based upon deep historic ties. Sung (1991), Chan (1995), Fung (1996), Lin (1996), and Low et al. (1998) provide solid analysis of Hong Kong's role in integrating China with the international economy when the latter opened itself up in the late 1970s. More specifically, Sung (1991) contends that Hong Kong played a pivotal role in the 'open-door' policy that opened the isolated Chinese economy. Between 1979 and 1989, the then politically independent Hong Kong functioned as the source for over 59% of all foreign investment into mainland China, and over 48% of foreign commercial loans. The city's role as financier, trading partner, middleman, facilitator during this period was instrumental in integrating China's Stalinist economic model of central planning and autarky with the capitalist international economy. As financier, the city channeled FDI



and loans into China; as a trading partner, it served as a hub for commodity and services imports and exports to and from the mainland. Hong Kong's middleman role created business opportunities in tourism, financial services, and business consultancy for foreign firms, also facilitating their attempts to test the investment climate in mainland China via their Hong Kong subsidiaries (Sung 1991). These connections, developed from the 'open-door' policy, continue to the present, offering a very appealing economic base also for Chinese TNCs after the 1997 handover.

Hong Kong offers close cultural proximity to Chinese TNCs as well. Johanson and Vahlne (1977) claim that firms' internationalization process begins with locations geographically close to the home markets, and locations that are psychically close where culture, knowledge, and relationships are more similar than different. Works on TNCs from the U.S. (Hymer 1968), Brazil (Villela 1983), Japan (Kogut and Chang 1991), South Korea (Erramilli et al. 1999), and Malaysia (Zin 1999) seem to fit this trend.

As the Chinese economy grows, the cultural proximity between mainland China and Hong Kong increases (Lin 2015). The Individual Visit Scheme was introduced in 2003 to boost Hong Kong's tourist industry. This policy increased the share of mainland visitors out of the total visitors to Hong Kong from 11% to 75% and the share of mainland visitors' tourist expenditure out of the total tourist expenditures from 33% to 58% between 1999 and 2012. Moreover, from 1996 to 2013, non-local students increased from 8% to 53% of the total student population in Hong Kong universities' graduate programs; amongst non-local students, mainland students compose 81% of the total (Lin 2015).

The close cultural proximity between Chinese TNCs and Hong Kong is reflected in

a key area of China's overseas investment. The Hong Kong Trade Development Council published results of four survey questionnaires conducted between 2013 and 2016—consisting of a 2013 Pearl River Delta Survey, a 2014 Yangtze River Delta Survey, a 2015 Bohai Rim Survey, and a 2016 Western Region Survey—surveying mainland Chinese TNCs' intentions to utilize professional services—such as brand design, marketing strategies, and product development—in Hong Kong relative to other service hubs around the world (HKTDC 2017). Of the surveyed firms, 65% in the Pearl River Delta, 56% in the Yangtze River Delta, 60% in the Bohai Rim, and 50% in the Western Region chose Hong Kong as their topic choice, over cities in the U.S., Taiwan, Germany, Japan, and Singapore.

And third, consider sense of place. Sense of place is defined as the local “structure of feeling” or a felt sense of what life is like at a place and time. Here, I analyze Hong Kong's Chinese culture and its hybrid Chinese/British culture. These cultural aspects include tangible factors, such as language and cuisine, and intangible factors, such as a sense of feeling toward the city's culture. Despite a century and a half of British colonial rule, Hong Kong remains a “Chinese” city after all. Beyond the local Cantonese dialect, many Hong Kongers have a solid grasp of the mandarin dialect. Although mainland China changed to a simplified version whereas Hong Kong maintained the traditional form, both sides mutually understand the written language. Cantonese cuisine is one of the five major Chinese cuisines, its popularity extends beyond Hong Kong and Guangdong to the rest of mainland China. Perhaps more importantly, Hong Kongers are ethnically Chinese, sharing the same cultural and religious lineage as their mainland

counterparts.

The fact that Hong Kong was a British colony for a long time also means that British influences have penetrated various facets of the city, particularly architecture, fashion, and language. In Hong Kong, there are many buildings designed that resemble architecture styles in Britain. St. John's Cathedral, the city's oldest Christian church, located in the heart of the financial district, was designed in the style of early English Gothic architecture. In fashion, Hong Kong is closely link to well-known British brands. Alfred Dunhill Ltd., Paul Smith Ltd., and Harvey Nichols Group (luxury British department stores) are popular there, giving the city a dose of international prestige that is characteristic of alpha cities. As for language, Cantonese is the most-spoken language in Hong Kong. But the city has a biliterate and trilingual language policy, in which English and Chinese are the two official written languages whereas Mandarin, Cantonese, and English are the three official oral languages.

Through analyzing Hong Kong's locale, location, and sense of place, a geographic framework has been constructed to make sense of why Hong Kong accounts for over half of Chinese outward FDI flows and stock. According to Pred (1984), place is a historically contingent process that vary with historical circumstances. Hong Kong's history as a "bridge" connecting China with the international community has continued from the 'open-door' policy in the 1970s/1980s to the present. Relatedly, Massey (1994) argues for a relational view of place that integrates the global and the local, linking a place to places beyond. Hong Kong's local private and public financial infrastructure are deeply linked to the global financial system. It is precisely these social forces within Hong Kong and

beyond Hong Kong that serve as the catalyst driving Chinese overseas investment to the city.

## **6. Conclusion**

In this paper, I seek to determine Hong Kong's role in China's overseas investment by conceptualizing Hong Kong in terms of place. Findings indicate that Hong Kong's location, sense of place, and locale molds Chinese overseas investment in several ways. China's domestic institutional and corporate environment is not yet able to produce an adequate pool of human talent for Chinese TNCs to be competitive abroad. China's labor pool is short of professionals with adequate overseas knowledge and experience at both the general and the managerial level, pushing Chinese firms to seek outside diligence services. Hong Kong's institutional setting offers Chinese businesses world-class professional services—such as marketing, accounting, and legal expertise—to mitigate their talent shortage. At the same token, Hong Kong's historic gateway role as financier, trading partner, middleman, and facilitator helped open China to the international community in the 1980s, these historic connections have continued to the present. Moreover, Hong Kong's hybrid Chinese and British culture intertwines both English and Chinese language, business, and cultural practices to make Hong Kong a financial hub that caters to Chinese TNCs. These factors interact with each other, through various dimensions, to shape Hong Kong's role in Chinese overseas investment.

While this paper has tackled the structural forces shaping Hong Kong's role in Chinese foreign direct investment, it has not analyzed Chinese foreign portfolio

investment in Hong Kong. Given the nature of the data, the paper does not deal with to what extent capital being pulled out of China and relocated to Hong Kong is speculative, some of it possibly being 'hot money' and not FDI. Nor does the paper traces individual investment strategy and business blueprint in Hong Kong at the firm level. A possible future research direction is to figure out what portion of capital investment into Hong Kong constitutes as foreign direct investment and what portion constitutes as foreign portfolio investment. Another possible direction is to gather firm-level data on specific firms' investment strategy in Hong Kong: how they go about investing in the city and why they invest there.

In summary, findings from this paper nevertheless makes a couple of suggestions. First, it indicates a need to go beyond a cost-benefit framework to examine Chinese investment by examining city and institution-level factors. The literature on Chinese TNCs and outward FDI has mainly confined itself to such cost-benefit framework to determine why Chinese firms would engage in an internationalization process to become transnational corporations. While this framework is helpful, it has largely neglected larger and structural forces shaping Chinese investment. Therefore, a second suggestion is that the framework developed in this paper, examining city and institution-level factors in Hong Kong, can serve as a launching pad to develop future research directions that can construct different analytical lenses onto the current literature on China's overseas investment.

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## Paper Two. China's Belt and Road Initiative: connectivity, place, and positionality

**Abstract:** The Belt and Road Initiative (BRI) is China's most ambitious international expansion strategy to date, seeking to connect China with more than sixty countries across the Eurasian plain via mega investment projects. This has spawned a growing literature, analyzing what the BRI means for China, receiving countries, and the international community. However, this literature seems to be fragmented into two extremes with little overlap. On the one end are works focusing on the empirics of Chinese firms' internationalization process in the BRI, examining environmental impacts, infrastructure development, and institutional development. On the other end are scholarship emphasizing the "big picture" associated with the BRI, investigating narratives such as the 'China Dream' and the 'China model', often at the global scale of analysis. This paper bridges the gap closer through an analysis into both the practices of the BRI and the associated discourses by drawing from geographical writings on connectivity. It constructs a framework around connectivity, focusing on place and positionality, to analyze the interwoven power relations of the BRI, concentrating on the China Pakistan Economic Corridor (CPEC). Drawing from firm data collected via a year of fieldwork in Beijing and policy analysis, this work maintains that China's efforts to employ the BRI and the CPEC to boost its influence in Pakistan and South Asia are riddled with uneven forms of power relations and problems of implementation on the ground. It further suggests that China's global ascendance via the BRI is no way guarantee, the associated power relations remain fluid and uncertain.

**Keywords:** *Belt and Road Initiative, China Pakistan Economic Corridor, connectivity, power relations*

### 1. Introduction

The systematic outward foreign direct investment (FDI) data the Chinese government has released annually since 2002 shows a steady and continuous increase of overseas investment from one of the world's major economies. China's outward FDI flows increased from a modest \$2.7 billion in 2002 to a hefty \$196.15 billion in 2016; in terms of outward FDI stock, it jumped from \$29.9 billion to \$1.36 trillion in the same period (2016 Statistical Bulletin). This steady increase has propelled China to surpass Japan, France, and Germany as the world's second largest source of outward FDI flows after the U.S., also ranking sixth in outward FDI stock in 2016. These empirical patterns run parallel to equally strong rhetoric from the Chinese government, declaring a more assertive China on the global stage. President Xi Jinping's 68 pages and 3.5 hours long opening work

report at the recent 19th National People's Congress in November 2017 ushered in a 'new era' of economic and political policies and planning, repeatedly asserting a more visible China globally. The rise of Chinese outbound investment will only intensify as China sets out its Belt and Road Initiative (hereafter as the BRI or the Initiative) announced in 2013, an international expansion strategy with an estimated budget of more than \$1 trillion to increase investment across the Eurasian corridor ranging from East Asia to Western Europe as well as parts of Africa and Oceania.

