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Institutional Strategies of Chinese Firms in "Belt and Road" Countries: Evidence from Select Infrastructure Cases

中資企業在"一帶一路"國家的制度策略：基於基礎設施案例的實證研究

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Abstract

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

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

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

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

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

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

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Abbreviations

3G	3rd or third generation mobile communications
AADR	Addis Ababa – Djibouti Railway
ADB	Asia Development Bank
AIIB	Asia Infrastructure Investment Bank
ASEAN	The Association of Southeast Asian Nations
BCIM	Bangladesh-China-India-Myanmar Economic Corridor
Belarus	The Republic of Belarus
BN or bn	billion
B&R/OBOR	(One) Belt and (One) Road
BOI	Board of Investment of Sri Lanka
BOT	Build-Operate-Transfer, or Build, operate, and transfer
BRI/OBOR	(One) Belt and (One) Road Initiative
CA	concession agreement
CAMCE	China CAMC Engineering Co.
CBD	central business district
CBSL	Central Bank of Sri Lanka
CDB	China Development Bank
CHEG	China Harbor Engineering Group
China, PRC	Mainland China, or the Peoples' Republic of China
CIP	China-Indochina Peninsula Economic Corridor
CPEC	China-Pakistan Economic Corridor
CSR	corporate social responsibility
Djibouti	The Republic of Djibouti
DCT	(Djibouti) Dohaleh Container Terminal
DDP	Djibouti Dry Port
DMP	(Djibouti) Dohaleh Multipurpose Port
DPW	DP World
DOT	(Djibouti) Dohaleh Oil Terminal
DPFZA	Djibouti Ports & Free Zone Authority
EAEU	Eurasian Economic Union
EIC	The British East India Company
EU	European Union
EXIM	Export-Import Bank of China
FDI	foreign direct investment
FEZ	free economic zones
GD	Government of Djibouti or Djiboutian government
GDP	gross domestic products
GHIH	Great Horn Investment Holdings (of DPFZA)
GoSL	Government of Sri Lanka or Sri Lankan Government

G7	The Group of Seven countries consisting of Canada, France, Germany, Japan, Italy, the United Kingdom, and the United States of America
HK/HKSAR	Hong Kong or Hong Kong Special Administrative Region of the PRC
HKEx	Stock Exchange of Hong Kong Limited or Hong Kong Stock Exchange
HTP	High-Tech Park (of Belarus)
IFC	International Finance Corporation
IGCC	(China-Belarus) Inter-government Coordination Committee
JV	joint venture
KM or km	kilometer(s)
Km^2	square kilometer(s)
LCIA	London Court of International Arbitration
M, m	meter(s)
MCC	multi-country consolidation of containers
MM or mm	million
MoFA	Ministry of Foreign Affairs of China
MOFCOM	Ministry of Commerce of China
MNC	multinational company or corporation
MSR	Maritime Silk Road or the Maritime Silk Road of the 21st Century
NDRC	National Development and Reform Commission of China
NIE	new (or neo) institutional economic(s)
NELB	New Eurasia Land Bridge Economic Corridor
OFDI	outbound foreign direct investment
PD	Presidential Decree
PPC	Port-Industrial Park-City development model, or Shekou Model
PPP	public and private partnership or public-private partnership
PSA	Port of Singapore Authority
RFP	Request for Proposal
RORO	roll-on-roll-off or roll-on and roll-off
SDP	Special Development Project (of Sri Lanka)
SEZ	special economic zone(s)
SIP	Shekou Industrial Park (of China)
SLFP	The Sri Lanka Freedom Party
SLPA	Sri Lanka Ports Authority
SOE	state-owned enterprises
SREB	Silk Road Economic Belt
Sri Lanka	Democratic Socialist Republic of Sri Lanka
Tazara	Tanzania-Zambia Railway
TEU	Twenty-foot Equipment Unit (Container)
UK, U.K.	The United Kingdom
UN	United Nations
UNP	United National Party of Sri Lanka
US, U.S., and USA	The United States of America
VAT	value added tax
WWII	World War II or the Second World War

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Chapter 1 Introduction

1.1 Background of the "Belt and Road Initiative"

"Silk Road" was a term coined by German geographer Baron Ferdinand von Richthofen in 1877 to describe the ancient caravan trade routes linking China to the Roman territories (Frankopan, 2015). The route has survived only in history books and cultural memories until recently and regained its prominence since Sep 2013 when President Xi proposed to build a "Silk Road Economic Belt" (SREB) during his official visit to Kazakhstan (MoFA, 2013). When addressing the Indonesia Parliament, a month later, he described his vision of establishing a "Maritime Silk Road of the 21st Century" (Maritime Silk Road or MSR) (ASEAN, 2013). These proposals were collectively called the "One Belt and One Road" initiative (OBOR) (State Council, 2015), until it was renamed as the "Belt and Road Initiative" (B&R or BRI) in 2016 (EFSAS, 2019). The short form of B&R or BRI will be used hereinafter.

1.1.1 The Belt and Road proposals

The BRI calls for five connectivities (五联通), namely, policy coordination (政策沟通), facilities connectivity (设施联通), trade facilitation (贸易畅通), financial integration (资金融通), and people connection or cultural exchange (民心相通) (State Council, 2015). Under each of the five connectivities, more detailed implementation measures have been developed and announced. For example, Hong Kong is expected to play a significant role in executing financial integration, transport connectivity, and cultural exchange (NDRC and HKSAR, 2017).

The BRI proposes to build six economic corridors across Eurasia, namely, China-Mongolia-Russia, New Eurasia Land Bridge (NELB), China-Central Asia-West Asia-Persian Gulf and the Mediterranean Sea, China-Indochina Peninsula (CIP), China-Pakistan (CPEC), and Bangladesh-China-India-Myanmar (BCIM) (State Council, 2015) (see Fig. 1.1).

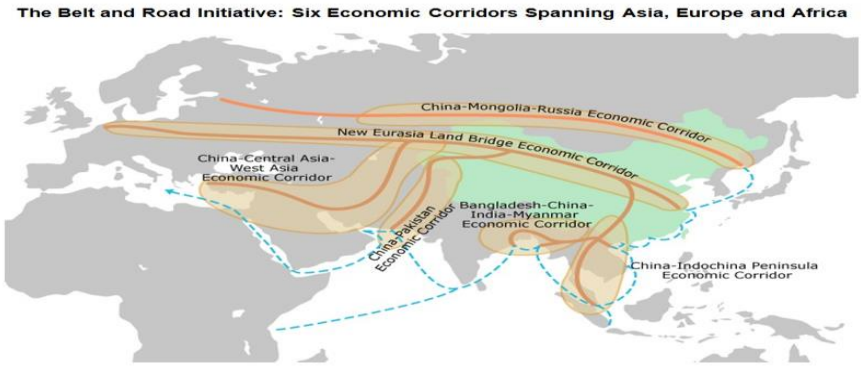

Fig. 1.1 BRI's Six Economic Corridors
Source: HKTDC (2019).

The MSR version of the BRI blueprint promotes the strengthening and extending of maritime shipping lines known as Blue Economic Passages. It also encourages the building of and investing in ports and industrial parks or economic zones along the envisioned routes (NDRC, 2017).

For easy reference, the above narratives are summarized as below (see Box 1.1).

Box 1.1 **The Belt and Road Initiative**

Key Dates and Events:

2013/09	Silk Road Economic Belt (SREB) is proposed (MoFA, 2013).
2013/10	Maritime Silk Road of the 21st Century (MSR or Maritime Silk Road) is outlined (ASEAN, 2013).
2015/03	Official document with a focus on SREB is released by the Chinese National Development and Reform Commission (NDRC) in association with other ministries and the One Belt and One Road (OBOR) acronym is used (State Council, 2015).
2016	Belt and Road Initiative (BRI) is used officially (e.g., Xinhua, 2016).
2017/06	The MSR version of the official blueprint is published (NDRC, 2017).
2017/12	NDRC and Hong Kong Special Administrative Region (HKSAR) sign an agreement outlining Hong Kong's expected role in the implementation of the BRI (NDRC and HKSAR, 2017).

