A Critique of China's Economic Statecraft: Challenges ahead in Myanmar

Xue Gong[1]

Email: isgongxue@ntu.edu.sg

Rajaratnam School of International Studies,

Nanyang Technological University, Singapore

Abstract

Economic statecraft is an integral part of China's strategy to advance its commercial interest and expand its political influence. Outbound Direct Investment (ODI) has been formulated under the philosophy of Going Out to support China's economic statecraft purposes. Despite its abundant resources and capital to support companies which are venturing abroad, China's economic statecraft has limited success in addressing its foreign policy goals establishing itself as a responsible player in the international society. Numerous literature has sought to study the impacts of ODI by investigating the capability of institutions in the host country. This paper seeks to build upon existing scholarship and sets out to understand how China's institutional competency impacts its ODI behaviour in the host country. In particular, this paper examines overseas Chinese business activities in Myanmar which have been subjected to varying levels of intervention from the Chinese government. It outlines the existing processes and guidelines which influence the implementation of Chinese projects in Myanmar. The paper will then discuss the ineffectiveness of China's economic statecraft due to the lack of a coordinated supervisory mechanism and conflicting vested interests within its ranks.

Keywords

Corporate Social Responsibility, Domestic Institutional Structure, Overseas Business Activities, Investment Externalities

[1] Xue Gong is a senior research analyst in China Programme of Institute of Defense and Strategic Studies, Nanyang Technological University. She is currently pursuing her PhD in Rajaratnam School of International Studies, Singapore.

I. Introduction

Multinational Corporations inevitably face ethical situations when operating overseas (Brenkert, 2009). Western firms have relatively good records of adhering to the international norms and institutions and are responsible to their shareholders and boards, offer public information, abide by the regulations and environmental protection requirements and can be punished and even sanctioned by their own home country institutions and laws such as America's Foreign Corrupt Practices Act (Kurlantzick, 2008).

The rapid expansion of China's overseas investment in the past few decades has attracted a great deal of attention. China's outbound direct investment has become a tool for its economic statecraft. Internally, the Chinese government has adopted ODI as a means of securing strategic assets overseas. Externally, ODI has become a means of cultivating foreign relations and promoting China's development model to bolster its image overseas. However, the scale and pace of its ODI have triggered worries with regards to its sustainability. On one hand, ODI is believed to bring much needed investment and technological know-how, management skills and business practices. On the other hand, ODI may lead to environmental and social problems. China's unique pattern of investment further compounds the complexity of analysing the impact of its ODI.

In order to determine the success or failure of China's economic statecraft, it is crucial to understand China's intentions. Its intentions are three-fold. China's cultivation of economic ties with Southeast Asian countries is a key strategy to maintaining stability and peace around its periphery. Stability allows China to focus on the economic development and address the imbalanced economic growth in its backward provinces such as Yunnan and build the economic connections with Southeast Asian countries to gain access to strategic resources. The second purpose is to gradually erode Taiwan's international standings. which has proven to be successful. The third purpose is to present China itself as a benign, non-threatening country to its neighbours and reduce the influence and strategic encirclement of the United States and its alliances (Vaughn & Wayne M. Morrison , April 4, 2006; Ott, July 22, 2005; Nathan & Scobell, 2012).

While China has cultivated a budding business network with its neighbours, it is not without its detractors. China's perceived poor records in the environment and corporate governance has triggered concerns. China's state-led business model to the developing countries is believed to undermine international efforts in promoting governance and transparency. China's economic statecraft is also inconsistent. Despite its declaration of becoming a responsible global player, it continues to collaborate with "pariah" states in pursuit of its own economic and energy interests. Such contradictory behaviour undermines its foreign policy goal of becoming a more responsible power (Canning, February 2007, p 50).

Many literatures study impacts of ODI by investigating the quality and capability of institutions in the host country. They include a sound compliance policy, stringent regulations and laws, stable political system and efficient implementation system. This paper sets out to understand from China's internal mechanism that has impacts on its ODI behaviour.

In Southeast Asia, Myanmar is an exceptional example to evaluate China's strategy of expanding its political influence through economic means. Over the years, China has established a significant influence within Myanmar through various means, among which economic statecraft has been the most prominent but controversial one. Despite its success in Myanmar, China's plans occasionally get waylaid by its government counterpart. The suspension of Myitsone Dam announced by the quasi-civilian government in 2011 and opposition over other China-invested projects have taught the Chinese government a lesson that "license to operate" are becoming more important.