The Belt and Road Initiative is China's most ambitious global expansion strategy to date, consisting of mega investment projects to promote economic cooperation and integration among participating countries. It is divided into the Silk Road Economic Belt (the 'Belt') and the 21st-century Maritime Silk Road (the 'Road' in 'Belt and Road' refers to sea lanes). The former integrates China, Central Asia, Russia, and Europe; links China with the Persian Gulf and the Mediterranean Sea through Central Asia and the Middle East; and connects China with Southeast Asia, South Asia, and the Indian Ocean. The latter goes from China's coast to Europe through the South China Sea and the Indian Ocean, and from China's coast through the South China Sea to the South Pacific Ocean. Sixty-eight countries along these areas have signed memoranda of understanding to participate in the Initiative. The BRI also serves as the cornerstone of China's foreign policy to increase political and economic influence internationally, a topic of substantial debate in Geography (Agnew 2010; Peck and Zhang 2013). These geographical matters and debates have sparked a growing literature examining the BRI, what it means for China, receiving countries, and the international economy.

The BRI literature includes a body of work analyzing the fine details but also the grand patterns of Chinese firms' internationalization process in the Initiative. There is now a solid understanding of how Chinese firms go about their international investment and their potential impact on global geopolitics. However, this literature is fragmented. One end is research focusing on the empirics or practices of Chinese TNCs' internationalization process, examining environmental impacts, infrastructure development, and institutional development (Tracy et al. 2017; Grgic 2017; Yu 2017). The other end focuses on the narratives or discourses associated with rising Chinese investment, investigating tropes such as the 'China Dream' and the 'China model', often at the global scale of analysis (Henderson et al. 2013; Ferdinand 2016; Blanchard and Flint 2017).

Drawing from *connectivity*, a concept of substantial interest in Geography (Sheppard 2016), I seek to bridge this gap in the literature by analyzing the practices of the BRI on the one hand and the associated narratives on the other hand. The China Pakistan Economic Corridor (CPEC), the flagship project of the BRI to date, is the focus. Connectivity at its core is about the uneven power relations tying networks and places together, analyzing the nature of these relations and how they differ depending on the nature of their connections to other distant relations (Dicken et al. 2001; Leitner 2004; Yeung and Coe 2015; Sheppard 2016). To contribute to the BRI literature, this paper constructs a connectivity framework by concentrating on place and positionality. I ask: How does Pakistan as a place shape the context in which Chinese investment is

materialized via the Belt and Road Initiative? How do the different positionalities of key actors in the China Pakistan Economic Corridor shape Chinese investment in Pakistan?

This paper is composed of four parts. Part Two provides an illustrative review of the literature, identifying this gap between empirics-leaning works and narratives-leaning scholarship. This section also provides a methodology detailing the data used in the paper. Part Three, the bulk of the paper, analyzes the interwoven and intersected power relations of the BRI, focusing on the China Pakistan Economic Corridor. This section examines issues of place and positionality, probing how these connectivities mold Chinese investment in Pakistan. Part Four concludes by showing that the BRI's efforts to boost China's global influence are riddled with uneven forms of power relations and problems of implementation on the ground. It suggests that China's global ascendance via the BRI is not guaranteed, the associated power relations remain fluid and dynamic.

## **2. Literature Review and Methodology**

The literature on the Belt and Road Initiative is multidisciplinary, composed of scholarship from international business, geography, international relations, and economics. It is diverse, but fragmented. One side focuses on the empirics and practices of Chinese TNCs' internationalization process in the BRI (Bennet 2016; Lim 2017) whereas the other side focuses on the narratives and discourses surrounding Chinese outbound investment in the Initiative (Callahan 2016; Sidaway and Woon 2017; Tekdal 2017). The former mainly analyzes environmental impacts, infrastructure development, and institutional development. The latter investigates the meanings and impacts of narratives

attached to Chinese overseas investment such as the 'China Dream' and the 'China model'.

The empirics-leaning camp consists of three major categories. First, is research tackling the environmental impacts of the BRI. Tracy et al. (2017) maintain that the Initiative will create new environmental risks across the entire Eurasian continent, especially in countries that have poor records of environmental governance. Relatedly, Huang et al. (2017) find that Chinese TNCs face a difficult road in minimizing environmental damages in Pakistan, particularly with air quality and water consumption. Second, is research examining infrastructure projects in the BRI. Bennet (2016) examines the Moscow-Kazan high-speed railway and the Yamal liquefied natural gas plant in Russia, finding that the implementation of these projects has yet to be fully materialized due to historic Sino-Russia disputes. Grgic (2017) examines the largest investment in Montenegro's history, the Bar-Bolijare Highway, claiming that it is a political project on the part of the country's governing elites. Third, is research examining institutional development in the Initiative. Yu (2017) maintains that the Chinese government created the Asian Infrastructure Investment Bank (AIIB) as a key catalyst to spearhead BRI projects, pointing out that traditional U.S. allies like the U.K., Israel, and South Korea have signed on as founding members.

The narratives-leaning camp consists of three major categories also. First, is scholarship focusing on China's increasing international presence at the global scale. Henderson et al. (2013) investigate whether China's rise will reconstitute the nature of contemporary globalization as well as mainstream conceptualizations of



development. Second, is scholarship on the ‘China Dream’, the discourse that underpins Xi’s foreign policy and the Belt and Road Initiative (Callahan 2016). Ferdinand (2016) claims that Xi and his administration constructed the ‘China Dream’ to signal a change of policy from a risk adverse China to a more assertive China taking more leading roles internationally. And third, is scholarship analyzing the ‘China model’ of development (Zhao 2010; Breslin 2011; Huang and Wang 2011). Scholars debate whether China’s economic growth and increasing global presence is due to a set of economic policies that can be replicated by other countries, or due to existing conditions unique to China that cannot be simulated elsewhere.

As it stands, there is a gap between the empirics-leaning and the narratives-leaning camp with little overlap between the two. The latter provides a solid roadmap examining the general trajectories and patterns of the BRI, shedding light on whether the Initiative will come to reshape global politics and economics in profound ways. The former provides insights into the details of Chinese TNCs’ internationalization process investing in BRI countries. To bridge this gap in the literature, I construct a middle ground between the two spectrums through a framework that analyzes both the practices and discourses of the BRI, focusing on the China Pakistan Economic Corridor. To do so, I utilize the concept of connectivity.

Connectivity examines connections and networks between places, and how these ties shape the development of a place, its inhabitants, and its future possibilities (Massey 2005; Leitner et al. 2008, Sheppard 2016). In geographical conceptualizations of connectivity, writings on networks have been influential. One prominent example is

Global Production Networks (GPNs). With an intellectual lineage to global commodity chains (Hopkins and Wallerstein 1994; Gereffi 1999), GPNs analyze the networked relationships—the functions, operations, and transactions—through which a commodity is produced, distributed, and consumed (Dicken et al. 2001; Yeung and Coe 2015). Dicken (2015, page 58) defined GPNs as composed of relationships between TNCs, states, civil society organizations, labor, and consumers, arguing the most important being between TNCs and states. These network-centric approaches in turn shape conceptualizations of connectivity to investigate how the development of places depends on horizontal relations, direct connectivities with other places, rather than just “place-based” attributes (Sheppard 2015). At its core, connectivity analyzes whether the frequent uneven power relations between places contribute to the underdevelopment of one place relative to another.

This paper constructs a framework around connectivity focusing on place and positionality. Place is the nexus of the structuring of social relations (Agnew 1987). Agnew conceptualizes place as the context in which agency interacts with social structure, consisting of locale, location, and sense of place. I examine how Pakistan as a place shapes the context in which Chinese investment is materialized by investigating key energy and infrastructure projects. Sheppard (2002, 2015, 2016) maintains that socio-spatial positionality (positionality) has been largely ignored relative to place, scale, and networks in writings on connectivity. Positionality is conceptualized as the connectivities between differently positioned but also unequally empowered regions, as contesting the generality of any single positionality, and as being continually reenacted. He asserts that

the development of places has as much to do with their positionality as with “place-based” attributes and that the positionality of two places should not be measured by physical distance separating them, but by the intensity and nature of their interconnectedness. Here I examine the different positionalities of key actors in the CPEC and how these positionalities shape Chinese investment in Pakistan, focusing on finance and security issues.

### **2.1. Data and Methodology**

This paper draws on a firm survey, interviews, and government documents. The firm survey and interviews come from a year-long fieldwork in Beijing from 2015 to 2016. Through a local collaborator<sup>6</sup>, I surveyed a group of managers in Chinese TNCs, asking them questions about the BRI and their respective firms’ role in it. I also conducted 46 elite interviews on Chinese overseas investment, asking questions about the BRI. Some respondents could discuss the Initiative at length through their direct participation in it. Additionally, I examine the annual reports of Chinese firms participating in the Belt and Road Initiative, paying attention to those whose respondents I surveyed or interviewed.

I also collected and collated publicly available government documents on the BRI. The Chinese government has made available a dozen primary documents via the Ministry of Commerce’s *Belt and Road Portal*<sup>7</sup>. These documents are a good source of information, providing an authoritative voice detailing the government’s perspective on

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<sup>6</sup> I am grateful to Professor Ma Xiulian of the Chinese Academy of Governance in Beijing for helping me conduct this survey.

<sup>7</sup> The Belt and Road Portal can be accessed via < <https://eng.yidaiyilu.gov.cn/index.htm>>

its actions and plans. Given this paper's focus on the China Pakistan Economic Corridor, I also make use of Pakistani government documents. Through its Ministry of Planning, Development, and Reform the Pakistani government publishes detailed data on projects in the CPEC<sup>8</sup>, including information on every project planned or underway, with details on budget, timeline, supervising agency, and progress reports.

### **3. The Belt and Road Initiative**

Investigating the nature of the BRI can sharpen ongoing debates in this journal about territory, politics, and governance (Elden 2013; Cox 2013; Jessop 2016) in general and the BRI (Wang 2017; Grgic 2017) in particular. The Initiative is China's most ambitious international expansion "policy" to date. First unveiled by Xi as the "One Belt One Road" Initiative, in two separate speeches in 2013 in Kazakhstan and Indonesia, the Chinese government, retaining the Chinese name, has since changed the English name to the Belt and Road Initiative in 2015. The former caused confusion as partners tend to focus too much on the word "one", assuming a single maritime and land route, whereas there are multiple routes. Six concrete geographic corridors make up the BRI: (1) the China Pakistan Economic Corridor, (2) the Bangladesh China India Myanmar Economic Corridor, (3) the New Eurasian Continental Bridge Economic Corridor, (4) the China Mongolia Russia Economic Corridor, (5) the China Central Asia West Asia Economic Corridor, and (6) the China IndoChina Peninsula Economic Corridor (Figure 1).