Five Connectivities (五联通) (State Council, 2015)**:**

1. (政策沟通) Policy coordination
2. (设施联通) Facilities connectivity
3. (贸易畅通) Trade facilitation or unimpeded trade
4. (金融融通) Financial integration
5. (人心相通) People connection or cultural exchange

Six Economic Corridors (State Council, 2015)**:**

1. China-Mongolia-Russia
2. New Eurasia Land Bridge (NELB) (a China-Europe rail line)
3. China-Central Asia-West Asia-Persian Gulf and the Mediterranean Sea
4. China-Pakistan (CPEC)
5. Bangladesh-China-India-Myanmar (BCIM)
6. China-Indochina Peninsula (CIP)

Three Blue Economic Passages (NDRC, 2017):

1. China-India Ocean-Africa-Mediterranean Sea, linking CIP with CPEC and BCIM
2. China-Oceania-South Pacific
3. China-Arctic Ocean-Europe

1.1.2 Understanding the BRI's impact

The BRI's geographic scope has expanded from the initially envisioned Eurasian terrestrial and Asia-Europe and North Africa maritime connections to the entire world,

excluding the US and Canada. It encompasses 138 countries and 30 international organizations as of Jan 2020 (NDRC, 2020). MSR destinations such as the Philippines, Brunei, and Papua New Guinea have gained an additional cooperation area of agriculture since 2018, beyond the above outlined connectivities (Wan, 2018). Given its evolving nature and development infancy, the BRI's geographic reach, policy scope, and business impact are expected to continue to expand.

The BRI was estimated to cover more than 60 countries, 60% of the world's population, and 30% of global GDP. It was projected to impact not only global trade and world order, but also education, culture, tourism, and environmental protection (Kralovicova and Zatko, 2016). Now, according to statistics from 2017, China and 71 B&R countries accounted for 66.6% of the world's population, 34% of global GDP, and 29.9% of global trade volume (B&R Data Center, 2018).

1.1.3 Research implications

A key component of the BRI is to leverage the technological and capital resources potentially afforded by China and its international partners to build much needed infrastructures in the B&R countries (Wang, 2016). It is estimated that global infrastructure financing needs amount to around four percent of global GDP, or $4 trillion per year. Such needs in developing economies are forecasted to be about $1.5 trillion per year during 2015-2030, but domestic supply of capital in those countries is only about US$800-900 billion, leaving a huge financing gap (Estache, Serebrisky, and Wren-Lewis, 2015). A separate study by Asia Development Bank (ADB, 2017) found that the Asia and Pacific region alone will need to invest $1.5 trillion annually during 2016-2030 period to maintain its current growth momentum; however, current spending is about $330 billion below the required level. Simply put, demand for infrastructure and financing gaps are huge globally.

Could the Chinese government and China-sponsored financial institutions be capable of meeting those financing expectations? The answer is obviously no because the funding gap is too large for China alone to fill. This is evidenced by China's foreign reserve level of approximately $3.1 trillion at the end of Apr 2019, which seems large but at best meets the needs of lubricating its own economy or settling its foreign debt obligations (Yeung, 2019).

What does it take to attract private investment to come along? Why and how does it happen? What are the critical impediments in B&R nations that prevent foreign investment into their local infrastructures? How and what could these countries as well as B&R investors do to improve their investment attractiveness? These issues will be of primary interest of this research.

In addition to financial capital resources, investing and operating modern infrastructures requires the input of technologies, talent or human capital,

management and operational knowhow, which most of these countries lack (Collier, 2007). It is observed that the financial sectors in some of the countries, where the bottom billion people reside, are run by people whose financial skills only enable them to manage a "piggy bank" (ibid., p. 94). In the infrastructure industry, a notable example is China's showcase project of the Tanzanian-Zambia Railway (Tazara) that has become a non-performing business since its completion in 1976 due to poor management and technological obsolescence (Y. Zhang, 2007; Wang, 2018).

How can governments or private investors and operators address such challenges when undertaking investments in B&R countries? What strategies could firms learn from successful precedent or past pitfalls and apply to similar investments elsewhere? These also are questions that this study attempts to investigate.

1.2 Definitions

Before proceeding further, it is necessary to establish a working definition of several key terms that will be used extensively in this research.

1.2.1 Definition of "infrastructure"

According to Prud'homme (2004), the term "infrastructure" has been used only since 1927 to refer public works such as roads and bridges. Even as recent as in the 1960s, infrastructure was sometimes referred as "social overhead capital" (Hansen, 1965). It only became popular with its current meanings in the 1980s and 1990s and has since occupied a special spot on the agendas of the United Nations (UN, 2015), World Bank, and now China and its BRI.

There are a variety of classifications of infrastructure (Torrisi, 2009). In this study, the classification by Hansen (1965) will be adopted to divide infrastructure into economic and social types. The economic infrastructure defined and delineated by World Bank (1994) includes six major categories: (1) Telecom and communications; (2) Transport (e.g., port, rail) and logistics; (3) Power (electricity) energy; (4) Oil and gas services; (5) Water and sanitation, and (6) Environmental protection, the last of which has been added subsequently (Briceno-Garmendia and Sarkodie, 2011). Social infrastructure refers to schools, hospitals, retirement homes, and so on, and will not be studied in this research.

Economic infrastructure has three key characteristics: capital good, public good, and potential to produce "external effects" (Torrisi, 2009, p. 104). From a technical perspective, economic infrastructure possesses at least six key attributes: capital good, lumpy investment (while demand for its services is incremental), long lasting useful life, space-specific (i.e., tendency of natural monopoly), public service nature, and association with market failure (implying a need of government intervention) (Prud'homme, 2004). As a result of such understanding, infrastructure development

and associated service delivery have become a public undertaking in most developing nations and a key strategy in social and economic growth and poverty reduction as well (Collier, 2007).

This research intends to narrow its focus on the "external effects" (Torrisi, 2009) or government intervention aspect of the economic infrastructure.

1.2.2 Definition of "B&R countries"

A country that has signed an official agreement (e.g., cooperation agreement, joint declarations, memorandum of understanding, and cooperation protocol) to collaborate with China under the BRI is called a "Belt and Road or B&R country" in this research. The number of these countries has grown over time. In late March 2019, Italy became the first G7 country to join the circle. Most of these countries are developing nations or transition economies, but some are developed, such as Singapore, South Korea, New Zealand, Luxembourg, and Italy (NDRC, 2020). For the purpose of this research, however, B&R countries will refer only to the developing, emerging, or transition economies.

Loosely defined terms like "developing" or "emerging" tend to refer to one or several situations, such as a country that is going through market liberalization, or pursuing rapid industrialization, or gradually integrating into the global economy (Marquis and Raynard, 2014). Other examples include places where markets for products and labor are under-developed and subject to government constraints, or countries where property and contract rights are not well defined and enforced (Khanna and Palepu, 1997, 2005). These nations are typically characterized as lacking both economic and social infrastructure, skilled labor force and technology talents, and having scarce domestic and foreign financial capital to invest in their economies (Collier, 2007).

Transition economies typically refer to Central and Eastern European countries (e.g., Hungary and Romanian) and former Soviet Republics (e.g., Belarus and Kazakhstan) where state-owned enterprises (SOEs) still dominate the national economy or privatizations of them have been ongoing or finished. In these places, the role of government has been changing (as a result of transition from planned economy to market-oriented), and rule of law (e.g., private property rights) and rule of market are gaining momentum (Gehlbach and Malesky, 2014; Marquis and Raynard, 2014).

1.2.3 Firm's institutional strategies

Firm's institutional strategies are defined as a "comprehensive set of plans and actions directed at leveraging and shaping the socio-political and cultural institutions within an organization's external environment" (Marquis and Raynard, 2014, p. 5). This definition claims its synthesized nature of integrating institutional perspectives with the studies of firm behaviors and strategies to address institutional deficiencies.