A case study of Myanmar offers great insights into the Chinese state-firm relations and how such relations impact the outcome of Going Out activities. This is because Myanmar possesses a unique set of characteristics. Myanmar is a country which is traditionally close to China politically and economically; Secondly, Myanmar with its military junta is a regime with weak governance besieged by Western sanction but received Chinese assistance; Myanmar is also strategically important for China as the former lies between China and India, acting as a buffer against the presence of Japanese and American influence in India.

II. Characteristics of China's investment in Myanmar

The strategic relationship between China and Myanmar began after 1988 when the military coup took place and created the dictatorship, which resulted in political and economic sanctions from Western countries. The isolation inevitably strengthened the relations between China and Myanmar, where China gradually gained dominance.

Therefore, Chinese investments in Myanmar can be characterised as follows:

First, the bilateral relations have been politicized since the outcome of the close relationships are tightly connected with China's objectives to develop its western provinces, and to realize its "two ocean objective" to gain access to both Pacific and the Indian Ocean, and to secure energy for China's domestic demands.

Second, Chinese investment in Myanmar is largely predominated by state owned enterprises(SOEs). They are followed by formal small and medium enterprise(SMEs) which subcontract projects from SOEs and are mainly involved in technical services, equipment supply and so forth. Apart from the formal entities, investment can also come from informal private investors who make use of local Myanmar citizens or shadow companies as business vehicles. This phenomenon was pointed out by MOFCOM in the Investment Guide to Myanmar released in 2009.

Third, China's ODI is restricted by its "non-interference" dogma which can be traced back to the 1960s when China began its foreign aid diplomacy. Such a move has been welcomed by the recipient states even till now, particularly developing countries like Myanmar which lack conventional investment source. This dogma has now become an obstacle to achieving China's foreign policy goals of being a responsible power. State-led overseas investment is widely accused of undermining governance, environmental and sustainable policies (Cisse, Sven, & Andreas, January 2014). Such non-interference dogma stems from China's belief that business can be separated from politics. But China's strategic investments in conflict-

affected areas controlled by the anti-government ethnic groups affect Myanmar's internal affairs inevitably, especially when the local government of Yunnan has connections with the ethnic groups(Qin, 2012).

Fourth, Chinese ODI is elite-oriented and generates much resistance from the Myanmar people. An elite approach means that China investment is dealt mostly on a state-to-state basis, often failing to address the needs of the local community for sustainable development. This includes projects such as the Letpadaung Cooper Mine between Chinese Wanbao Mining Group and Union of Myanmar Economic Holding; and the hydropower project between China Power Investment Corporation and the Ministry of Electric Power No.1. The shortcomings of dealing solely on a state-to-state basis are amplified by China's predilection for volatile regimes, making China especially vulnerable to overseas political turmoil. For example, China's substantial investments in Myanmar suffered a heavy blow due to the political transformation of the Myanmar government.

Fifth, Chinese firms do not have an impressive list of corporate social responsibility (CSR) activities as exhibited by more savvy firms from other countries. There are concerns that Chinese companies do not uphold existing international standards of environmental protection, human rights, and governance in their OBOR operations. Many Chinese companies are influenced by their own experience back in China. Subsequently, they usually have insufficient experience in engaging civil society, including labor unions, which is an important reason for the low CSR performance. Despite laws and regulations promulgated by the Chinese government, Chinese companies may ignore the CSR due to institutional imperfections back home.

II. Mixed Impacts of China's investment in Myanmar

1. Positive Impacts

Despite the controversies of Chinese investment, it is prudent to note that the Chinese have ventured into places where investments from other developed countries have shunned. The development of Myanmar currently lags far behind other ASEAN members on most standards, such as poor road connectivity, insufficient power generation capacity, inefficient management of port. The lack of infrastructure also restricts Myanmar's trade development and limits the development of manufacturing industries. The inability of Myanmar to integrate with neighbouring countries to promote its trade continues to be a barrier to its economic development. Many scholars point out Chinese business are more willing to invest in countries with poor investment environment where other traditional investors are reluctant to invest (Corkin, Burke, & Davies, 2008; Urban, Nordensvard , Khatri, & Wang , 2012). China's investments in Myanmar have extended from traditional sectors such as agriculture, industry, and trade, to tertiary sectors such as telecommunication, technology, tourism, and fisheries.

More importantly, Chinese investment offers locals the access to basic infrastructure and the host country a much-needed boost in infrastructure for sustainable development. China's direct investment in building roads, bridges, hydropower, and telecommunication for business needs also benefit the local population. For example, developing mining requires stable electricity supply and thus building dams that accompany the mining activities enabled the neighbourhood to have access to electricity and water. According to International River report, the Shweli 1 and Tarpein 2 Dams in Myanmar illustrated this (International Rivers, 2012; Urban, Nordensvard , Khatri, & Wang , 2012).