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<sup>8</sup> Data can be accessed via the Pakistani government's official website < <http://cpec.gov.pk>>

### The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa

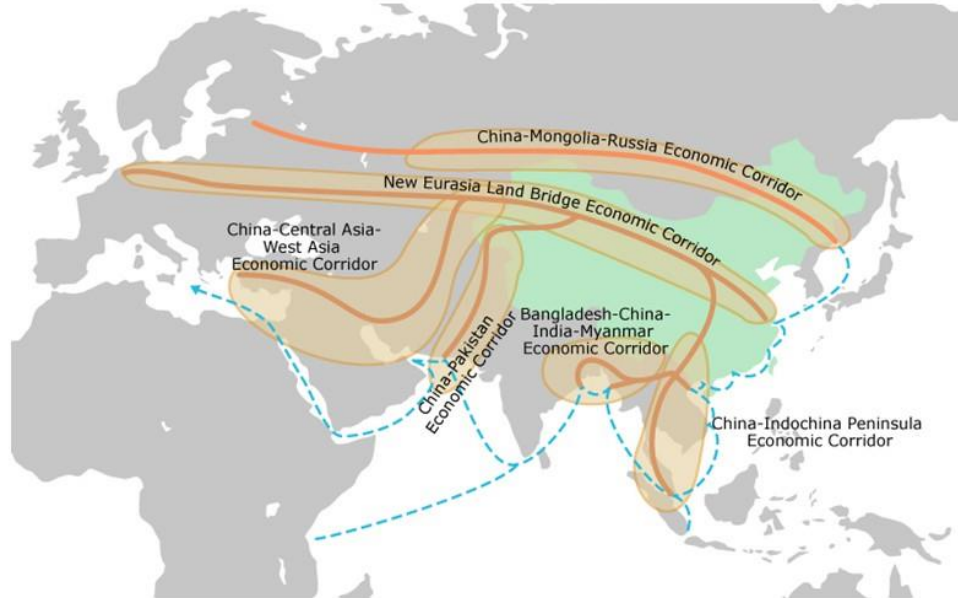


Figure 1: The Six Economic Corridors (Source: Hong Kong Trade Development Council)

This geographic layout is underpinned by five policy goals laid out in the official text “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road,” issued jointly by the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce in March 2015 (NDRC 2015). First is policy coordination connecting China and participating countries that differ in their political and legal systems. Second is connectivity facilitation, aiming to construct infrastructure projects—roads, railways, and ports—that meet a safe and environmentally friendly set of standards. Third is unimpeded trade, boosting China’s status as the world’s largest exporter. Fourth is financial integration. The government has specifically constructed the Asian Infrastructure Investment Bank, the BRICS New Development Bank, and the Silk Road Fund under this policy. Fifth is people-to-people bonds, connecting the world’s largest population to host populations along the BRI.

My analysis shows that this policy implementation is executed via a division of labor amongst Chinese state ministries, state-owned banks, and other government institutions. The Ministry of Commerce oversees investment projects of \$100 million or more, as well as investments in host countries without official diplomatic relations with China. The Ministry of Foreign Affairs is tasked with maintaining stable diplomatic ties between Chinese TNCs and the host countries they invest in, offering strategic and diplomatic help. The State-Owned Assets Supervision and Administration Commission owns and manages China's 'national champion' firms (Nolan 2001, 2012), a list of roughly 110 firms the government is fostering to compete against Japanese Keiretsus, Korean Chaebols, and established Western TNCs.

China's state-owned banks also play a direct role in the BRI, particularly the China Development Bank and the Export Import Bank of China. The China Development Bank is the biggest foreign currency lender and second biggest bond issuer to Chinese TNCs. The Export Import Bank of China, as the sole provider of government concessional loans, provides loans with flexible grace periods to firms. For the China Pakistan Economic Corridor, the National Development and Reform Commission, one of China's most powerful institutions governing its economy, has been assigned the responsibility of day-to-day implementation of the corridor. Through its Department of Foreign Capital and Overseas Investment, the National Development and Reform Commission coordinates with its counterpart Pakistan's Ministry of Planning, Development, and Reform to ensure that CPEC projects meet financial and timeline goals.

From Chinese TNCs' perspective, they recognize the potential benefits the BRI can create for them. A reoccurring theme that my interviewees and survey respondents articulate is that the BRI creates opportunities for firms to expand abroad, explaining how the Initiative facilitates different facets of their firms' internationalization process. An interviewee from a medium-size manufacturing firm explains: "the Belt and Road Initiative expands the market and it promotes capacity for cooperation between firms and the [Chinese] government" (Personal Interview 23, Beijing 2016). Another respondent from a large manufacturing firm claims "after the Initiative, funding from the central government increased, which quickened the internationalization process" (Firm Survey). A respondent from a large conglomerate echoes similar reasoning, "the Initiative helps with the restructuring of firms' management and productivity. It encourages firms to go abroad and increase their international experience. It promotes diversification, expands the market, and develops talent" (Firm Survey).

More specifically, some respondents articulate how the BRI helps their firms, in their respective industry. A respondent assert: "as an insurance firm, we invest abroad through opening up branches to cover mainly manufacturing firms participating in the Belt and Road Initiative" (Firm Survey). Similarly, an interviewee from a publishing firm claims "the Initiative has bought the Chinese publishing industry a good opportunity. My firm is actively seeking partners abroad." (Personal Interview 33, Beijing 2016). Another respondent claim: "the Initiative was mainly created to enhance the country's strategic position globally. As part of the effort to enhance information security capabilities via the

BeiDou Navigation Satellite System<sup>9</sup>, my firm is in prime position to benefit” (Firm Survey).

With well-defined policy goals and active participation of firms, the Belt and Road Initiative is a major cornerstone of the Xi administration’s plan to increase China’s presence globally. But how is it being implemented on the ground? To answer this, I turn to examine the China Pakistan Economic Corridor.

### **3.1. The China Pakistan Economic Corridor**

The China Pakistan Economic Corridor (Figure Two), launched with a signing ceremony in Islamabad on 20 April 2015, is the flagship project of the BRI to date (Lim 2017). It aims to construct an economic corridor from Kashgar, Xinjiang in the north to Gwadar, Balochistan in the south, building highways, railways, ports, and power plants. The CPEC is important for both China and Pakistan<sup>10</sup>. For China, it connects Kashgar, a strategic city in its Western region, with the port of Gwadar in Southern Pakistan on the Arabian Sea, serving as a gateway to the Middle East, Central Asia, and beyond. For Pakistan, it ushers in a large amount of FDI, addressing critical areas such as energy capacity, infrastructure, ports, and public transportation. Moreover, the significance of the CPEC transcends Sino-Pakistan relations, not only impacting South

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<sup>9</sup> The BeiDou Navigation Satellite System is the Chinese government’s project to create a global satellite system to rival the U.S. government’s Global Position System (GPS). The first satellite was launched in October 2000, and currently 22 satellites are in orbit. When completed, it will consist of 35 satellites.

<sup>10</sup> According to the 2016 Statistical Bulletin, China’s outward FDI flows into Pakistan for 2016 were \$5.1 billion, putting Pakistan in the top 20 destination countries along with other major destinations such as the U.S., the U.K., and Germany.



Asia more broadly given Pakistan's location, but also having a global impact due to a rising China. To analyze these geographical connections and implications, I construct a connectivity framework focusing on place and positionality.



Figure Two: The China Pakistan Economic Corridor (Source: Author and Matt Zebrowski)

First, consider place. Agnew (1987) argues that place is the nexus of the structuring of social relations. According to him, place has three aspects: locale, the settings within which social relations are constituted; location, the relative location of the geographical territory encompassing these social relations; and sense of place, a felt sense of what life is like at a particular time and place. Here I examine Pakistan as the place shaping the social relations within which Chinese investments are being materialized. Situated in South Asia, with India to its East, the Arabian Sea to its South, Iran to its West, Afghanistan to its Northwest, and China to its North, Pakistan offers China a platform into South Asia and the Arabian Sea (see Figure Two). With a population of 208 million, it is the world's fifth largest country and second largest Muslim

country. Much of the population resides in the country's four provinces—Punjab, Sindh, Khyber Pakhtunkhwa, and Balochistan—whereas its four territories—Gilgit Baltistan, Islamabad Capital Territory, Azad Kashmir, and Federally Administered Tribal Areas—are sparsely populated by comparison. Due to its large population, Pakistan's GDP measured by purchasing power parity ranks 26<sup>th</sup> in the world at \$986 billion. But its GDP per capita is only \$5,100, ranking 171<sup>st</sup>. China by comparison ranks 106<sup>th</sup>, with a per capita GDP of \$15,400 (World Factbook 2017).

Pakistan faces chronic energy shortages: over 140 million Pakistanis (out of 208 million) either have no access to the power grid or suffer from over 12 hours of load shedding daily (Dawn 2016). It thus has an enormous need for energy-generating projects. There are fifteen projects in the CPEC to address this critical area, mainly coal power plants, hydropower stations, and wind turbines. Here I present three illustrative examples. First are three 330 megawatts coal power plants underway in Thar Block II, Sindh province, costing \$2 billion, and expected to be completed by June 2019. Second are two 660 megawatts coal power plants in Port Qasim, Sindh province, costing \$1.98 billion. Construction started in May 2015, and the expected commercial operation date is June 2018. Third is the Suki Kinari Hydropower Station underway in Naran, Khyber Pukhtunkhwa province, costing \$1.8 billion. Land acquisition was announced in November 2016, and it is expected to generate 870 megawatts of electricity when it becomes operational in 2021 or 2022.

These energy projects are supplemented by massive infrastructure projects, underway or planned, to build highways and upgrade existing rail lines. The most

expensive project in the CPEC to date is the \$8.17 billion project to upgrade and expand the country's biggest rail line, Main Line 1, that connects Peshawar in the north to Karachi in the south. When completed, it will enable speeds of up to 140 km per hour, from 105 km per hour currently. Another large infrastructure project is the Peshawar-Karachi Motorway, a 1,100-km toll highway also connecting the north and the south. Costing \$2.98 billion, construction started in August 2016 with an expected finished date of April 2018.

Another signature CPEC project is the Gwadar Industrial Economic Zone project, connecting Gwadar Port in the south of Pakistan with Kashgar, Xinjiang in Western China (Perveen and Khalil 2015). The Gwadar project would further secure China's petroleum supplies, enabling easier access to Iranian and Middle Eastern oil and reducing its reliance on routes through the Strait of Malacca. The China Overseas Port Holding Company was awarded contractual rights from the Pakistani government to expand the Gwadar Port, holding a 44 years lease from 2015-2059. Its plans are underway to construct nine additional berths along 3.2km of seafront to the east of the four existing berths, bringing the total to thirteen. Other projects include the Gwadar East-Bay Expressway, with a \$141 million budget, connecting the Gwadar Port with the Mekran Coastal Highway, and thus the port with the national highway network and smoothing transportation cargos to and from the port. Construction is underway for the New Gwadar International Airport, with a budget of \$230 million. When completed, it will provide an additional air transportation option to ground and water transportation options.