Since it requires an understanding of neoinstitutional economics (NIE) to discuss this definition, the full definition and discussion will be deferred to Section 4.4.

1.3 China's historical infrastructure investments in B&R countries

China's major involvement in cross-border infrastructure building in developing world dates to the period of 1965-1976 when it joined the governments of Tanzania and Zambia to build the Tazara Railway. The project has been recognized as a political success for China but an economic failure (Stith, 2006; Y. Zhang, 2007; Monson, 2013; Vhumbunu, 2016). 40 years later, new measures and additional investments have been contemplated by the three governments to revitalize the project but now under the BRI banner (W. He, 2017; Wang, 2018).

At the turn of the new millennium, the Chinese government launched a policy initiative, encouraging Chinese enterprises, particularly SOEs, to invest abroad and participate in international competition. It was initially called the "going out" and later renamed the "going global" policies (Wang, 2016). Driven by a combination of huge foreign reserve build-up, excess capacity in certain domestic industries, and the need to access international markets and resources (Nash, 2012; Wang, 2016), China's outbound foreign direct investment (OFDI) reached $10.2 billion in 2005 and further increased to $92.8 billion in 2014. China's stock of OFDI is expected to exceed $1 trillion by 2020 (Wang and Hu, 2017). The MOFCOM (2018) official tabulation is approximately US$1.8 trillion at the end of 2017, exceeding the research estimate.

Africa has been a major destination of Chinese OFDI. Allard (2012) found that China's OFDI to select Sub-Saharan countries between 2001 and 2008 spans a broad range of sectors including oil and gas, power generation, telecom services, water, and construction. Separately, drawing on updated datasets of 21 Sub-Saharan countries, Kaplinsky and Morris (2012) revealed that Chinese OFDIs cover additional industries such as freight and transport, logistics, irrigation, and roads and bridges. It seems that Chinese OFDIs in these countries had expanded into many sectors of their economic infrastructure long before the BRI was proposed in 2013.

Additionally, highly hailed B&R projects such as the Mombasa-Nairobi Railway in Kenya, upgrade of Tazara, port project in Colombo, Sri Lanka, New Doha Port in Qatar, and other port, pipeline, road and bridge projects in Tanzania, Sudan, Angola, and Ethiopia were all announced and started constructions before the BRI came into being (Anthony, 2013). When discussing the BRI in Central Asia, RAND (2018) commented that the BRI is a continuation of the regional economic cooperation and major infrastructure projects undertaken by China since the 1990s and 2000s.

The preceding discussions suggest clearly that infrastructure investment and operation had been a significant component of Chinese overseas investments encouraged under the "going out" directive, which has been integrated into and expanded under the BRI

(Jones and Zeng, 2019). This research, therefore, will treat the BRI phenomenon as a continuous and natural progression of the trend of Chinese OFDIs and select appropriate cases for investigation accordingly.

1.4 Research objectives

The "going out" policy, or its current model of the BRI, is seen as a contemporary version of China-promoted globalization. It is called "a new step in globalization" by former French Prime Minister Dominique de Villepin (Xinhua, 2016). (It is worth clarifying that "globalization" is a commonly used but less accurately defined term. In this research, it is intended to mean a state, process, or trend of lowering trade barriers, increasing cross-border movement of people, goods, services, capital, and information, more national economies participating in or integrating into the global economy, markets gaining influence over the state (Osterhammel and Petersson, 2005).)

Most BRI research to date has focused on the macroeconomic, geopolitical, and inter-government dimensions of the phenomenon (see Section 2.2). There has been minimal research into individual projects, but the insight gained from case studies of individual projects could help develop answers towards the BRI (Hillman, 2016).

This research, therefore, intends to employ a case study approach, focusing on specific project, and applying theoretical tools of new institutional economic (NIE) theories to investigate at the micro level (i.e., individual project) and, if possible, from the recipient or host country perspective. The goals are first to document and record what has been done to date by the projects and to address some of the criticisms (see Section 2.2.1). Next is to learn and evaluate institutional strategies that have been engaged by investors. The last is to generalize certain commonalities across cases to shed light on what strategies have succeeded in achieving deal-specific goals or social economic objectives intended by the project planners or promoters, including governments on both sides.

Hopefully, the case histories will facilitate future research, the answers developed from case analyses will quell some criticism, and the lessons or success factors generalized can serve as guidelines or warning signs in similar investments.

1.5 Research questions

By looking into the chronological process of the targeted cases (see Chapter 7) and gaining first-hand knowledge from the managers, decision-makers, and other stakeholders involved in the selected projects, this research intends to probe along the following lines:

First, ***what*** has been done or is happening with these projects? This line of inquiry is

designed to gain a holistic understanding of the cases and allow for the creation of a comprehensive or "thick description" (Geertz, 2017, p. 3) of case stories. As the descriptive component of a typical case study, it will build the foundation for further theoretical explanation and analysis. The case descriptions are also intended to construct as detailed a history as possible and build a file for extending such research in the future.

This output may become an independent deliverable of this research and contribute to the project level or local context of general BRI studies.

Second, ***what*** firm institutional strategies have been devised by these Chinese investors in adapting to local institutional settings or fostering institutional change in host countries to their business advantage, ***how and why***? Building upon the "thick description," NIE theoretical lenses will be employed to evaluate how the firm institutional strategies have performed and to assess whether their progress is theoretically optimal, since the ultimate success or failure of these projects and the effectiveness of their organizational institutional strategies will not be available for final evaluations until decades away.

Third and last, has the BRI been a **facilitator or liability** to these investments and Chinese firms, and ***why***? This question is not a focal point of this research but will inevitably be covered in the field interviews and have relevance to the preceding core research questions (e.g., **what**, **how, and why** questions). Therefore, attaining an appropriate understanding of this question forms a critical component of the entire backdrop of this research.

1.6 Research contributions

This research attempts to follow a case study methodology and draw on NIE concepts and theories to understand, interpret, and explain these cases and findings, and, if possible, to develop or refine propositions and theories for broad application in the BRI context. Potential contributions may include the following:

First, deploy a case study approach in the B&R context to potentially fill a research gap (see Section 2.2.5).

Second, apply NIE theories to the BRI phenomenon, an otherwise unused and differentiated angle, to potentially fill a research gap (see beginning paragraph of Chapter 3).

Third, record history for future research. The chosen cases are long-term and impactful investments (see Section 5.3 and Chapter 7). Final judgment of their investment merit may only be rendered by future generations of researcher decades away. What is recorded and documented in this research could provide grounds for

future investigation and evaluation (an inherent advantage of case studies).

Fourth, derive policy implications. This refers to the potential generalizability of case study research. The generalized policy implications are expected to provide guidance to project owners and planners, policymakers, private and public sector investors, as well as other stakeholders in undertaking such investments.

Fifth, some of these cases have gained notoriety in geopolitical rhetoric (see Section 2.2.1). This research is in an advantageous position to provide a unique line of answers based on the information and data gained first-hand from informants and onsite. It is not the intent of this research to stray into geopolitical debate but nevertheless will help shed some light on the issues.

1.7 Research outline

This research is organized following the roadmap below (see Fig. 1.2).