Increased investments from China also results in increased trade which is crucial for growing the foreign reserves of Myanmar during sanction period. China's demand for natural resources and commodities directly contribute to GDP growth and government revenues of the host country. Chinese investments also enhanced the economic and political integration with the adjoining regions around China. Under stringent sanctions from the West, China's contribution indirectly helped poverty reduction in Myanmar to certain extent (Urban, Nordensvard , Khatri, & Wang , 2012).

2. Negative Impacts

However, there are also concerns with the negative externalities from the economic activities of Chinese business. Some scholars argue that China's ODI has exacerbated the weak governance in the pariah regimes (Alden , 2007; Tull, 2006; González-Vicente, 2011), especially in the resource-extractive areas. China's ODI in Myanmar is mainly in the mineral, hydropower, agricultural products, oil and gas and infrastructure China's DDI in Myanmar mainly covers mineral, hydropower, agricultural products, oil and gas and infrastructure.

In addition to weak governance, opposition to projects based on environment concerns has been notable. For example, Myitsone Dam on the Irrawaddy River in Myanmar has received the most opposition. Myanmar's then president Thein Sein announced the suspension of the project in 2011 due to public opposition based on the environmental and social impacts. It is believed the development of Myitsone Dam will cause irreversible damage to the biodiversity and ecology.

Limited localization in procurement

Chinese enterprises in Myanmar inadvertently alienate local firms due to the discrepancy in the level of manufacturing technology between both countries. Localized procurement is limited in Myanmar. According to Sandrey & Edinger, MNCs establish backward and forward linkages with local economies, between which forward linkages ought to help boost export markets for the host country (Sandrey & Edinger, 2011). But Chinese investments in Myanmar only source for very low value-added products in Myanmar, such as agriculture products, wood, and rubber. More skill and technology based products such as engine and cylinders used for the construction are either imported from other foreign firms or directly from China. This can be explained by the often high cost and poor quality of products from local suppliers or the higher transaction costs due to language and identity barriers. For example, since Myanmar does not have strong manufacturing mining equipment, Chinese companies prefer importing its heavy machinery back from Chinese suppliers based on

identity closeness and Guanxi-relationships. Therefore, Chinese firms have records of unintentionally alienating local firms, which reduces the potential gains from spill-over effects.

Chinese enterprises in Myanmar also lack the impetus to improve existing supply chains to match international standards. Supply chain can be a great source for shaping the investment to the improvement of local economy and sustainable growth. However, China does not have an impressive record in upholding responsible supply chain management. For example, the local mining companies have poor labor protection laws and regulations that lead to many deaths and accidents in Myanmar jade production. However, Chinese investors are rarely seen exercising their clout to influence suppliers in low value industries to comply with labor regulations and to improve working environment of the workers. This is because Chinese investments offer little assembly and manufacturing opportunities for the locals and minimal production limits linkages with local suppliers.

Besides the lack of Chinese involvement in low value industries, little contribution to local employability is made even within the sectors they are involved in. Employment of locals in Chinese companies is restricted to machine operation in resource extraction area. Due to language barriers and low-level of skills, Chinese enterprises in Myanmar prefer Chinese workers to get involved in the project. Therefore, the job opportunities and direct benefit that accrue to the local population by Chinese companies are limited, not to mention related downstream industries. This can be attributed to China's ODI characteristics that are currently domestic oriented, which aims at strengthening China's domestic production. [2]

Questions have been raised as Chinese companies continue to bid for large projects in key sectors across Myanmar, reinforcing worries and resentments among the Burmese people. Some NGOs and local people are reasonably concerned that these projects might lead to demolition, land erosion, deforestation and other problems, bringing more harm than good.

Externality from Territorialisation

Territorialisation - China's strategy of segregation dissimilar industries while consolidating the similar ones into large swathes of land promises economy of scale and efficiency. Khine Tun points out that China created the strategy of territorialisation in line with its Going Out Policy to encouraged the outbound investment of Chinese companies (Tun, 2015). Territorialisation allows the companies to obtain land concession for projects through agreements. In China, different zones were created to economic zones or special projects. China has exported this concept into its ODI designs when investing in Myanmar. In January, 2011, the Myanmar government has enacted a Chinese style "Dawei Special Economic Zone" law. The law promises tax breaks for investing companies, fast-tracking of work and trade permits, and the non-nationalization of any industry or project established in the Dawei Special Economic Zone. Such territorialisation has eased the investment and created more business opportunities in Myanmar.

[2] Interview with scholars from Yunnan Province on Dec 22, 2015.