These investment projects to address energy shortages, build infrastructure, and expand Gwadar leverage China's strengths in building power plants, highways and railways, and ports (Yu 2017). With a track record of developing physical infrastructure domestically and abroad since its economic reforms and opening in 1978, China is keen to help Pakistan modernize its infrastructure and increase its energy capacity through the CPEC because this offload and relocates excessive domestic production capacity abroad. Pakistan provides a new market for China's excessive infrastructure and energy capacity, in other words. Investing in Pakistan can also help forge stronger bilateral ties and deepen economic integration with a strategic Asian neighbor. Pakistan as a place thus provides the context in which Chinese investments are being materialized. Its need for energy and infrastructure and location, align well with China's strengths and economic and foreign policy goals.

Second, consider socio-spatial positionality. Positionality calls attention to how the development of a place is not entirely dependent on local policies and "place-based" attributes, but also on how these "place-based" factors interact with distant policies and attributes in other places. Here I examine two key issues in the CPEC illustrating the relevance of positionality: finance and security issues. Originally estimated at \$46 billion, the CPEC budget has increased to \$55 billion (Alam et al. 2017; Hussain 2017). The nature of the financing results in a lack of transparency and causes Pakistan repayment problems, issues I analyze below. Additionally, insurgent groups create major security problems for the implementation of CPEC projects. These terrorist groups are non-state organizations that are differently positioned than the Pakistani and the Chinese state,

whose activities in Pakistan in general and their aggression toward the CPEC in particular stand to shape the overall success of the corridor.

The China Pakistan Economic Corridor is officially hailed by both the Pakistani and the Chinese government as a foreign direct investment project. A bulk of the financing, however, entails the Pakistani government taking out concessional loans from the Chinese government (Lim 2017). Infrastructure and transport projects are financed entirely by long term concessional loans, mostly from the Import-Export Bank of China (Alam et al. 2017). Energy projects involve a combination of FDI and borrowing from Chinese financial institutions, such as the Asian Infrastructure and Investment Bank (Dadwal and Purushottaman 2017). Other projects, such as the Gwadar Economic Industrial Zone project, involve private domestic financing and government concessional borrowing (Hussein 2017). The exact percentage constituting as FDI relative to loans in the current budget is not known given the information available. There is, however, a general agreement in the literature that loans, and not FDI, make up much of the financing (Lim 2017; Alam et al. 2017; Dadwal and Purushottaman 2017).

To alleviate the cost of repayment, CPEC projects have been divided into short, medium, and long-term groups, to be completed by 2020, 2025, and 2030, respectively. Thus, instead of having to pay for all the projects at once, the Pakistani government would do so in manageable tranches. However, the Pakistani government will still face difficulties of repayments given the high cost of the projects. A report from the International Monetary Fund estimates that Pakistan will face long term balance of payment outflows mainly in the form of loan repayment, peaking at about \$3.5-\$4.5

billion in 2024 and 2025 (Alam et al. 2017). Hafiz Pasha and Ashfaq Hassan, two former high-level finance ministry officials, estimate that CPEC loans will add \$14 billion to Pakistan's total public debt, raising it to \$90 billion by 2019 (Hussein 2017).

Another major concern regarding finance is issues of transparency and accountability. Many details of the projects are not made available to the public, known only to select high-level Pakistani and Chinese personnel. This lack of transparency means that important issues such as cost efficiency and economic viability cannot be properly analyzed by the public and the scholarly community. Dadwal and Purushottaman (2017) claim that several CPEC energy projects have been shelved due to poor planning and on grounds of being technically unfeasible, with several more delayed due to intergovernmental disputes. Prominent Pakistani observers—journalists, economists, and bankers—have raised concerns that the CPEC may be heavily skewed in favor of China as the bulk of the projects are contracted out to Chinese state-owned enterprises that import equipment and employees from China, with little to no partnering with Pakistani corporations (Venkatachalam 2017). These observers also point out that many Chinese state-owned enterprises are known for inefficiency and poor execution abilities, leading to substandard projects and cost overruns.

Security issues caused by terrorist and insurgent groups present additional barriers toward implementing CPEC projects on the ground. The success of constructing power plants, railways, and highways will depend significantly on whether the Pakistani government can ensure the safety of workers and engineers working to complete these projects. Amongst the most pressing security risk comes from the Pakistani Taliban, a

non-state organization whose objectives are to overthrow the Pakistani state<sup>11</sup> and to introduce Sharia law in the country. The Pakistani Taliban—formally known as Tehrik-i-Taliban—is a separate organization from the Afghan Taliban (the Islamic Emirate of Afghanistan), but the two are allies. Since the former’s formation in December 2007, it has caused tremendous volatility to the Pakistani economy and society through various attacks. In August 2017, it carried out a suicide bombing that killed 70 and injured at least 120 in Quetta, the capital of Balochistan. This incident highlights security risks associated with implementing CPEC projects from the Pakistani Taliban given that Balochistan is the location of Gwadar Port, the southern terminus of the CPEC.

Another security concern comes from Balochistan insurgent groups. Operating independently, these are ethnic separatist political and military organizations fighting the Pakistani government for an independent Balochi state. Balochistan, roughly the size of France and the largest of Pakistan’s four provinces, has enormous reserves of gas, gold, copper, oil, and uranium. Its seven million inhabitants mainly belong to the Baloch ethnic group, as opposed to the majority Punjab ethnic group that make up the bulk of Pakistan’s population. Balochis have long complained they do not receive a fair share from the central government in Islamabad in the latter’s allocation of state resources to provinces and territories, triggering this regional insurgency.

One of the most prominent of these groups, the Balochistan Liberation Front, has carried out a direct attack on a CPEC project. In 2015, gunmen killed twenty laborers working on a highway to Gwadar Port. The organization’s leader Dr. Allah Zazar ordered

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<sup>11</sup> The Pakistani intelligence agency Inter-Services Intelligence (ISI) has supported the Pakistani Taliban for various reasons, but this is beyond the scope of this paper.

the attack to demand that “all those multinationals trying to settle and steal the resources of Balochistan on behalf of colonial empires [China] to cease their activities” (Zurutuza 2015). A separate group, the Balochistan Liberation Army, also views the CPEC as an occupation of Baloch territory. Its gunmen killed ten construction workers working on a CPEC project in Gwadar in May 2017. One of its spokesperson Jeander Baloch stated “this conspirational plan [the CPEC] is not acceptable to the Baloch people under any circumstances” (Al Jazeera 2017). The Balochistan Liberation Front and the Balochistan Liberation Army are the strongest and most prominent, but the Balochistan Republican Army, the Lashkar-e-Balochistan, and the Jhalawan Baloch Tigers are also active insurgent groups in the region. In response, the Pakistani government has deployed 15,000 military personnel to protect workers, consisting of the Special Security Division and the Maritime Security Force (Raza, 2017). Under the supervision of the Interior Ministry and in coordination with local provinces, the former provides security to land-based projects whereas the latter safeguard the Gwadar port and other coastal areas.

Key CPEC actors such as non-state insurgent groups, the Pakistani and Chinese state, Chinese firms, and the Pakistani public have different positionalities, whose interactions with each other shape how CPEC is formed and materialized. Particularly, the actions of the differently positioned Pakistani Taliban and various Baloch insurgent groups stand to contest the generality and normative function of the dominant positionality constructed by the Pakistani and Chinese states about the CPEC. Similarly, the Pakistani public faces difficulties holding Chinese firms accountable for their projects, given the lack of financial transparency. Furthermore, the Pakistani government taking



out of concessional loans from the Chinese government, together with its repayment issues, continually reenact the two sides' already asymmetric positionalities with respect to the China Pakistan Economic Corridor.

#### **4. Conclusion**

The BRI is China's most ambitious global expansion strategy, seeking to increase investment across the Eurasian corridor. The CPEC is its flagship project, aiming to integrate Kashgar, Xinjiang in the north with Gwadar, Balochistan in the south by building highways, railways, and power plants. The significance of the CPEC transcends Sino-Pakistan relations, not only impacting South Asia more broadly given Pakistan's location, but also shaping regions beyond South Asia due to a rising China. To analyze these geographical implications, I suggest a connectivity approach focusing on place and positionality.

Chinese investment into Pakistan show that China is leveraging its strengths in infrastructure development and energy generation to build highways, railways, dams, and power plants abroad. Pakistan, in terms of place, provides the context for which Chinese investments are materialized, a place that face immense energy shortage and has woefully inadequate infrastructure. In other terms, Pakistan's need for energy and infrastructure and location aligns well with China's strengths. But security threats from non-state organizations present a significant barrier toward successfully implementing these projects. Non-state organizations such as the Pakistani Taliban, the Balochistan Liberation Front, and the Balochistan Liberation Army stand to shape the success of the

CPEC. Moreover, the lack of financial transparency and repayment issues cause further concerns about the CPEC's overall feasibility.

These factors reveal a set of uneven power relations, the nature of which do not simply operate from the top down in a hierarchic way. Power contestations between firms, governments, and other actors are occurring on the ground, creating dynamic and ever shifting relations. Chinese TNCs face various problems implementing projects on the ground. Similarly, the Chinese government's goal to boost its influence in South Asia via the CPEC is not certain. Moreover, the Pakistani government's aim to use the CPEC as a 'game changer' to develop Pakistan remains to be determined. Due to space constraints, this paper is limited to the CPEC. The connectivity approach conceptualized here, however, can be useful to investigate the BRI's other five economic corridors, paying attention to geographical connections and relations. Doing so can uncover more aspects of the Initiative, what it means for China, host countries, and the international community.

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# Paper Three. The Golden State: Chinese investment in California at the state and the metropolitan scale

**Abstract:** Chinese firms face substantial challenges investing in the U.S. They not only lack advanced technological and managerial assets, but they are also not familiar with the U.S.'s regulatory and legal systems. Despite these barriers, Chinese investment has increased noticeably in recent years. This is reflected in California, the U.S.'s most developed state. It has attracted the most investment out of all the 50 states and its key metropolitan regions, San Francisco, and Los Angeles, are sizable destinations. Despite these patterns, the literature on Chinese investment in the U.S. has almost entirely confined itself at the national scale of analysis. This paper indicates a need to investigate investment at the state and the metropolitan scale, using California as a case study. It does so by drawing from geographical writings of scale, examining the relationship between economy and geographical scales. Drawing from fieldwork in Beijing and other primary sources, it notes the changing importance of subnational scales for Chinese investment in California. It finds that certain economic, political, and cultural forces at the state and the metropolitan scale create strategic choices for Chinese firms to mitigate challenges they face. Choices include purchasing firms in competitive sectors, working with state and city officials, and utilizing local business organizations.