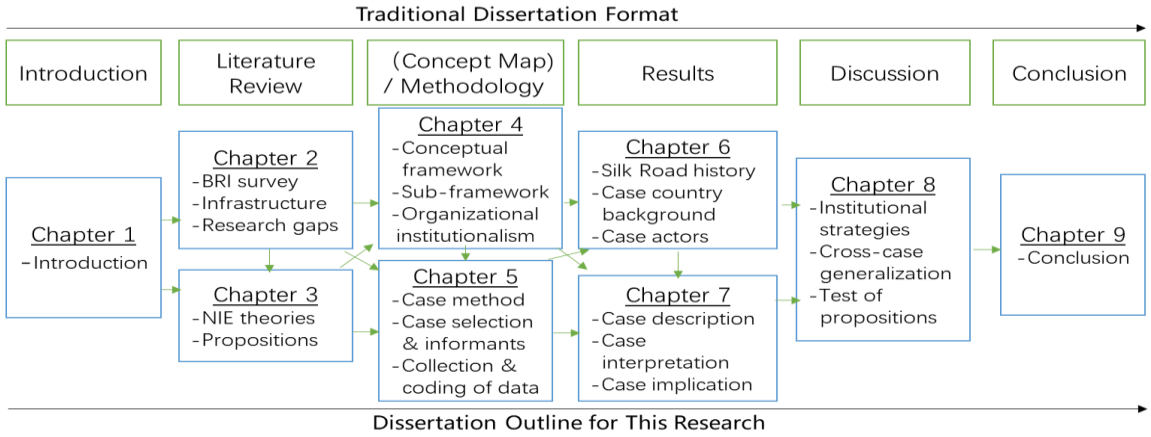

Fig. 1.2 Research Roadmap

After this Introduction, literature review will be conducted in Chapters 2 and 3 and propositions will be postulated accordingly. This design strategy will be discussed in Section 2.1. A theoretical framework developed from the literature review will be presented in Chapter 4, describing key concepts and relationships. Chapter 5 will focus on research methodology, case selection, data gathering and coding, and project management.

Then in Chapter 6, situational background of the BRI, case countries, and investors will be reviewed to aid in the preparation and interpretation of cases stories in Chapter 7. Key firm institutional strategies will be summarized and interpreted, and cross-case generalization will be conducted in Chapter 8. Finally, Chapter 9 will conclude this research, summarize key contributions, highlight potential limitations, and propose topics for future investigation.

Chapter 2 Literature Review and Proposition Development

China's BRI ambition is a contemporary phenomenon, but infrastructure investment and operation has been a constant endeavor throughout human history for the betterment of human life and the strengthening of imperial rules. The Roman highways and Chinese Great Canal are historic examples. American construction of canals and railroads in the 19th century is a modern form of infrastructure building (Chandler, 1954, 1977). These human advancements are well documented, thus leaving a legacy of rich literature in these cultures.

In recent history, the telecom and communications industry has probably been the industry that has experienced the most capital investment, technological innovation, regulatory change, inventions of dynamic firms, and profound impact on people's life and wellbeing. It may be helpful to see a glimpse of telecom history before proceeding to formal literature reviews.

2.1 Telecom history as a lead example

It is worth noting that this historical review is intended only to highlight certain events that can illustrate insightful dynamics relevant to this research. This author's prior professional experience is intertwined with some of these historic episodes. Therefore, the author's experience will be drawn upon in addition to literature and archival sources when constructing the stories below (see discussion on "subjectivity" in Section 5.3.3).

2.1.1 The American telecom experience

American telecom history is largely synonymous to the company history of AT&T Corporation and its predecessors, including The American Telephone and Telegraph Company (AT&T). The below information is mainly drawn from AT&T (2004) and Jackson and Lee (2018).

A year after inventing the telephone in 1876, Alexander Graham Bell and his financiers formed the first telephone company in history. Thanks to its continuous innovations in telecom transmission technologies and successful investments and operations, AT&T rapidly grew to become a dominant player in the nascent industry. Following an antitrust settlement with the U.S. government in 1913, the company became a government-sanctioned monopoly providing local and long-distance services to the public.

AT&T is responsible for many innovations in the telecom industry, such as the first dial tone, transatlantic undersea cable, communications satellite, computerized switch, and the UNIX technologies that have become the backbone of the Internet. These

successes helped maintain its dominant position throughout most of the 20th century. In 1982, after another antitrust suit, AT&T divested its local phone business, which was further split into seven regional operating companies, known as Baby Bells, but still operated as monopolies. AT&T itself only retained long distance services, equipment manufacturing, and the renowned Bell Lab research platform.

Following the passage of a new telecom act in 1996, entry to local phone services was relaxed. A wave of new entrants came into the industry to build local networks and compete against the Baby Bells. Several Baby Bells merged to create giant players in the local services market and launched a formidable entry into the already competitive long-distance field. In 1999, AT&T reentered the local phone market by offering a bundled service plan to consumers. The new telecom act incited a wave of investment into communications infrastructure and invasions by telecom companies and Internet startups into each other's territories. This period between the mid-1990s and early 2000s has been known as the TMT (telecom, media, and technologies) Bubble.

In 2005, AT&T was reunited with several of the Baby Bells through a series of mergers and acquisitions. It was reconstituted as the largest telecom conglomerate in the U.S. with local, long distance, mobile, Internet, and media services. As was a century earlier, AT&T remains a household brand name and an industry leader.

AT&T's experience can be interpreted from several angles. It is a success model of private capital undertaking capital-intensive infrastructure and a symbol of technological innovations and applications by for-profit firms. Its encounters with the U.S. antitrust authorities reflect the evolution and change in regulatory environment and government policy orientation. Every one of those legal battles demonstrated its ability to adapt to or push for change in governing legislations.

2.1.2 Mobile spectrum auctions

In early 1995, the U.S. government completed the first major auction of wireless spectrums in history. A total of 99 personal communications services licenses in 51 regional markets were auctioned off, netting the U.S. Treasury more than $7.7bn (Taninecz, 1995). This vindicates the Coasean (1959) thesis that property rights can be created out of radio spectrums and that these private assets should be traded to the highest bidder (instead of being given out for free as it was done then) to optimize allocation of scare spectrum resources and maximize social value.

Subsequently, in 1997, Brazil invited global investors to bid for its Band B mobile licenses (TR, 1998). Similar auctions even happened in Africa around the same time (Schoentgen and Gille, 2017). In early 2000, Germany and the U.K. led the wave of third generation (3G) license auctions in Europe and raised huge revenues, estimated at €600 per capita, from a crowd of global telecom operators and investors. These 3G

licenses provided the necessary spectrum for innovative services and demonstrated these governments' greed as well (Illing and Klüh, 2003).

This decade of license auctions was characterized by "amazing scale of innovations and by substantial institutional and regulatory change. Triggered by technological advancements, privatization, and liberalization, these changes have stimulated competition and driven down prices substantially" (Illing and Klüh, 2003, p. 1). Auction has become a standard for allocation of mobile spectrums in developed world (Bichler, Goeree, Mayer, and Shabalin, 2014).

2.1.3 China's telecom reform

This section is drawn mostly from Sheng, Zhao, and Yang (2015) and author's own professional experience.

Before 1994, China's telecom industry was monopolized by a government ministry, which acted as both a telecom operator and an administrator. In that year, China Unicom was created as a new entrant into the sector. The monopoly was reorganized into a regulatory ministry and an operating entity, known as China Telecom. In 1999, China Telecom was split into four parts along service lines. China Telecom retained the nation's fixed telecom business while China Mobile was formed to take over its mobile services. Its satellite operations were independently organized, and the paging segment was combined with China Unicom. In 2001, China Telecom was divided into north and south parts. China Telecom kept the southern part while the north was merged with another new entrant, China Netcom.

In a wholesale restructuring carried out in 2008, China Telecom, China Mobile, and China Unicom, or the "Big Three," survived while others were dissolved, and their assets were absorbed into the Big Three. As a result, each has both fixed line and mobile operations and became full-service operators. This oligopolistic industry structure has been in existence ever since.

The above reform activities were all engineered by and conducted within government processes. The Big Three are "administrative monopolies" protected by industry entry barriers (i.e., strict permits) and supported by favorable treatments (e.g., free mobile spectrums, free or low-cost land and rooftop rights, cheap credits). Board and senior management comprise mostly of government officials. High profile corruption cases have been reported periodically. It is estimated that for the period between 2003 and 2010, net social welfare losses, arisen from constrained output and monopoly prices, amount to RMB84.6bn on the low bound and RMB441.7bn on the high bound.