Reports of Myanmar government's misconduct in obtaining land concession and land lease from the locals have been disconcerting. The most infamous cases come from the hydropower sector. International Rivers have identified several issues from China's investment in hydropower sector: forced seizures of land from villagers at the Chibwe Dam; displacement of at least 10 villages and violence reported at the Myitsone Dam; allegations that local villagers were forced to work to construct buildings and roads for dam sites without remuneration at the Upper Paunlaung Dam and the Shweli 3 Dam; reports that assets of villagers—such as land, livestock and natural resources— were seized by the army at the Shweli 3 Dam (International Rivers, 2012).

The other major areas of Chinese investments have been in industries such as mineral and natural resources that also require territorialisation. The construction of two gas and oil pipelines is expected to bring Myanmar around US $24.8 billion revenue over a thirty years period, in addition to the access to the resources. However, such investments required land acquisition from the local residents. Those who had connections with the Burmese government were compensated at a reasonable price while the rest of the local people were displaced without appropriate handling.

Inadequate but improving CSR practices

CSR has been defined in various ways, but are generally known as business activities that contribute to the sustainable development (World Bank , 2006; Carroll, 1991; Report on the Sustainable Development of Chinese Enterprises Overseas , 2015). China is lagging in its contribution to sustainable development. Inadequate practices of CSR loomed large in China's overseas business, given the setbacks of Myanmar investments. A successful implementation of China's economic statecraft requires the government to look into the following areas, namely reorganisation of existing instituitions, and adoption of Corporate Social Responsibility (CSR) best practices.

In order to minimise the ground opposition to their ventures in host countries, China has to shed its unsavoury reputation of adopting irresponsible practices when conducting business overseas especially in areas of environment protection and human rights(Brautigam, 2009). Many Chinese companies are influenced by their own experience back in China where they have grown accustomed to ignoring laws and regulations promulgating CSR activities. Subsequently, they lack the expertise in engaging civil society, including unions, which is an important reason for the ineffectual CSR performance.

The international notion of CSR has yet to diffuse into the Chinese business culture. China is still at the nascent stage of developing an awareness of Corporate Social Responsibility. In China, the understanding of CSR is limited to philanthropy, such as building schools, offering medical assistance, sponsoring education and donation, etc[3] (Report on the Sustainable Development of Chinese Enterprises Overseas , 2015). Even before the suspension of Myitsone Dam in September 2011, China Power Investment Corporation in charge of this project has been fulfilling CSR, according to its own logic. From 2009 to July 2011, CPI has

[3] Interview with relevant government officials and corporate leaders from December 2015 to March 2016 in China.

donated a large amount of study supplies and school uniforms to students, malaria-preventive medical kits, television sets, allowances, rice and cooking oil to the affected villagers in addition to the construction of new resettlement houses (Participate in the Public Welfare and Fulfill the CSR , 2011). Even after the Myitsone Suspension, the company official website shows that its philanthropic activities still continues despite a lag in its business activities.

The major barriers to the overseas CSR performance include the lack of personnel support, professional training, and the absence of institutional incentives and penalties for the responsible managers. Some company managers believe the implementation of CSR creates extra financial burdens and they do not have timely assistance when there is a financial challenge. Furthermore, Chinese companies have been observed less willing to cooperate with the NGOs such as World Wildlife Fund due to weak public communication skills, although they become more open to the media.[4]

Shambaugh has called China a 'partial power' and argues that China has not actively sought to solve global problems beyond its immediate interests. However, the Chinese government has gradually taken measures to ensure that its ODI enterprises do not damage its image and reputation. It has encouraged Chinese firms to join major international organizations including the UN Global Compact (UNGC) in early 2000, the Environmental Impact Assessment (EIA)in 2003, and Equator Principles in 2008 and so forth. China also partnered with the UNDP to combine the international and Chinese know-how in response to sustainable development challenges. The previous president and premier of China Hu and Wen advocated a harmonious society and scientific outlook to show China's desire of becoming a responsible country. Based on this, China has aligned its business interests with the diplomacy especially Hu's term.[5] Accordingly, the government establish and improve institutional arrangements for CSR which aims to force companies to raise CSR profile in their operation.

In 2004, MOFCOM and MFA jointly promulgated the Guidance Catalogue on Overseas Investment Industries in Other Countries (I). Such catalogue requires Chinese firms to comply with the regulations such as obtaining overseas investment approval certificate. Companies qualified for the catalogue shall have the priority right to state preferential policies such as funding, foreign exchange, tax collection, customs, exit and entry. In 2008, SASAC issued the Guidelines that require the companies to fulfil responsibilities by Central SOEs. In 2012, SASAC set up the Steering Committee for CSR of central enterprises to enhance the management systems.