**Keywords:** *Scale, California, United States, Chinese overseas investment, state, municipalities*

## 1. Introduction

Firms from China face substantial barriers and challenges investing in the U.S. Their challenges stem from investing in an economy whose regulatory and legal systems that differ vastly from China's. Similarly, Chinese transnational corporations (TNCs) lack advanced technological and managerial assets. Moreover, they must compete with American firms, many of which are established corporations familiar with the domestic market. Despite these obstacles, Chinese outward foreign direct investment (FDI) into the U.S. has increased noticeably in recent years. This is reflected in California, the U.S.'s most developed state. As now the world's fifth largest economy (Associated Press 2018), California offers Chinese TNCs a huge consumer market, a solid transportation infrastructure with busy ports and airports, and a talented work force shaped by world class universities like UC Berkeley, Stanford, and UCLA.

Chinese outward FDI into California aligns with larger patterns in its overseas investment into the U.S.: starting off small, it has increased steadily over the past decade. Out of the 50 states, California has attracted 22% of cumulative Chinese investment into the U.S. at the end of 2017 (Rhodium Group 2018), making it the largest destination for Chinese firms. More than 95% of this investment is in the greater San Francisco, Los Angeles, and San Diego metropolitan regions (Hanemann 2017), making these metropolitan regions vital destinations for Chinese capital. Despite these trends, the literature on Chinese FDI in the U.S. has nonetheless focused almost exclusively on the national scale, neglecting sub-national scale analysis. To advance the literature, this work goes beyond the national scale by examining investment at the state and the metropolitan scale. Geographical writings on *scale* can be helpful for this purpose. Scholars writing about scale are concerned with analyzing the relationship between economy and geographical scales, ranging from the body to the global (Sheppard 2002, 2016). This paper thus utilizes the concept to investigate Chinese investment in the U.S. and California. I ask: What makes California attractive to Chinese TNCs at the state and the metropolitan scale? What can analyzing investment in California at subnational scales reveal about Chinese investment at the national scale in the U.S.?

Answers to the above questions are disclosed by investigating how certain factors and forces within California and its metropolitan regions interact to shape Chinese investment. Section Two summarizes the scholarly literature on Chinese FDI in the U.S., illustrating how this literature has largely confined itself to national scale analysis. This section also provides a methodology describing where and how data was



collected. Section Three begins with an overview of investment into the U.S., discussing common challenges Chinese firms face in the American economy. I then turn to discuss investment in California in Section Four, investigating key economic, political, and cultural forces shaping Chinese firms at the state and the metropolitan scales. The conclusion ties together the main findings and reflects on the merits and limitations of using a scalar framework to analyze investment in the U.S.

## **2. Literature Review and Methodology**

The literature on Chinese investment in the U.S. has mainly confined itself to the national scale of analysis, examining regulatory issues, macro investment climate, and economic impacts. First, works on regulatory topics tackle issues of reciprocity and national security (Fagan 2009; Frye and Pinto 2009). Milhaupt (2009) asks whether Japanese investment into the U.S. in the 1980s can serve as a lesson for Chinese firms. He indicates similarities between Japanese investment then and Chinese investment now, highlighting overlaps of a huge trade deficit, exchange rate friction, and reciprocity issues. An underlying friction was a perception in the U.S. that while the American economy was open to Japanese firms, U.S. firms face substantial barriers investing in Japan. Similarly, many U.S. officials and business persons today feel that while Chinese firms are welcome in the U.S., American firms face more challenges in China. Studies emphasizing national security revolve around the impact of the Committee on Foreign Investments in the United States (CFIUS). Dollar (2017) argues that CFIUS has a huge impact in shaping Chinese investment, highlighting cases in which the committee has

recommended or pressured the White House to issue executive orders to block specific deals or projects. Moreover, there have been several instances in which Chinese firms have pulled out of ongoing deals due to their perception that CFIUS may require them to go through a lengthy and costly process to get the deal approved.

Scholarship on the macro investment climate centers around how Chinese firms navigate the U.S.'s investment climate, case studies being key (Bell 2008; Luo et al. 2011; Yao et al. 2017). Wu et al. (2011) find that Huawei and Haier, one of China's biggest telecommunications and household appliance firms, respectively, have varying degrees of success in the U.S. because of their respective firm strategies. Haier was more successful due to better public relations management. Zeng and Williamson (2003) dive further into Haier's strategy, asking how has it been successful in the U.S. context. They argue that the firm made a crucial strategy— sidestepping market leaders like GE and Whirlpool— when it first entered the U.S., one that paid off tremendously later. Another celebrated case study is Lenovo, one of China's biggest computers and electronics manufacturing firms. Liu (2007) writes about the firm's famous purchase of IBM's personal computing division for a then record \$1.25 billion in 2004. He claims the deal was successful because Lenovo thought clearly and systematically about the purpose of the acquisition, the follow up strategies, and the measures to counter possible risks.

Third, studies of the economic impact of Chinese investment in the U.S. center around the mode of entry, analyzing the impacts of mergers and acquisitions relative to greenfield investment (Hong and Sun 2004; Morck et al. 2008). Globerman and Shapiro (2009) find that the bulk of Chinese investment in the U.S. is via mergers and acquisitions

rather than greenfield investments, arguing there is no conclusive evidence that the latter benefit the American economy more than the former. Morck et al. (2008) likewise caution U.S. policy makers not to discriminate against Chinese firms engaging in mergers and acquisitions over greenfield investments.

This literature has done a solid job analyzing regulatory issues, macro investment climate, and economic impacts. But they do so by examining these issues nationally as opposed to investigating these issues at the state and the metropolitan scale. To address this gap, I draw from geographical conceptualizations of *scale*. Geographers utilize scale to analyze the relationship between economy and geographical scales (Marston 2000; Brenner 2001; Marston et al. 2005; Escobar 2007). They do so by attending to the production of new scales, the shifting relations between scales, and the changing importance of different scales (Sheppard 2016). The formation of territorial units such as the European Union and the Association of Southeast Asian Nations are examples of the production of new scales, their formations having a profound impact on the respective economies in Europe and Southeast Asia. Elsewhere, Su (2012) argues that the Chinese state has constructed a new geographical scale by more closely integrating its Yunnan province with Laos and Myanmar to form the Greater Mekong River Delta region. The shifting relations between scales are illustrated by geographers showing how global scale processes impact, but are also impacted by, events at the local scale (Smith 1992; Leitner 1997; and Harvey 2000). Brenner (2001) writes about the changing importance of different scales through examining Western European state projects and strategies. He argues that the national scale is still the dominant scale at which state projects and

strategies are conceived and implemented, but higher and lower scales above also have a critical impact. The underlying thread binding these works together is that geographic scales, rather than being conceptualized as given attributes of the economy, are instead theorized as co-evolving with it. This paper attends to the relationship between economy and geographical scales by focusing on how the changing importance of different scales—at the state and the metropolitan scale—mold Chinese investment in California.

### **2.1. Methodology**

I draw from a firm survey, interviews, and other primary data for this work. The firm survey and interviews come from a year's worth of fieldwork in Beijing from 2015-2016. I designed and implemented a survey of a group of Chinese TNCs managers, asking them questions about investing in the U.S. I also conducted 46 semi-structured interviews with various leaders and managers in Chinese TNCs, asking about their firms' operations in the U.S. To supplement my fieldwork data, I collected other primary data. The Rhodium Group and the Paulson Institute, research consultant groups based in New York and Chicago, respectively, provide open-source websites<sup>12,13</sup> with extensive data on Chinese investment in the U.S. at subnational scales. I also draw from the California Governor's Office of Business and Development, a useful state source detailing FDI figures into California, including China's. I also contacted staff from two municipals organizations, the Los Angeles County Economic Development Corporation and ChinaSF, for data their organizations have collected on Chinese investment into the greater Los

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<sup>12</sup> Rhodium Group, China Investment Monitor <<http://cim.rhg.com/interactive/china-investment-monitor>>

<sup>13</sup> Paulson Institute, Macro Polo Organization <<https://macropolo.org/know-the-numbers/>>

Angeles and San Francisco regions, respectively. While these organizations have different collection and categorizing methods, they nevertheless provide rich data at the state and the metropolitan scale. To address methodological differences, I cross-referenced each data set with each other as well as with my survey and interview data. Doing so enabled me to draw from a range of data, constructing as comprehensive yet accurate representation as possible. With the above literature and methodological issues in mind, I now turn to investigating FDI in the U.S. and California.

### **3. Investment in the U.S.**

Chinese FDI in the U.S. started off small and has increased steadily over the years (Hanemann and Rosen 2016). With a modest FDI flow of \$0.07 billion in 2000, it increased to \$29.4 billion in 2017. In terms of FDI stock, it swelled from \$0.07 billion to \$138.1 billion from 2000 to 2017 (Rhodium Group 2018). The most popular American sectors for Chinese capital are Information and Communications Technology (ICT), Real Estate and Hospitality, Energy, Entertainment, and Agriculture and Food. Behind these numbers lie some noteworthy geographic patterns. From 2000 to 2007, with a few exceptions in Michigan and Texas, investment in the U.S. was almost entirely concentrated on the east and the west coast. From 2008 to 2017, investment has been expanding in the coastal metropolitan regions, but investment has also expanded to the Midwest, in Michigan, Ohio, and Illinois. Investment for natural resources and energy has appeared in Wyoming, Oklahoma, and Texas. The Pacific Northwest and the South have started attracting capital during this period also.