In Jun 2001, this author had an opportunity to present to one of the research teams charged to prescribe policy proposals for reforming China's fixed telecom monopoly. The author's idea was simple. If the government's intent were to encourage

investment, introduce competition, and lower prices, its policy options could include issuing additional mobile licenses (i.e., substitute effect), or permitting Internet telephony (i.e., technological innovations), in addition to splitting China Telecom. The audience agreed with the proposed ideas but confessed that only the last option, though quick and dirty, would work in China's circumstances.

These circumstances have reflected the "institutional, regulatory, technological, and market aspects of the industry" (Xia, 2017, p. 942) at the time of the reforms and dictated the turns and directions in industry evolution.

2.1.4 Summary discussions and literature review strategy

The preceding brief review of U.S. and China telecom history has displayed divergent characteristics, as summarized below (see Table 2.1)

Table 2.1 Comparison of Telecom Histories between the U.S. and China

Key Attribute	U.S./AT&T	China
Industry funding	Private capital	Government finance
Government subsidies	None	Various and significant
Industry players	Private firms	Administrative monopolies
Industry entry barriers	Local market pre-1996	Only to above monopolies
Monopoly power	Gained through market and innovations	Endowed by administrative rules
Government role	Contain monopolistic power and foster competition	Enforce and protect monopolies and stifle competition
Mobile spectrum	Auctioned and paid for	Allocated and free
Net social wealth loss	Unknown	Significant

The distinctive paths of industry evolution disclosed in Table 2.1 entail interplays among government, business firms, technologies, regulations, and the public. Central to such complexities is a host of institutional issues about, for example, property rights, industry barriers, and choice of market versus monopoly. Thus, literature review for this research will be strategized to cover three strands.

The first relates to BRI research, which is an overarching theme of this research and will be dealt with first. The second is about infrastructure investment in B&R countries and designed to identify issues and postulate propositions. Reviewing these two streams will also help to identify research gaps for this research. These will be the task of Chapter 2.

For easy handling and given the complexities of institutional matters involved in infrastructure industry (see Table 2.1), Chapter 3 will be dedicated to reviewing key concepts of NIE theories and refining guiding propositions accordingly. NIE theories will be positioned as the guiding tenet of this research. Then, NIE principles applied

to organizational studies will be examined when explaining the key relationships in conceptualization framework in Chapter 4. Other theories might be drawn upon when the need arises.

2.2 Survey of the BRI research landscape

Since the BRI was proposed in late 2013, there have been volumes of research and reports published on the subject. It is therefore impossible to develop a complete survey of the scope and depth of the research given that both the BRI itself and the associated research are still evolving and in their development infancy. The summary review below attempts to sample a few themes of the ongoing state of BRI research, spanning from international geopolitics, to regional economic relationships, to cross-border infrastructure investment. It is also geared towards situating this topic in the grand scheme of BRI research and identifying gaps for this study as well.

2.2.1 BRI as an expression of Chinese geopolitical ambition

Since China has become the world's second largest economy (Barboza, 2010), it has increasingly been viewed as a country willing to exercise its economic muscle to expand its sphere of influence, either politically, militarily, or culturally, beyond its territorial border. As early as 2006, for example, U.S. Navy research officer Chris Pehrson (2006) wrote and labeled port investments by Chinese companies along sea routes in Southeast Asia and Indian Ocean as a "String of Pearls" circling the Indian subcontinent, having caused tremendous unease in India. The BRI is naturally believed to represent a major Chinese plot to implement its geopolitical ambitions (Gresh, 2017).

This type of research, reports, and news updates has occupied a central theme in popular media and in English language literature. One notable example is the Chinese "Debt Trap" conspiracy theory, which was initially fabricated by an Indian security analyst (Chellaney, 2017) but has spread like a wildfire in English media (The Economic Times, 2017; Maley, 2018; Page and Shah, 2018; EFSAS, 2019). It was even picked up by U.S. Vice President Mike Pence, who borrowed the phrase of "debt diplomacy" in his address to the Hudson Institute (Pence, 2018).

In addition, the opposing arguments of China as a "mistaken identity" (Taylor and Xiao, 2009) versus a "neocolonial master" in Africa (Duruşkan and Altay, 2019) have persisted for decades and only become more antagonistic. Some research suggests that no matter how hard China assures the world that the BRI is focused on improving the economic well-beings of the involved countries and their people, its ultimate impact would threaten the existing West-dominated world order and promote a new China-led international system (Cau, 2018).

Furthermore, while controversies over the role and motive of the U.S. Marshall Plan

in the post-WWII political landscape have persisted to this date, China's BRI has been dubbed as the Chinese version of the Marshall Plan, albeit more politically driven. Various theories and hypotheses have been put forward accordingly (Clover and Hornby, 2015; see a summary review by Hong and Sun, 2016).

Separately, for instance, the Export-Import Bank of China (EXIM Bank) has been accused of compromising Islamic finance (i.e., riba) rules or engaging in predatory lending practices, because it charges a fixed interest of 3.25% per annum on its loans to the Malaysian government in financing the proposed East Coast Rail Link, a key connecting section of the CIP corridor (see Box 1.1), whose progress was halted by the reelected Mahathir administration (Minhat and Dzolkarnaini, 2018). These are examples of other criticisms or perceptions of the Chinese geopolitical ambitions.

2.2.2 BRI as a form of regional economic integration

In addition to the geopolitical interpretation of the BRI, it is also viewed as a part of the Chinese government's economic agenda. Over the years, and long before the BRI came into being, China had already entered various bilateral and multilateral economic and business arrangements with its neighbors, including many infrastructure projects that had already broken ground (RAND, 2018). The China-ASEAN Free Trade Area, for example, was officially launched in Jan 2010, but its initial proposal was made ten years earlier (Chiang, 2018). As one of the six economic corridors contemplated under the BRI (see Box 1.1), the BCIM linkage was initially proposed in 1998 by Yunnan provincial government to promote cross-border, regional business ties. The BRI, therefore, is an all-encompassing umbrella of various ongoing cross-border or pan-regional business programs integrated with additional proposals and consolidated under a new and grander label (Jones and Zeng, 2019).

The BRI proposes building six regional economic corridors. Research has spanned from overall assessment of these corridors (UN ESCAP, 2017), to examining specific aspects of individual corridors, for example, from CPEC's potential benefits to Pakistan's economy (Irshad, Qi, and Arshad, 2015) to potential limitations of the B&R model in addressing Pakistan's local issues (Shah, 2018).

Others have taken a regional or country specific view towards the BRI. For example, Imomnazar (2018) looks at the impact of BRI on Central Asian countries, particularly at how the BRI connects with Kazakhstan's "Nurly Zhol" or "Light Road" economic policy, while Kralovicova and Zatko (2016) examined the Russian economy's competitiveness in the BRI context. Research that explores how China and Russia work together to interconnect the SREB initiative with the Russia dominated Eurasian Economic Union (EAEU), consisting of Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan to promote free movement of goods, services, capital, and labor among the member countries, has aroused extensive interests in the countries affected (Jiao, 2018; Czerewacz-Filipowicz, 2019).

Separately, the BRI and its relationship with ASEAN countries is the interest of other scholars (Zhao, 2016; K. He, 2017; Blanchard, 2018) mainly because ASEAN is a key component of the MSR. Additionally, China-European Union (EU) relationships are reviewed extensively in the BRI context (Wang, 2015; Grimmel and Li, 2018; Li and Taube, 2018; European Chamber, 2020). In fact, the EU has issued its own version of Euro-Asia connectivity report (European Commission, 2018), which is widely viewed as a response and echo to the BRI (Li and Taube, 2020). Chinese investment activities in Latin America have also attracted scrutiny in the BRI context (Gransow, 2015).

In summation, regional, country or event specific research in the BRI context is expected to continue ballooning going forward.