---

[4] Interview with relevant government officials in Yunnan. An anonymous government official indicated the awareness of the bias from international (Western)media made the Chinese companies rather keep silent than reach other because of the belief that "Speak more and make mistakes more" (多说多错) and "silence is gold 沉默是金"

[5] For example, on August 21-23, the Central Conference on Foreign Affairs Work was held and Chinese overseas business behaviour and the image related to the behaviour was suggested. See "Zhongyang Waishi Gongzuo Huiyi zai Jing Juxing [Central Conference on Foreign Affairs Work Was Held in Beijing]," Renmin Ribao [People's Daily], August 24, 2006.

MOFCOM in 2013 stipulated the requirement of corporate responsibility on environment protection and sustainable development for overseas Chinese business. The policy points out that Chinese firms are encouraged to learn from international standards and international financial institutions in their practice for CSR. The need for establishing a good image and for improving business competitiveness has made the Chinese government change its perception and attitude and embrace the international norms. As a matter of fact, the Chinese government has released a series of sustainable policies and directives for the companies. The more recent Third Plenary Session of the 18th Central Committee of the Communist Party in 2013 proposed the transition of the role of corporations towards more CSR implementation.

Table 1. Major Policies and Directives on sustainable development by China's government

Issue Date	Issuer	Policy
2007	State Forestry Administration (SFA), MOFCOM	Guidelines on Sustainable Forest Cultivation for Chinese Enterprises Overseas
2008	State Council	Administrative Rules for Overseas Contracting
2008	State-Owned Assets Supervision and Administration Commission (SASAC)	Guidelines on Fulfillment of Social Responsibility by Central Enterprises
2009	SFA and MOFCOM	Guidelines on Sustainable Operation and Utilization of Overseas Forests by Chinese Enterprises
2009	MOFCOM, Ministry of Housing and Urban- Rural Development (MOHURD)	Measures for the Administration of Overseas Contracting Qualification
2011	SASAC	Interim Measures for the Supervision and Administration of Overseas Assets of Central Enterprises
2012	China Banking Regulatory	Green Credit Policy

	Commission (CBRC)	
2012	SASAC	Interim Measures for the Supervision and Administration of Overseas Investment of Central Enterprises
2013	MOFCOM, Ministry of Environmental Protection (MEP)	Guidelines on Environmental Protection in Overseas Investment and Cooperation
2014	MOFCOM	Measures for the Administration of Overseas Investment
2015	National Development and Reform Commission (NDRC), Ministry of Foreign Affairs(MFA), MOFCOM	Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road

Source: Compiled from the Report on the Sustainable Development of Chinese Enterprises Overseas , 2015

The Chinese government also encouraged its financial institutes improve their loan policy making in response to criticism that China's financial institutions have loose regulations in environmental assessment requirements when providing loans to companies venturing in countries like Myanmar that has bad records of governance. Such country is usually disqualified for loans from traditional financial institutions such as IMF. In recent years, the Chinese government has been making adjustments of its financial institutions to regulate its companies in overseas business activities. CDB and EXIM, the two development banks of China's outward investments, as well as Shanghai and Shenzhen Stock Exchange Markets, have listed out guidelines and cooperate with international institutions to promote the concept of green finance and CSR. (See Table 2).

Chinese financial institutions have conducted voluntary and self-governing EIA as part of their sustainability efforts (Mol , 2011). CDB in 2004, for example, issued the Framework to promote the environmental assessment and requires EIAs from all loan applications and improve environmentally friendly business activities. In 2007, EXIM signed an agreement with the International Finance Corporation in order to support a sustainable investment by the Chinese companies. This was followed in 2008 by an agreement between the

International Finance Corporation and the Ministry of Environmental Protection in support of international environmental initiatives.

Table 2 Major Policies and Guidelines from Financial Institutions

Date of Issuance	Issuer	Policy
2004	China Development Bank (CDB)	CDB Lending Assessment Handbook
2006	CDB	The Environmental Impact Assessment Framework for Lending to Small or Medium- Sized Enterprises
2007	Export-Import Bank of China (EXIM)	Guidelines for the Environmental and Social Impact Assessment of China Export and Import Bank's Loan Projects
2007	Shanghai Stock Exchange (SSE)	Appraisal Measures of Shanghai Stock Exchange Corporate Governance Sector
2008	EXIM	China EXIM Bank Environmental Protection Policy
2010	Shenzhen Stock Exchange (SZE)	Shenzhen Stock Exchange Guidelines for CSR of Listed Companies
2013	CBRC	Green Credit Directive

Source : IISD Report (Wang, Yu, Halle, Velasquez , Zhang, & Wang , January 2016)

Industry associations in China also have helped member enterprises by formulating codes of practice as a supplement to government policies. In 2014, China International Contractors Association and China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters released industrial report and guideline respectively.