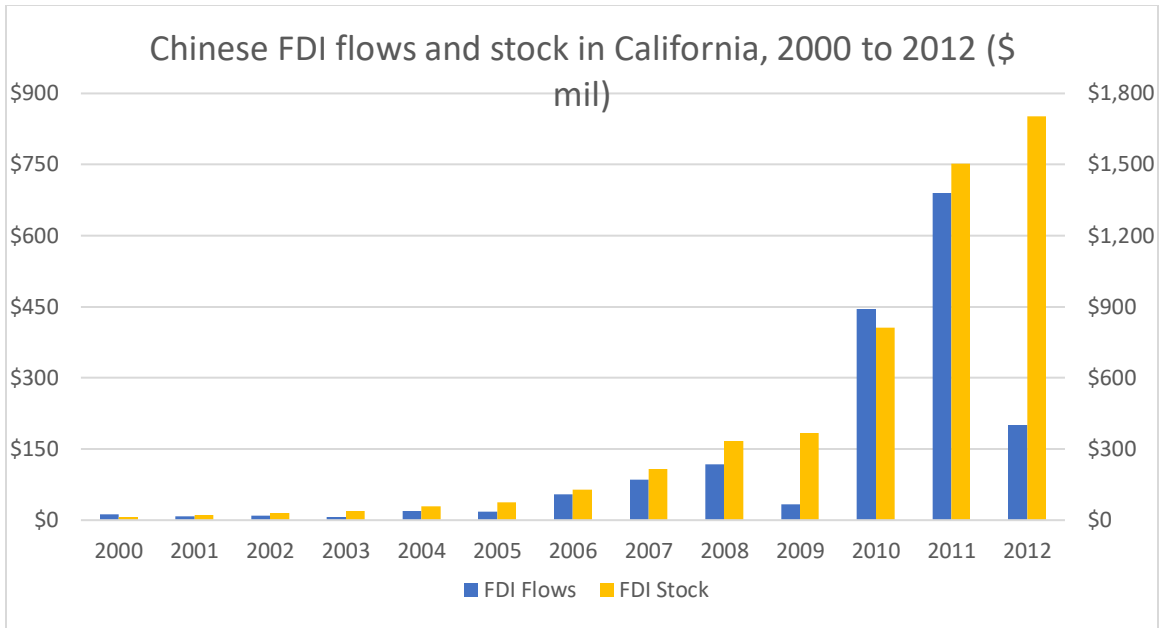
Despite these increases, Chinese firms face serious challenges and barriers in the U.S. A common issue my interviewees articulate when asked about investing in the U.S. is their lack of experience, talking at length about the problems when doing business in the American economy for the first time. A director in a large conglomerate explains: “Chinese entrepreneurs and managers don’t have a firm understanding of the business environment— legal system, corporate culture, and general rules— in mature economies like the U.S. They are not familiar with dealing in mature economies, ones growing at 2% to 3%” (Personal Interview 14, Beijing 2016). A director in an architecture and design firm makes a similar observation, stating: “Chinese firms are going abroad in the U.S. in sizable numbers for the first time in recent years, they are going to make some mistakes. When something is new, there are bound to be uncharted territory” (Personal Interview 3, Beijing 2016).

Another common challenge, according to my interviewees, is a lack of trust. The perceived lack of trust stems from multiple factors. A manager explains: “the lack of knowledge of Chinese culture often makes Americans skeptical of Chinese companies. They also fear that Chinese state-owned enterprises are not independent business-wise from the government. Many deals abort because of lack of trust” (Personal Interview 20, Beijing 2016). A recent example is the U.S. government blocking a deal for Alibaba’s Ant Financial to acquire MoneyGram, a money transfer company, in January 2018. According to Reuters, the government cited national security concerns that financial information of U.S. citizens would be in Chinese hands (Roumeliotis 2018). Another manager makes a similar comment, stating: “many American officials

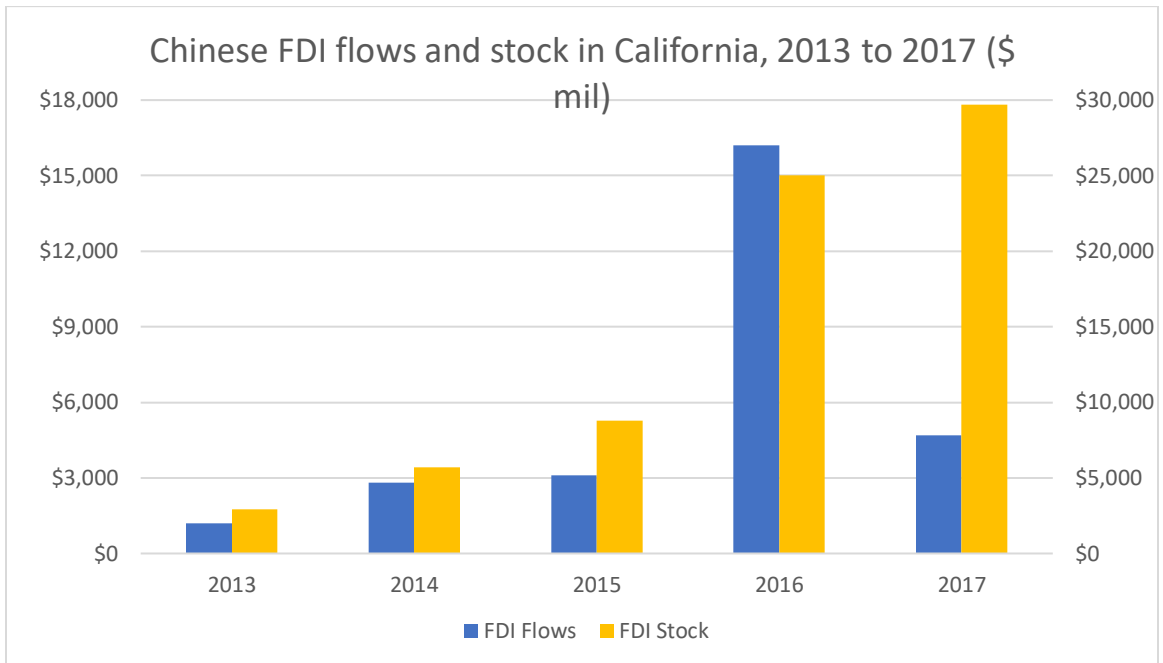
don't trust Chinese investors. A big factor is well deserved. Some Chinese businessmen don't play by the rules and many private investors are indeed connected to the government in one form or another. This is not totally baseless anti-China sentiments" (Personal Interview 23, Beijing 2016). How to make sense of these macro trends and issues? I suggest that analyzing investment at the state and the metropolitan scale can be helpful.

#### **4. Investment in California**

Like the U.S., investment in California has increased rapidly in recent years (Rosen and Hanemann 2012; Guerra 2014; Hanemann 2017). China's FDI flows in California was \$13 million in 2000, increasing to \$4.7 billion in 2017. Its FDI stock increased from \$13 million to \$29.7 billion during 2000 to 2017, making California the top destination for Chinese capital (Rhodium Group 2018). More noticeably, there has been a huge surge of investment in recent years (Figure 1A and 1B). From 2000 to 2012, annual investment ranges from \$7 million (in 2003) to \$690 million (in 2011) (Figure 1A). From 2013 to 2017, it has increased dramatically, ranging from \$1.2 billion (in 2013) to \$16.2 billion (in 2016) (Figure 1B). The increase can be attributed to several mega mergers and acquisitions deals, such as HNA Group's \$6 billion purchase of Ingram Micro, and Wanda Dalian's \$3.5 billion purchase of Legendary Entertainment (more details below).



**Figure 1A: Chinese FDI in California, 2000-2012 (\$ mil) (Source: Rhodium Group, China Investment Monitor)**



**Figure 1B: Chinese FDI in California, 2013 to 2017 (\$ mil) (Source: Rhodium Group, China Investment Monitor)**

Figure 1B also show a noticeable reduction of annual investment from 2016 to 2017, from \$16.2 billion to \$4.7 billion. In August 2017, China’s State Council circulated a national directive to firms to tighten capital outflow, and ordered the national banks to



tighten credit and loans to firms seeking to invest abroad (China State Council 2017). The directive suggested that firms restrict investment in real estate, hotels, entertainment, and sports clubs, calling these ‘irrational sectors’. This directive decreased overall investment internationally, and California was no exception. For example, the plunge was clearly reflected in California’s entertainment sector. After the directive went into effect, new investment into the sector decreased from \$3.6 billion in 2016 to \$20 million in 2017, and pending deals to purchase Voltage Pictures, Dick Clark Productions, and Millennium Films collapsed. Despite this decrease, the overall trend of investment into California has been positive for the past decade. This general increase is a result of large mergers and acquisitions rather than greenfield investments: recently there has been a large volume of Chinese firms purchasing Californian firms via mega deals.

These investments can be further unpacked through a quantitative analysis. Here I use shift share analysis to analyze the nature of investment into California relative to the U.S. for 2013 to 2017. As explained above, Chinese investment into California increased rapidly after 2013. Studying the most recent five-year period thus provides an illustrative snap shot of the latest patterns. Shift share analysis is a standard quantitative method used to partition what portion of economic growth— such as employment, wages, investment, or other economic variables— is explained by national share, industry mix, and regional shift (Loveridge 1995). National share measures how much increased investment in a local region can be attributed to investment growth in the national economy during the period of analysis. Industry mix identifies relatively fast or slow growing sectors in a local region, by applying the national growth rates for individual

sectors. Regional shift, perhaps the most important component for this paper, compares a local region's sectoral growth rate with that for the same sector at the national scale, to identify sectors that performed disproportionately at the regional scale. Here, national share measures how much Chinese investment in California increased due to growth of Chinese investment into the U.S. Industrial mix identifies fast or slow growing Californian sectors based upon national growth rate for individual sectors when it comes to Chinese FDI. Regional shift highlights California's leading and lagging industries in attracting Chinese investment, by comparing the state's growth rate in a sector with the growth rate for that same sector at the national scale.