2.2.3 BRI as an infrastructure investment push

Infrastructure investment represents a "major component of the BRI," according to Hillman's (2018a, p. 3) written testimony before the U.S. Congress. It is observed that Asia is going through a massive infrastructure push, and that the BRI is at the center of it (Hillman, 2016), with its explicit goal of "infrastructure building and connectivity" (Sachdeva, 2018, p. 292). Research in this direction has been extensive, ranging from estimating how big the demand for capital overall to that specific country or sector is (ADB, 2017), to assessing whether China alone has enough foreign reserve to fill the funding gap (Ong, 2017; Yeung, 2019).

China has openly stated that one of its intentions for promoting the BRI is to push for infrastructure investment in B&R countries (see Box 1.1). In addition to traditional infrastructures such as roads, bridges, ports, and power stations, the BRI has expanded its scope of investment to include industrial parks or economic zones to host Chinese or other manufacturers, and even promoted complete replication of the port, industrial park, and city development of the PPC Model (see Box 6.1) along the MRS routes (NDRC, 2017). As of end of 2016, Chinese firms had established 56 such parks in B&R countries (Shen, Jian, and Zhao, 2018). Thus, infrastructure investment has gained a modern feature under the BRI.

As a manifestation of its commitment to the infrastructure push, China launched and seeded the Asia Infrastructure Investment Bank (AIIB) and other development financial institutions including New Development Bank and Silk Road Fund. Consequently, there has been extensive research coverage of these institutions (Fatile, Afegbua, and Ejalonibu, 2016; Ong, 2017). RMB's internationalization in the context of BRI and infrastructure financing has also been an angle to assess the BRI implications (Lin, Xiao, Liang, and Zhang, 2017; Fung, Aminian, Fu, and Kornhohen, 2018). Some have tried to prescribe how to finance these funding needs in capital markets, for example, from integrated Asia capital markets (Bhattacharyay, 2010), to modern financing technique of crowdfunding (Lee, Zhao, and Hassna, 2016), to public-private partnerships or PPPs (Weng, 2016; ADB, 2017).

Infrastructure and its financing and operation will be a hallmark of the BRI phenomenon and an interest of this research as well.

2.2.4 Summary of the BRI literature survey

The research themes sampled in preceding subsections are not exhaustive. The BRI has suddenly become a "brand" under which many things have been labeled to claim authority, seek legitimacy or policy support, or simply grab audience attention (Glantz, 2017; Varrall, 2018). In academic research, for example, publications under the auspicious BRI headings range from Chinese language training in South Asia (Ranjit, Shihabuzzaman, and Biswas, 2017), to global disease control (Tang, Li, Li, and Chen, 2017), to wine import logistics (Lau, Tam, Ng, Fu, Zhang, and Feng, 2018), and even to Chinese Marshal Arts "going out" (Xie, Shi, and Ding, 2017), just to name a few. The variety and extensiveness of BRI research topics are still growing.

As stated at the beginning of this chapter, this literature survey is designed to project a general view of the state of BRI research landscape and help to locate where this research topic fits in the crowded space, *which is a project level focus in the broadly defined infrastructure investment*, as further elaborated next.

2.2.5 Research gap

While research into infrastructure under the BRI has been extensive, investigation of specific projects has been very limited. After briefly reviewing Khorgos Gateway, an industrial and logistics park near the China-Kazakh border, and the Padma Bridge, Bangladesh' largest development project, Hillman (2016) commented,

> Analysis at the project level is necessary for moving toward answers. Given OBOR's intended reach, local challenges may vary widely. As a practical matter, each project can only be understood in its local context. Case studies of individual projects can also shed light on commonalities, helping to explore BRI's drivers and implications. (n.p.)

Sachdeva (2018, p. 293) also advised that a "large number of case studies" is required to assess the possible impact of BRI on India.

However, few publications of such research investigations have been noted. For example, Iftikhar et al. (2018) studied the Gwadar port in Pakistan. Their focus remained limited to "governance and urban design" of Gwadar city (ibid., p. 4) with the goal of crafting policy proposals for building industrial parks and special economic zones (SEZs) based on experience in China and elsewhere. In addition, their research approach is more macro and theoretical, rather than field work based on or grounded in "local context" (Hillman, 2016).

In another case study of the Gwadar port, Ejaz and Jamshed (2018) documented the history and events leading up to the takeover of the project by Chinese investors in Feb 2013, which was months before the BRI was proposed. Piraeus port of Greece, another high-profile port investment by Chinese investors before the BRI era, has been studied but only in the context of Chinese OFDI with a focus on testing an FDI theory (Karlis and Polemis, 2018).

To date, none of the media-sensitized port projects, such as Hambantota in Sri Lanka, port of Djibouti, and Gwadar, all of which constitute Pehrson's (2006) "Pearls" or Pence's (2018) "Debt Traps," have been investigated thoroughly in both the BRI and their local contexts. The "Debt Trap" accusations, therefore, are viewed as based on a "fairly thin body of data" due to "a total lack of information" or difficulty of carrying out such research in remote offices (Mardell, 2018, n.p.).

This research, therefore, will employ a case study approach to fill the methodology gap and contribute to the body of project level knowledge of these selected cases. It intends to target and analyze two of the afore-mentioned projects and three others (see Section 5.3.2 and Chapter 7). It will first develop a holistic understanding of these unique cases in their respective "local contexts" and then evaluate several firm institutional strategy propositions (see Chapter 3 and Section 4.4). As a byproduct of this analytical process, findings will be interpreted to diffuse some of the accusations identified in Section 2.2.1. Furthermore, it intends to generalize broad implications, if any, since some of these projects may become of consequential importance to the entire world (Varrall, 2018).

2.3 Review of infrastructure literature and proposition development

Following literature review strategy outlined in Section 2.1.4, this section will focus on literature on infrastructure in the context of developing and transition economies, as defined in Section 1.2.2. It will also target to identify research gaps and postulate thematical propositions. These preliminary propositions will be finetuned under NIE lenses in Chapter 3 to guide this research (Yin, 2014).

The rest of this section will be organized along three infrastructure financing patterns seen in developing and transition economies: domestic government funding, international aid, and private capital (Estache, 2010).

2.3.1 Infrastructure investment as a government undertaking

As the definition of infrastructure (see Section 1.2.1) suggests, the public good nature of infrastructure service delivery has forced many domestic governments to undertake infrastructure development. This has been viewed as the norm in developing countries partly due to poor affordability (Estache, 2010). As a result, infrastructure investment and associated service delivery have become government- run businesses in these

economies.

2.3.1.1 Chinese government experience of undertaking infrastructure

China's recent success in growing its economy and improving its infrastructure has been witnessed by the world. Large infrastructure projects have played a central role in the "remarkable growth and poverty-reduction story" of China (UNCTAD, 2018a, p. 103). As a matter of fact, one of the key tractions of the BRI to developing nations is that they could leverage China's experience and capabilities to develop infrastructure and spur growth in their home countries (e.g., see host comments in Table 7.9) to follow China's path to prosperity, since many of their development levels are comparable to what China's in pre or early period of its reform era (Yu, 2016).

Since the 1990s, Chinese central and local governments have invested heavily in transport infrastructure including highways, urban and high-speed rails, air and marine transport, with limited participation from the private sector. Improvement in transport connectivity has contributed significantly to China's economic growth, redistribution of economic activities, poverty reduction, and a more integrated economy (Qin, 2016). However, cost overruns, poor quality, and delays in completion were prevalent in China's highway infrastructure building in the 1980s and 1990s (Xu, Mashayekhi, Saeed, and Radzicki, 1998). Ansar, Flyvbjerg, Budzier, and Lunn (2016) studied 95 road and rail projects completed during 1984-2005 in China and found an average of 30.6% in cost overruns. "Tofu projects" was a phrase coined by then Chinese Premier Zhu Rongji to describe the corruption rampant in these unsafe projects (East Asia Executive Reports, 1998). It has now become a popular term in Chinese vocabulary.