Although China has been making policy adjustments and changes to regulate its business actors that represent its domestic interests, there is still insufficient evidence of a consistent and stringent CSR strategy that can effectively improve its overseas performance. This is largely due to domestic institutional imperfection that lacks in a coherent supervision and provision of incentives and punishments system for the companies to follow.

IV. The impact of China's domestic institutional structure on its overseas investment

Historical institutionalism perceives that institutions have the tendency to resist change (Steinmo, 2008; Capoccia, July 2016). Although the Central government has embraced the idea of CSR and regulate the overseas business activities, the legacy of the China's fragmented institutional structure and incomplete reforms have been blocking the effective implementation and supervision of its ODI performance.

Understanding how China's domestic political economy functions is "essential to making sense of how its companies perform overseas" (Economy & Levi, 2014). Chinese companies are primarily motivated by the domestic requirements from the government rather than the expectations of local communities or stakeholders (Report, 2015). Before 2000, China's ODI was hampered by a cumbersome administrative system. Complicated procedures were imposed on companies seeking approval. After the "Going Out" policy was introduced in 2000, supporting policies were swiftly implemented by the government. Policy reforms that encourage overseas investment have an influential role in helping China's enterprises go abroad. The shift in roles has implications for the sectors and geographic distribution of Chinese ODI.

Preference towards SOEs

Different from the West which has progressively reduced the government's involvement in companies' activities, the Chinese government still has major bureacractic control of its enterprises, especially its SOES. It is common for shareholders and stakeholders to hold the CEO responsible for the performance of a listed company. But the same level of accountability does not necessarily apply to the CEO of a Chinese SOE. Handpicked by the Party, the CEO is subject to less scrutiny and can remain in the position with fewer requirements for accountability. Such an appointment mechanism creates loopholes allowing SOE managers to shirk responsibility in order to safeguard their political promotion. Under such a system, it gets increasingly difficult to prod SOE officials to focus on developing skillsets crucial for the development of the organization and resulting in a lack of capacity to deal with the legal and financial aspects of overseas investment. In the event of failed investment, there is no supervisory body to penalize irresponsible decision making and minimize any damage to bilateral relationships between the host country and China.

The inadequate regulatory environment means that SOEs often operate in murky waters especially for their overseas investments, as there is no institutional supervisory body to oversee investments. According to Economy, China's domestic insitution lacks the necessary incentive and punishment when it comes to environment protection(Economy, 2007). The MEP is in charge of regulating the environmental impacts and developing environmental policies. However, the ability and scope of its role to regulate the environment impacts of overseas practices are limited. Further, MEP has no role in the approval of overseas investment in resource sector.

There is also no such supervising body that coordinates among state agencies, financial institutions, MFA and host countries. China's Embassy in host countries does not have the supervisory role over business activities overseas although its task is to safeguard China's reputation and image in foreign countries. For example, the implementation of Chinese dam projects in Myanmar is monitored through the Economic Counselor's Office, administered by MOFCOM. The official in the Economic Councelor's Office reports directly to relevant department in MOFCOM, bypassing the MFA.

MOFCOM and SASAC have overlapping role in monitoring overseas investments by SOEs. Although MOFCOM is the lead agency, it only has the authority of a negotiator rather than the authority of a coordinator. MOFCOM needs to seek the endorsement of the investment from Ministry-level of SOEs which is sometimes difficult to achieve. The NDRC also plays a crucial role in creating regulations and standards for overseas investment which oblige to the domestic industry development demands. Some scholars believe it is the difficulty of the Central State to control overseas business activities that lie in the "principal-agent dilemma" as shown in the Chinese saying "the heaven is high and the emperor is far away" (tian gao huang di yuan 天高皇帝远). (Liou, May 2010; Backaler, 2014). The incomplete oversight of Chinese regulatory agencies creates uncertainties for Chinese companies, which respond to an opaque regulatory environment and run the risks of non-compliance by pursuing short-term return.

Driven by lax policy and regulations and a simpler administrative system, private companies are also joined SOEs to expand globally. However, private companies generally lack access to overseas financing and cross-border payment mechanisms. In order to secure project financing from domestic banks, they have to conduct costly assessments of investment risks and returns. In order to grow, private companies are compelled to place more emphasis on generating cash flow than on ensuring the quality of earnings, thus resulting in short-term plans and inferior risk management. Such haste in generating cash flow can lead to inadequate understanding of the investment environment, culture, and customs of the target countries, and even violation of laws. For example, some Chinese companies tend to invest in mining and logging conflict-prone area controlled by the ethnic groups in Northern Myanmar. Such behaviour risks damaging the international image and reputation of China and its companies.