Based on this analysis (Table 1), the top three leading industries—defined in terms of regional shift—attracting Chinese investment in California (2013-17) are Transport & Infrastructure, Entertainment, and ICT. The attractiveness of the Transport & Infrastructure sector is almost entirely attributed to one single investment. In 2016, HNA Group, the parent company of the popular airline Hainan Air, purchased Ingram Micro, an information logistics firm in Irvine, for \$6 billion, largely accounting for the sector's cumulative investment in California of \$6.03 billion from 2000 to 2017. Excluding the HNA Group investment, this sector attracted only \$0.03 billion (\$30 million) from Chinese firms. California's Entertainment sector also has one deal that inflates its apparent attractiveness. In 2016, Wanda Dalian bought Legendary Entertainment in Burbank for \$3.5 billion. The Entertainment sector's cumulative investment is \$3.95 billion, so all other investment amounts to only \$450 million. However, there is no single mega investment in the ICT sector to inflate its attractiveness. Table 1 shows that while

Chinese investment into California’s ICT sector is attributed in part to rising investment into the U.S.’s ICT sector (national share of \$2.9 billion) and the industry’s overall national growth (industry mix of \$0.66 billion), it is mainly California’s ICT sector that is responsible for attracting Chinese firms to the state (regional shift of \$3.6 billion).

| Industry Sectors            | National Share | Industry Mix | Regional Shift | Total Change in Investment |
|-----------------------------|----------------|--------------|----------------|----------------------------|
| Agriculture & Food          | \$203          | -\$200       | \$151          | \$154                      |
| Automotive                  | \$134          | -\$22        | \$195          | \$307                      |
| Aviation                    | \$146          | -\$134       | \$39           | \$50                       |
| Basic Materials             | \$94           | -\$59        | -\$32          | \$3                        |
| Consumer Prod. & Serv.      | \$409          | \$714        | -\$1092        | \$31                       |
| Electronics                 | \$154          | \$790        | -\$85          | \$859                      |
| Energy                      | \$752          | -\$707       | \$24           | \$69                       |
| Entertainment               | \$94           | -\$15        | \$3833         | \$3913                     |
| Finance & Bus. Serv.        | \$438          | \$872        | \$252          | \$1561                     |
| Health & Biotech            | \$824          | \$795        | \$364          | \$1982                     |
| ICT                         | \$2923         | \$657        | \$3593         | \$7172                     |
| Ind. Machinery & Equip      | \$43           | -\$28        | \$12           | \$27                       |
| Real Estate & Hospitality   | \$2102         | \$5270       | -\$2712        | \$4660                     |
| Transport & Infrastructure  | \$80           | \$708        | \$5212         | \$6000                     |
| Total Industrial Investment | \$8396         | \$0          | \$18392        | \$26788                    |

**Table 1: Shift Share Analysis of California’s Leading and Lagging Sectors, 2013-2017 (in \$mil) (Source: Rhodium Group, China Investment Monitor)**

California’s top three lagging sectors in attracting Chinese FDI, also shown in Table 1 (regional shift figures), are Real Estate & Hospitality, Consumer Products & Services, and Electronics. The Real Estate & Hospitality sector’s national share and industry mix are \$2.1 billion and \$5.27 billion, respectively, but its regional shift is negative \$2.71 billion. Put otherwise, Chinese investment into California’s Real Estate & Hospitality sector is due to growing investment into the sector in the U.S. and to the national sector’s overall growth. It is not a surprise that the ICT sector is one of the state’s most attractive sectors given the presence of Silicon Valley. However, it is

puzzling to see the Real Estate & Hospitality sector as California's least attractive industry. Although Chinese firms have purchased assets such as the Los Angeles Marriott, the San Francisco Westin St. Francis, and the Ritz-Carlton Laguna Niguel in Orange County, this Californian sector is not as attractive as that of other states. These investments indicate the changing importance of different scales: Chinese investments in the U.S. are shaped by investments made at subnational scales. To further understand this, I propose a need to investigate how key economic, political, and cultural factors at these scales interact to shape Chinese investment.

First, consider economic factors. California is the largest state market in the U.S. and it serves as the principal gateway to the rest of the American economy. But besides its sheer economic size, there are specific components in the Californian economy that Chinese corporations target (Rosen and Hanemann 2012). As my interviewees articulate, Chinese TNCs lack talented staff with overseas experience. The Californian economy provides a deep endowment of human talent. For example, its world-class universities produce some of the U.S.'s brightest graduates in the Science, Technology, Engineering, and Math (STEM) field. According to a report that takes data from U.S. News and World Report's annual ranking of U.S. colleges and universities, three California institutions—Stanford University, the University of California, Berkley, and California Institute of Technology (Cal Tech)—rank in the top five for technology education (White 2017). This labor pool is one factor propelling Silicon Valley as the world's premier ICT hub, and attracting Chinese capital.

California's high-value-added manufacturing base also plays a role shaping investment from China. It offers Chinese businesses clusters of capital, hard and soft intellectual properties, and advanced production facilities. From these, Chinese firms can learn how to manage quality-intensive manufacturing processes to increase their production prowess at home and abroad. For example, according to *Wired*, BGI (formerly known as Beijing Genomics Institute), one of the world's largest genome research and manufacturing firms, bought Complete Genomics in Mountain View in 2013 to create the next generation of sequencing machines (Molteni 2017). It launched the BGISEQ-500 in 2015, a machine that can sequence an entire human genome at an affordable market price (\$600). BGI also has a lab in San Jose that employs just over 100 employees to develop more innovative sequencing technologies and machines.

Moreover, California's world-class service sector shapes Chinese investment. Chinese firms are playing catch-up in producing high-value services for final consumption by middle-to-high-income households. They are also belatedly seeking to absorb intermediate service capabilities to boost their primary and secondary activities. The state offers Chinese businesses world-class research and design services. For example, Wuxi PharmaTech, a leading Chinese pharmaceutical firm, purchased Abgent, one of San Diego's biggest biotech firms, in 2011. The deal boosted Wuxi PharmaTech's research capacity in neuroscience, cancer, and stem cells. These economic factors—a talented labor force, high-value-added manufacturing base, and world-class service sector—are highly sought after by Chinese TNCs eager to accelerate their internationalization process and become more competitive globally.

Second, consider political factors. The changing importance of different scales is shown through political initiatives at the state scale to attract Chinese capital. Governor Jerry Brown created the California Governor's Office of Business and Economic Development (GO-Biz) in 2012 to serve as the state's single point of contact for facilitating FDI into California. Headquartered in Sacramento, GO-Biz offers foreign investors permit streamlining, site selection, clearing regulatory hurdles, and expansion services. Through its Business Investment Unit, it also provides technical support, logistical assistance, and economic data, in addition to connecting investors with local government officials. While these services are available to all foreign investors, GO-Biz has taken specific measures to target Chinese firms. Working with the Chinese Ministry of Commerce, it created the California China Provinces Joint Working Group on Trade and Investment Cooperation in 2013 to expand investment collaboration between Californian and Chinese businesses through annual meetings, mutual visits, and exhibitions. Headquartered in Beijing, it specifically channels firms from its member provinces (Jiangsu, Inner Mongolia, Shanghai, Beijing, Shandong, Guangdong, Chongqing, and Hebei) to invest in California. These initiatives by GO-Biz to target Chinese firms show that state officials recognize the opportunities Chinese investment can create in California. They also point to successful initiatives taken at the state scale to lure Chinese businesses.

Third, consider cultural factors. According to Johanson and Vahlne (1977), cultural factors, or "psychic distance" in their terms, are important forces that shape FDI. Firms tend to invest in places with closer "psychic distance", shaped by language, religion,

kinship, and other cultural attributes. There are 4.21 million Chinese or people of Chinese ancestry out of 323 million people in the U.S., composing 1.3% of the population (American Community Survey 2016). This population is highly concentrated geographically, however. California has 1.54 million Chinese, making up 37% of the U.S.'s total Chinese population. California's sizable and geographically concentrated Chinese population is a factor shaping Chinese FDI, the local Chinese communities provide language and cultural ties for mainland Chinese business managers and directors who must move to California to oversee their firms' investment projects.

Additionally, certain business organizations play a role shaping the investments. The China General Chamber of Commerce-USA (CGCC) is the largest and most influential non-profit organization representing Chinese firms in the U.S. Their members include firms such as Air China, China Mobile, BYD, and other prominent Chinese TNCs. Founded in 2005, it aims to promote Chinese FDI in the states by connecting business and government leaders from both countries, organizing networking events, facilitating information and knowledge transfer, and hosting local community events. There are six regional office in the U.S., two of which are in California—New York, Houston, Chicago, Washington D.C., San Francisco, and Los Angeles. Indeed, CGCC-San Francisco and CGCC-Los Angeles are the largest organizations representing Chinese firms in Northern California and Southern California, respectively. Put otherwise, they play a vital role in facilitating investment in the state.

#### **4.1. Investment in California's Municipalities**

Of the 585 Chinese-owned establishments in California in 2016, 562 of these (96%) are in the greater San Francisco, Los Angeles, and San Diego metropolitan regions (Hanemann 2017). Chinese firms seek strategic assets by investing in these municipalities' established sectors, namely the ICT, entertainment, and health and biotech sectors. San Diego has an established health and biotech sector, the pharmaceuticals and biotechnology firms being particularly attractive. For example, a consortium composed of Shanghai Fosun Pharmaceutical Group, CEL Healthcare Fund, HOPU Investments, and Wuxi PharmaTech purchased Ambrx, a prominent biotechnology firm in the region in 2015. Los Angeles is home to Hollywood, one of the U.S.'s premier entertainment hubs. Chinese firms have invested a total of \$3.9 billion in this sector, making it one of the five biggest sectors for Chinese FDI in California (Rhodium Group 2018). Tencent, one of China's biggest telecommunications conglomerates, purchased Riot Games based in Los Angeles for \$400 million in 2011—the developer of the League of Legends, a popular multi-player video game with a worldwide fan base. The San Francisco metro area is home to Silicon Valley, the world's leading ICT hub. Alibaba has made several investments in the region, purchasing video game developer Kabam, e-commerce firms Shoprunner and Vendio, and messaging app TangoMe. Huawei has set up a research and development center in the area that employs more than 200 workers, and the search engine giant Baidu has an artificial intelligence lab in Sunnyvale.

This concentration of investments in San Diego, Los Angeles, and San Francisco demonstrates the importance of geographic scale: Chinese FDI in California is largely



shaped by investment made at the metropolitan/municipal scale. At this scale also, key economic, political, and cultural forces interact to shape the investments. In terms of economic factors, Chinese firms are attracted to metropolitan areas with a demonstrated competitive advantage, making the most of the agglomeration economies and relational assets associated with such sectors. Take the greater Los Angeles municipality as an example. This region has other sectors besides the entertainment industry that attracts Chinese capital. California's apparel and fashion industry is primarily concentrated in Los Angeles, creating a creative space for designers and manufacturers to work near each other. LA also is home to an established advertising industry that offers world-class marketing and public relations services. Additionally, the higher education, architectural and engineering, and financial service industries all attract capital from China. Overall, there are 190 Chinese-owned establishments in this region, generating 3,460 jobs and \$210 million in wages in 2016 (Hanemann 2017).

In terms of political factors, the Los Angeles County Economic Development Corporation (LAEDC) was created by Los Angeles city officials as a nonprofit organization to attract investment into Southern California. Located in Downtown Los Angeles, LAEDC provides free consulting services to large and small international investors in all sectors. Such services include expedited permitting, site selection and relocation, and referrals to public service agencies. Along with its sister unit, the World Trade Center Los Angeles (WTC-LA), it also organizes the 2018 Select LA Investment Summit, Southern California's premier international investment conference. While these two organizations provide services to all foreign investors, they have created specific measures to target

Chinese investment. They have participated in trade and investment missions throughout China since 2006, promoting the Southern California region in Beijing, Shanghai, Guangzhou, Shenzhen, and other Chinese cities (Guerra 2014).