China's problems in its early stages of government-led infrastructure building could be common in other developing or transition economies. Poor execution and supervision of project development, lack of transparency in decision-making and budgeting, political motivation, bureaucracy, and corruption are among the criticisms typically associated with government or international agency (e.g., World Bank, IFC, ADB) sponsored projects (Lee, Zhao, and Hassna, 2016). As Collier (2007) noted, misuse of aid money, ineffective government agencies, rent seeking by cronyism and interest groups are common in most poor countries. Consequently, private capital tends to stay away from such projects in China (Weng, 2016) or those countries completely (Collier, 2007).

2.3.1.2 Private capital participation as cures to government problems

To address these investment or political risks and ease the financial burden on governments as discussed above, private sector participation has been highly encouraged by academics and policy makers in the form of PPPs (Estache, Serebrisky,

and Wren-Lewis, 2015; Khmel and Zhao, 2016; ADB, 2017). But “infrastructure financing via PPPs is not a panacea” (Qin, 2016, p. 206).

Weng (2017) analyzed 32 failed transportation PPP projects during 1990-2009 in the UK, Canada, Asia, Eastern Europe, and Sub-Sahara Africa, and attributed the causes of failures to six categories: cancelation of franchise, bidding suspension, project cessation, contract suspension, nationalization, and underperformance of expected economic goals, all of which have to do with governments. It was further revealed that factors driving these causes of failures included poor feasibility studies by governments, legislations detached from real needs, lack of experience resulting in inexecutable contracts, and poor supervision due to government being too close to private contractors.

Separately, when commenting on why the private sector is less enthusiastic about government-dominated PPPs in China, Weng (2016) calls for improvement in contract performance by government finance departments and provision of exit mechanisms.

The situation in developed market is no better. In a case where the City of Milan tried to involve local private partners building a metro underground rail line. The project got bogged down in local politics due to conflicts of interest arising from multiple roles (e.g., concession grantor, majority partner of PPP vehicle, financier) of the government (Ferrari, Giovannini, and Pompei, 2016).

2.3.1.3 Issues and proposition development

In diagnosing these issues, Estache et al. (2015) attributes the cause of the problems to “institutional weaknesses” (p. 281) commonly found in these countries. There are four types of such weaknesses, as delineated by Estache and Wren-Lewis (2009), each takes a unique form and affects how governments finance and operate specific infrastructure projects.

First, “limited regulatory capacity” constrains a government’s ability to implement policies due to lack of financial and / or competent human resources. Second, “limited accountability” not only makes the government or its regulators less accountable, but also leaves room for collusion and corruption in government dominated projects and processes. Third, “limited commitment” “makes it impossible to rely on contracts” (ibid., p. 733) and, as a result, contract renegotiations or nonperformance are common. Fourth, “limited fiscal efficiency” results in underinvestment in infrastructure and unfulfilled payments or subsidy obligations to users or private service providers.

Analyzed under the NIE microscope, the fundamental cause of these “institutional weaknesses” or “weak institutions” is the institutional choice (e.g., property rights,

contract rights, law and customs) that a society or government makes. This in turn dictates whether the government or market allocates capital and other factor resources, whether the government or the private sector makes such investment decisions, or whether contracts and decisions will be enforced by an accountable government or court system. The inefficiencies noted above, either quantifiable or qualitative, cause high transaction costs as a result of the chosen (i.e., government or public versus private) property rights system.

Thus, the following preliminary, counter-intuitive proposition is proposed and will be refined in Section 3.2:

> ***P1: B&R investors should seek to delineate and secure legal protection of their property and contract rights and pursue market practice in infrastructure investments and operations in B&R countries that have weak institutions.***

2.3.2 Aid funded infrastructure investment

International aid has always been a major source of financing to infrastructure development in developing countries. In recent years, China has joined international development agencies to become a growing presence in providing bilateral infrastructure financing (Estache, 2010). For example, at the triennial forum on China-Africa Cooperation held in Oct 2018, China pledged another $60bn in concessional loans and other forms of support to African countries. Such generosity has caused controversy both at home and abroad (Hornby and Hancock, 2018). (One of the criticisms is that China's largesse has encouraged irresponsible spending by the recipient governments and created a "Debt Trap" in some of these countries (see Section 2.2.1), or has created a circle of self-dealings among Chinese financiers and contractors (Minhat and Dzolkarnaini, 2018).)

2.3.2.1 Aid experience in infrastructure financing

The effectiveness of aid financing has mixed reviews. For example, India has been a major recipient of Japanese official development aid in developing its infrastructure (Sahoo and Bishnoi, 2016). A key feature highlighted in Japan's aid program is to develop "industry-related" infrastructure and help attract foreign and domestic capital by emphasizing private sector participation, sharing intellectual resources, and facilitating knowledge transfer. It was noted ironically that the aid programs not only failed to address delays and underperformance of invested projects, but also suppressed private sector participation. This latter point is no surprise because the "crowd-out" effect has long been recognized in public infrastructure financing (Aschauer, 1989a). For example, donations of free tents to a disaster-stricken area, a seemingly generous and humanitarian act by donor, in effect, drives a local tent manufacturer out of business, resulting in loss of local employment (Collier, 2007). In addition, a study of the impact of aid to developing countries found that when aid

reaches 16% of a recipient country's GDP, its impact plateaus. "Africa is not far from that level," and "money is ineffective" to drive economic growth or poverty reduction there (ibid., p. 100).

As further observed by Collier (2007), most poor countries are agrarian economies and don't have the necessary input factors (e.g., trained industrial workforce, local management talent, up and downstream industries) required to accommodate or work with modern infrastructure (e.g., mobile telecom network, high speed rail, sophisticated machineries). *Lack of investment in infrastructure is not a financial capital matter per se.*

2.3.2.2 Does Africa need a Marshall Plan?

China's BRI has been hailed as a Chinese version of the Marshall Plan. This presumption has ignored significant differences between the two. Thus, a better understanding of the Marshall Plan can help to draw some useful lessons for how BRI projects could be better designed and implemented (Hong and Sun, 2016).

Crafts (2011) remarks that "Europe was fertile ground with high quality human capital and institutions together with a history of successful market economies" (p. 7) long before WWII. It was capable to take advantage of the U.S. aid and technology transfers. The Marshall Plan served as mostly a "catalyst agent" as opposed to a "main driving force" (OECD, 2008, p. 59). Its success associates "considerable financial aid with a modernization plan of the whole European economic system" (ibid., p. 23).

"Does Africa need a Marshall Plan?" Collier and Dollar (2000, p. 123) argue that "rather a lack of capital, inappropriate economic policies and corrupt governance that have made the continent capital hostile, are the fundamental cause of Africa's underdevelopment." Foreign and aid capital will only become effective if "policy reform and institutional strengthening" are implemented simultaneously.

2.3.2.3 Summary and proposition development

It is safe to say, therefore, that to guarantee that Chinese aid, or the BRI, reaches its full effect, only giving money is neither optimal nor a viable substitute for structural reforms essential to growth. Thus, the following preliminary proposition is proffered:

> ***P2: Giving money alone would not achieve the intended goals of infrastructure investment and related social and economic programs, unless B&R investors also bring other necessary input and foster change in host institutions.***

Following the above reasonings in Sections 2.3.1 and 2.3.2, without either adequate domestic tax receipts or international aid to invest, is the developing world doomed to

suffer from poor or no quality infrastructure and destined to stay in poverty? Or, does China or the BRI represent a magic solution to their sufferings? Answering such questions necessitates reviewing another stream of literature on the historical private experience. It helps to broaden the theoretical thinking and advance the exploration of solutions, as well as the analysis of this research.

2.3.3 Private capital as a funding alternative

2.3.3.1 Historical perspective of private investment in infrastructure

Private financing of transport infrastructure was ubiquitous in the 19th century (O'Neill, 2017). For example, European investors provided most of the financings for American railroad construction then (Chandler, 1954; Osterhammel and Petersson, 2005; Flesher, Previts, and Samson, 2006; Cohen, 2010). American telecom history tells a similar story (see Section 2.1.1). In the 1990s, international strategic and financial investors participated in the mobile license auctions and financed the network build-out in Sub-Sahara Africa, where both initial investments and subsequent mergers among these investors were active (Schoentgen and Gille, 2017). Hong Kong capital markets have financed a variety of Chinese infrastructure developments as evidenced by the many Mainland Chinese companies in power, ports, toll road, water and sanitation, gas supplies industries listed on HKEx (Newell, Chau, and Wong, 2009; Bai and Qian, 2010).