At the same time, Chinese banks generally require Sinosure (China Export and Credit Insurance Corporation) to issue insurance for overseas investments as a condition for their funding of projects. The higher insurance rates charged by Sinosure place Chinese private firms at a disadvantage, compared to their Japanese and Korean counterparts.[5] Furthermore, Sinosure also prefers to insure firms which have a sovereign guarantee. A sovereign guarantee allows Chinese projects operating in difficult jurisdictions to have sovereign support in cases of crises or wars that are potentially crippling. Therefore, SOEs with strong sovereign support usually obtain approval more easily.[6]

Domestic Vested Interests Competition

The vested interests within domestic actors also make the management and supervision of the overseas investment more difficult. For exmaple, the decision of building two pipelines in Myanmar was driven by various dynamics, which led to imprudent strategic choices. The crude pipelines was driven by the desire of scholars in Yunnan[6] to make impactful policy, the

[6] Professor Li Chenyang, and other scholars in early 2004 started to research a possible pipeline from Myanmar to Kunming as an alternative to reduce China's Malacca dilemma and proposed the idea to the State Council through the Yunnan Government.

interests of Yunnan government[7], rivalry among Chinese national oil companies, concerns over oil security and geopolitical considerations.

Traditionally, CNPC is active in north and west China while Sinopec enjoys its market share in South China. CNPC has been competing with China's other giant oil company Sinopec in China's Southeast regions. Building a crude pipeline and the corresponding refinery and ethylene plant would enable CNPC to enlarge its market share in China's Southwest provinces (Kong , September 2010). The alliance with Yunnan government in building pipelines in Myanmar would help Yunnan generate economic interests in refinery, petrochemical and other related facilities as the pipelines pass Yunnan province. In order not to lose out in the market share, Chongqing City and Sinopec formed a strategic alliance and lobbied the State Council to allow the pipeline to extend into Chongqing lest its interests be threatened by the CNPC. In order to obtain the project and get support from the central government, CNPC failed to understand the social changes and public demand because they worked on with the military government. This turned out to be a misjudgement of strategic investment. Despite its huge investment valued close to US$ 20 million that invested in education, hospitals, electricity supply system, it transferred its funding to the Myanmar government who distributed the funding to those who were far away from the affected construction site (Li, 2013).

V. Conclusion

China's elite and state-led approach in Myanmar has driven enormous Chinese investments. The Chinese government has built strong political relations through its economic diplomacy that upholds "non-interference". However, the rapid rise of China's ODI in the past decade has been met with resistance from the local community, due to negative externalities associated with business activities in resource extractive area. China's investment in "pariah" state, especially in natural resources requires closer look at the institutional structure where the Chinese companies are embedded.

Chinese domestic preferences provided to SOEs also cast doubts on their status as commercial entities and engender security concerns in the host countries. In order to offset the anxiety from the host country, China must cooperate with different groups, companies, and investment fund managers, to create opportunities for shared projects and public-private partnership (PPP) initiatives. This requires China to further reform its institution to create a fairer environment for private companies and to improve the efficiency and productivity of the SOEs. Cooperation between companies should also be encouraged to create synergy, particularly between private companies and SOEs.

The demand for China's delivery on sustainable development has been limited in the "transmission belt" role of the companies. The Chinese legal system and requirements on business ethics and governance — especially with regard to environmental protection — are

[7] Yunnan is in shortage of oil and the proposal of building refinery station in Yunnan will help alleviate energy shortage and generate political dividends for the local government in Yunnan.

relatively underdeveloped compared to those of the advanced economies. Without effective domestic institutional arrangement for overseeing and enforcing the policies regarding China's ODI performance, it has and will continue to undermine its foreign policy goal of becoming a more responsible power (Canning, February 2007, p 50).

China is no different from other countries in wanting to build long-term relationships with the host countries. The recent One Belt One Road exemplifies this ambition. The Chinese leadership has been aware of the challenges the overseas business activities bring to its foreign policy. However, China has its own narratives on development with priorities. It places economic development prior to other aspects such democratization. It uses its own interpretation to justify the approach of its own economic diplomacy. In any case, China's investment should be based on a strategic and enforceable plan that includes local community development. In order to achieve this, China needs to regulate its companies to operate at international standards and establish a stringent compliance environment for the overseas business activities.