With respect to cultural factors, the geographic composition of the Chinese population in key metropolitan regions play a critical role. Within California, there are 579,000 Chinese/Chinese-Americans in the Los Angeles metropolitan area and 500,000 in the San Francisco region, making up 38% and 32% of California's Chinese population, respectively (American Community Survey 2016). San Jose and San Diego are a distinct third and fourth place with 191,000 (12%) and 72,000 (5%) Chinese, respectively. This translates to Northern California, San Francisco and San Jose, having 44% and Southern California, Los Angeles and San Diego, having 43% of the state's total Chinese population.

This population composition has led to several prominent civil society organizations operating at the municipality scale to shape investment from China. An example is the American-Chinese Society, a platform that connects Chinese and American CEOs as well as leading officials and other community leaders. Based in Los Angeles, it has hosted community events (having collaborated with UCLA and USC), career panels, and networking events. It has also led business delegations to Shenzhen, Wuhan, Xian, Hefei, and Shanghai to promote California's investment opportunities. The Chinese CEO Organization is another important group. Based in Torrance, it provides business expansion and career advancement opportunities for its members. Many members are Chinese nationals who came to the U.S. after China's open-door policy in the 1980s for graduate study, stayed after graduation, and are now established American

citizens and business leaders. This group hosts investment delegation groups from China and arranges for them to visit local commercial establishments. It also sponsors legal, tax, and business management seminars for these delegations. In summary, the Chinese population in California is highly concentrated in its metropolitan regions. Within these regions, prominent and established civil society organizations are connecting Chinese business leaders with American leaders and officials to make California's municipalities a desirable place for Chinese FDI.

## **5. Conclusion**

Despite their difficulties in the U.S., Chinese firms have steadily expanded their presence in recent years. This is reflected in investment increases in California, the most important state for Chinese FDI. Findings here indicate that the changing importance of subnational scales—the state and the metropolitan scale—play a critical role shaping investment in California. More particularly, the findings show how economic, political, and cultural factors at these scales create strategic choices for Chinese firms to counter challenges stemming from a lack of trust and experience. Economically, Chinese firms have invested in California's established sectors. For example, the ICT sector is one of the state's most competitive sectors for Chinese capital. Politically, state and metropolitan initiatives also shape Chinese FDI. For example, the California China Joint Provinces Working Group on Trade and Investment Cooperation was created by Californian and Chinese officials to channel investment from participating provinces to California. Culturally, business groups at the metropolitan scale, such as the American-

Chinese CEO Society in Los Angeles, connect Chinese and American business leaders together. These forces differ in size and scope; however, they do suggest a relationship between economy and geographical scales when it comes to Chinese FDI in California.

Despite increased investments, firms from China will continue to face challenges in the U.S. and California. Chinese businesses still lack experience relative to European and Japanese TNCs. Moreover, issues of trust stemming in part from the blurred boundaries between firms and the Chinese government can lead to a hostile investment climate. These obstacles are not insurmountable, however. They can be mitigated by strategic options made available to Chinese corporations at subnational scales. Chinese businesses can go after other strategic assets in the Californian economy, purchase more valuable firms to boost technological and managerial assets. Similarly, they can tap into state and city officials' knowledge to better navigate the local regulatory and institutional climate. Moreover, they can share and acquire information via local business organizations on how to make smarter investment decisions.

While this paper tackles state and metropolitan scale factors, it does not analyze factors at the scale of the firm (Amighini et al. 2014). Individual firm-level strategies on investing in California are not taken up due to the nature of the data. A future research direction is thus to gather data on individual firms and how they go about investing in the Californian economy. Moreover, this paper is confined to California due to space constraints. Going forward, it is important to analyze Chinese firms in other states to better understand Chinese FDI in the U.S., New York is one possible example. But a scalar framework constructed here focusing on the state and the metropolitan scale offers

one appropriate way to launch these research directions. In summary, analyzing Chinese FDI at subnational scales can lead to more nuanced understanding of investment at the national scale in the U.S.

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# Conclusion

As China moves its ambitious Belt and Road Initiative forward, the topic of Chinese overseas investment will only garner more attention, reinforcing debate about its impact on host countries, China, and the international community. China has surpassed Japan, Germany, and the U.K. as the world's second largest source of outward FDI flows after the U.S. in 2017, also ranking sixth in terms of outward FDI stock globally. Is Chinese investment an unstoppable force having a profound impact on the global economy, shaping not only economic development, but also territorial, political, and governance issues for both developing and developed host countries? Or is Chinese investment limited in global influence and more regionally confined? Chinese TNCs face substantial challenges abroad, competing against more advanced TNCs from the U.S., Europe, and Japan. This dissertation's three case studies can be helpful in unpacking the nuances of this debate.

First, consider Hong Kong. Paper One indicates that Hong Kong is a crucial destination for Chinese investment in terms of place. Hong Kong offers Chinese businesses world-class professional services, such as marketing, accounting, and legal expertise, in a context where China's domestic institutional and corporate environments struggle to produce enough domestic talent with overseas experience and knowledge. The city's role as financier, facilitator, and trading partner helped open China to the global community in the 1980s, historic connections that have continued to the present. Moreover, the city's hybrid Western and Eastern culture intertwine both Chinese and

British language, business, and cultural practices, which Chinese companies find attractive. Given these factors, some Chinese TNCs utilize Hong Kong's role as Asia's financial hub to serve as a platform to expand globally. However, other firms use the city more as a place to conduct foreign portfolio investment, mainly round tripping capital back to China for monetary benefits. This practice of moving 'hot money' around can deter the growth of Chinese TNCs because they are engaging in investment activities with different intentions (i.e. speculation) and dynamics than normal FDI activities. It remains to be seen whether Hong Kong, as a place, is more a gift than a curse for Chinese corporations.

Second, consider investment in Pakistan. Pakistan in terms of place molds the context in which Chinese investments are materialized. There has been substantial investment in Pakistan as China leverages its strengths in infrastructure development and energy generation to build highways, railways, and power plants. Pakistan has a huge need for energy and infrastructure, aligning well with these strengths. However, security and financial problems caused by the different positionalities of key actors—the Chinese and the Pakistani government, insurgent groups, and Chinese firms—can disrupt the feasibility of the China Pakistan Economic Corridor (CPEC). It cannot yet be determined whether the CPEC can be deemed a successful project from either the Chinese or the Pakistani side. But one thing is certain, the success of this project will greatly impact the other five economic corridors, thereby shaping the Belt and Road Initiative.

Third, contemplate what is happening in California. Paper Three suggests a relationship between economy and geographical scales, pointing to the importance of the

state and the metropolitan scale when it comes to understanding Chinese investment in the U.S. Chinese firms have steadily increased their presence in California over the past decade, for example, by acquiring valuable ICT firms in Silicon Valley to boost technological and managerial assets. They are also utilizing the social connections developed by municipal business organizations to make smarter investments. Yet, they still do not have a firm grasp on investing in a mature economy whose regulatory and legal system differ from China's. It is uncertain also how Chinese firms will go about navigating the Trump administration's regulatory system. How well Chinese firms establish themselves in California will dictate their presence in the rest of the U.S., as in some senses the state serves as a gateway for China to enter the American market. Chinese firms must gain more experience abroad in the U.S., but they also will need to develop strategies to win the trust of American officials and consumers. The world's wealthiest consumer market is at stake. Overall, these three case studies indicate that much remains to be determined about the extent and impact of investment from China. Based upon these papers, however, I can say with greater certainty that Chinese investment is neither an unstoppable global force nor is it severely regionally constrained.

Another central message of this work is that it not only offers empirical contributions about three key destinations for Chinese investment, but it also generates analytical generalizations. The concepts—place, connectivity, and scale—utilized in this dissertation are not confined to the paper in which each appears, but each idea is relevant for the other papers. The scale concept employed in the California paper (Paper Three) is applicable to what is happening in Pakistan (Paper Two). The Balochistan insurgent

groups, from one perspective, are organizations that arise at the regional scale in Pakistan. Investigating Baloch insurgent groups at the regional scale can thus enrich understanding of Chinese FDI in Pakistan at the national scale. Similarly, the connectivity concept employed for Pakistan in Paper Two is relevant for the paper on Hong Kong (Paper One). Examining Hong Kong's positionality with respect to mainland China can generate additional insights on why the city is such an important destination for FDI. Finally, the place concept in Paper One can be applied in Paper Three on California. Examining the locale, location, and sense of place of the state increases our understanding of the Chinese capital invested there, as does attention to the territorial economies of the Bay Area, Los Angeles, and San Diego. If the concepts of place, connectivity, and scale are helpful in increasing understanding of Chinese outward FDI, this is also suggestive that other innovative concepts developed by leading geographic theorists and thinkers may be helpful for exploring Chinese firms' international expansion process.

## **2. Limitations and Future Possibilities**

One limitation of this dissertation is that it lacks firm-level data on how firms go about investing in Hong Kong, Pakistan, and California. My interviews and the Firm Survey provide firm-level data, but only with respect to Chinese TNCs in general. There are no data on the specific strategies firms are utilizing to invest in these places. Thus, one future research direction is to travel to the three sites to collect data on firms already located in each respective area. For example, finding out how firms decide whether to

hire diligence professionals in Hong Kong, go about dealing with insurgency issues while building infrastructure in Pakistan, or utilize local city officials' knowledge and connections to make smarter investments in the San Francisco area.

Throughout, I have been influenced by Robert Wade's book *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* published almost three decades ago<sup>14</sup>. Wade makes a compelling argument, through words that flow like water and float like clouds, that the neoclassical side and the political economy side were (and are) talking past each other in their debate about the state's role in shaping economic development, based solely on the starting assumptions each camp makes. Their respective assumptions led them to use evidence selectively, or ignore it completely, when there is evidence in support of *both* sides, in order to defend their arguments against the other side. In this work, I have attempted to flush out the starting assumptions of the two prevalent analytical camps— the focused and the flexible perspective— in the literature on Chinese overseas investment. I seek to nudge the literature forward this by constructing a “geographic framework” that takes seriously both sides' contributions.

The process of Chinese firms investing abroad is a relatively new phenomenon, since the early 2000s. Precisely due to its novelty, much methodological and analytical work remains to be done. To the best of my knowledge, this is the first North American Geography dissertation, at the time of this writing, that analyzes Chinese outward FDI without confining itself to one region, industry, or firm. Its methodological and analytical

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<sup>14</sup> Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.

contributions represent one small step in the right direction toward enhancing understanding on the spaces and times of Chinese overseas investment.