Reference

Participate in the Public Welfare and Fulfill the CSR . (6 September, 2011). Retrieved 10 January, 2012, from SPIC Yunnan International Power Investment Co. LTD: http://www.cpiyn.com.cn/Liems/site/zeren/zerenNews.jsp?nid=6827

(2015). *Report on the Sustainable Development of Chinese Enterprises Overseas .* China Academy of International Trade and Economic Cooperation, Ministry of Commerce; Research Center of the State-Owned Assets Supervision and Administration Commission of the State Council; United Nations Development Programme China .

Alden , C. (2007). *China in Africa: Partner, Competitor or Hegemon?* London: Zed Books.

Brautigam, D. (2009). *The Dragon's Gift: The Real Story of China in Africa .* Toronto : OUP .

Bremmer, I. (2010). *The End of the Free Market: Who Wins the War between States and Corporations.* New York : Portfolio Trade .

Brenkert, G. (2009). Google, Human Rights and Moral Compromise. *Journal of Business Ethics*, 453-478.

Canning, C. (February 2007). Pursuit of the Pariah: Iran, Sudan and Myanmar in China's Energy Security Strategy. *Security Challenges, 4*(1).

Carroll, A. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders. *Business Horizons, 34*, 39-48.

Cisse, D., Sven, G., & Andreas, N. (January 2014). *State-Directed Multi-National Enterprises and Transnational Governance: Chinese Investments in Africa, Corporate Responsibilit and Sustainability Norms.* Stellenbosch University , Center for Chinese Studies.

Corkin, K., Burke, C., & Davies, M. (2008). *China's Role in the Development of Africa's Infrastructure.* SAIS, The Johns Hopkins University , African Studies.

Economy, E. C. (September/October , 2007). *The Great Lead Backward?* Retrieved 12 June , 2016, from Foreign Affairs: https://www.foreignaffairs.com/articles/asia/2007-09-01/great-leap-backward

González-Vicente, R. (2011). China’s Engagement in South America and Africa's Extractive Sectors: New Perspectives for reource Curse Theories. *The Pacific Review, 24*(1), 65-87.

Halon , R. J. (2012). Corporate Social Responsibility and Human Rights in China's New Economic Diplomacy. In G. Wu, *China's Challenges to Human Security: Foreign Relations and Global Implications .* London: Routledge.

International Rivers. (2012). *The New Great Walls: A Guide to China's Overseas Dam Industry.*

Jiang, Y. (2013). *China's Policymaking for Regional Economic Cooepration.* New York: Palgrave MacMillan.

Kurlantzick, J. (2008). *China's Growing Influence in Southeast Asia.* (R. R. Paz, Ed.) The Brookings Institution .

Mol , A. P. (2011). China's Ascent and Africa's Environment. *Global Environmental Change, 21*, 785-794.

Nathan, A. J., & Scobell, A. (2012). *China's Search for Security.* New York: Columbia University Press .

Ott, M. C. (July 22, 2005). China's Strategic Reach into Southeast Asia. *U.S.-China Economic and Security Review Commission.*

Qin, H. (28 March, 2012). *Behind Myanmar's suspended dam*. Retrieved 20 August , 2014, from China Dialogue : https://www.chinadialogue.net/article/show/single/en/4838-Behind-Myanmar-s-suspended-dam-3-

Sandrey, R., & Edinger, H. (2011). *China's Manufacturing and Industrialization in Africa.* African Development Bank Group .

Steinberg, I. D., & Fan , H. (2012). *Modern China-Myanmar Relations: Dilemmas of Mutual Dependence.* NIAS Press.

Tull, D. (2006). China's engagement in Africa: Scope, Significance and Consequences. *44*(3), 459-479.

Tun, K. (2015). China-Myanmar: Toward a More Balanced and Better Neighbourhood. In Y. Sanrasombat, *Impact of China's Rise on the Mekong Region* (p. 181). New York : Palgrave MacMillan .

Urban, F., Nordensvard , J., Khatri, D., & Wang , Y. (2012). An Analysis of China's Investment in the Hydropower Sector in the Greater Mekong Sub-Region. *Environment, Development and Sustainablity, 15*(2), 301-324.

Vaughn, B., & Wayne M. Morrison . (April 4 2006). *China-Southeast Asia Relations: Trends, Issues, and Implications for the United States.* CSR Report for Congress.

Wang, Y., Yu, K., Halle, M., Velasquez , S. O., Zhang, L., & Wang , H. (January 2016). *Sustainability Imports of Chinese Outward Direct Investment: A Review of the Literature.* International Institute for Sustainable Development.

World Bank . (2006). *DevComm Sustainability Programme .*