Why in developing countries has the delivery of such essential infrastructure services become a government mission aided by foreign financial support but with limited private sector participation (Estache, 2010)? A popular explanation of this is that these governments are constrained by their limited fiscal capacity due to either limited tax revenues to cross-subsidize and / or poor affordability of end-users to pay for such services (Estache and Wren-Lewis, 2009).

Another possible explanation is that private capital tends to demand too high a return, which is not affordable by infrastructure investment of inherently low return or public good nature (Estache, 2010; O'Neill, 2017). Citing other research sources and estimates, Estache (2007) offered that to entice private investor interest, a project in low income countries needs to generate two to three points higher in returns than in developed countries, or more than twice the returns as expected in developed markets. This probably explains why infrastructure in developing countries must be invested, owned, and operated by local governments as a public good to make them more affordable to their citizens.

While higher risks could partly be explained by "institutional weaknesses" (Estache et al., 2015) or threat of war, famine, capital flight, brain drains (Collier, Hoeffler, and Pattillo, 2004; Collier, 2007) or cultural, religious, and historical legacies (Kuran, 2011), the low return argument of infrastructure investment requires a bit more

investigation. The pioneering work by Aschauer (1989b) found a positive correlation between infrastructure investment and productivity growth, which has been expanded upon and corroborated by a variety of subsequent research.

2.3.3.2 Return profiles of infrastructure businesses

Bai and Qian (2010), for example, measured the return on equity of top listed power and highway companies in China to be 10.45%-12.78% and 10.5%, respectively, for the period between 2000 and 2007. The rates of return on capital for the highway industry fluctuated between 10%-35% for the period between 1978 and 2007 but stayed within a narrow range of 10%-15% between 1995 and 2007. In contrast, the returns on capital for the railway industry for 1995-2007 timeframe were less than 5% or even negative in some years.

A separate study of the effect of road investment on productivity gains (Li, Wu, and Chen, 2017) found that the overall return on road investment in China between 1998 and 2007 amounted to be 11.4%. In a quasi-experiment to measure the social returns on the investment of the Lanzou-Urumqi double line railway, it was noted that transport volumes increased by 40%, and origin-destination price differentials of goods decreased by 30% within three years of capacity expansion. That translates into a return on investment of 10% as a minimum and over 30% on the high end (Li and Chen, 2013).

In other developing nations, Estache (2007) summarized findings from various research and estimates that macro social and economic returns on investments are 30-40% for telecom, over 40% for electricity generation, and about 80% for roads.

For ease of reference and comparison, the above narratives and additional research findings and estimates are recapitulated below (see Table 2.2):

Table 2.2 Project and Industry Returns on Infrastructure Investment

Author(s)	Industry	Timeframe	Returns	Notes
Bai and Qian (2010)	Electricity Highways Railways Transport, storage, and postal services	2000-2007 Up to 2007 1991-2007 1978-2007	10.45% - 12.78% 10.5% Negative - 5% 10% - 35%	Return on equity of Chinese listed companies. Chinese Ministry of Railway. Return on capital of Chinese industrywide.
Li, Wu, and Chen (2017)	Road	1998-2007	11.4%	Chinese industrywide.
Li and Chen (2013)	Lanzhou-Urumqi double rail line	3 years within expansion	10%-50%	Social returns of a single project in China.
Estache (2007)	Telecoms Electricity Roads		30%-40% 40% 80%	Developing countries.

Peng and Newell (2007)	Airports Toll roads	1995-2006 1995-2006	8.05% 25.65%	Developed Europe. Australia market.
Newell, Chau, and Wong (2009)	Power plants Toll roads Diversified	1995-2006 1995-2006 1995-2006	7.39% 10.65% 17.67%	Return on equity of Chinese companies listed on HKEx.

Without going into much details on the underlying assets and methodologies of these research, it may well be argued that the rates of return on infrastructure investments approximate, at project level, or far exceed, from a societal perspective, the cost of capital expected by private investors, even though, in the case of China, for example, the government still maintained tight control over tariff, permits, and concession terms, causing potential losses in efficiencies and revenues, misallocated resources, lessened competition, and rampant corruption (Bai and Qian, 2010).

2.3.3.3 Explanation of infrastructure's financial returns

Obviously, there is a huge gap between individual project's or the industry's marginal cost and the total marginal social benefits generated by such investments. Thus, government intervention is required to narrow, or ideally eliminate, the gap (Cheung, 2010). Government intervention means deregulation (Bai and Qian, 2010) or regulatory reforms and ownership change (Estache, 2010). This allows individual project investors to either reduce costs or inefficiencies (i.e., transactions costs, see Section 3.3) and transform the value and efficiency lost to become their profits, or to capture some of the social benefits that their investments have generated (i.e., social returns or positive externalities, see Section 3.4).

All these point to the necessity of institutional change to improve protection of private property rights and to deregulate industries and administrative restrictions to induce competition and private participation. The striking contrast between the deregulated highway and power industries and the monopoly of railways in China (Bai and Qian, 2010) drives home this point, which is corroborated by international experience that "Ownership matters when it comes to looking for profit" (Estache, 2010, p. 83).

To make private investments commercially attractive, thus, the key is (how) to transform the extra costs and lost efficiencies caused by host institutional weaknesses to project owners' profits; and / or to enable the investors to capitalize or share some of the social returns or positive externalities, which create another stream of returns to their investment. In the end, the aggregate returns from the two streams (i.e., project and social levels) may become attractive and justifiable on commercial grounds. Accordingly, propositions are derived as follows:

P3: B&R investors should devise strategies and seek to suppress transaction costs in order to maximize chance of profitability and return on investment.

P4: B&R investors should foster and seek host institutional change to enable their investment to capture social returns generated by their investments, increasing rates of returns to justify the risks they bear.

2.3.4 Section summary

The preceding analyses and deductive logic of the preliminary propositions can be summarized below (see Table 2.3). These propositions emphasize on the proactive stance of firm behaviors in dealing with host institutional challenges.

Table 2.3 Preliminary Propositions and Rationale

Funding Source	Issues	Institutional Explanation	Counter-Factual Proposition
Domestic Government	-Limited regulatory ability -Limited commitment -Limited accountability -Limited fiscal efficiency	-Public ownership or unclear property rights -Government process	-Seek delineation of private property rights -Seek market transaction
Foreign Aid	-All of the above -Poor economic endowment -Poor policy and political environment	-Insecure property rights -Poor economic and social institutions	-Seek policy reforms -Secure property rights -Reduce transaction costs -Bring other resources
Private capital	-Political risk or threat of property safety -High transaction costs -Low returns	-Poor delineation of property rights -Loss of overflow benefits	-Seek delimitation of property rights -Seek internalizing externalities

2.4 Chapter summary

Investors can participate in infrastructure investment in B&R nations in one or more of following three forms: quasi-host government, development aid, and private capital, but all are subject to the constraints posed by weak institutions prevalent in such countries. They need to develop and engage effective firm institutional strategies to proactively tackle these constraints to achieve their intended goals, as advised by the preceding counter-intuitive propositions P1–P4.

The next chapter reviewing guiding theories will proceed along this path of theoretical reasoning and trace to the fundamental and ideological thesis, in my view, to uncover potential solutions and mitigating strategies, as well as refine the above propositions to be more concrete to guide this research.

Chapter 3 Guiding Theories and Proposition Refinement

The lead examples of telecom history (see Section 2.1) and review of literature on infrastructure investment (see Section 2.3) noted that much discussion has touched upon institutional issues (Estache and Wren-Lewis, 2009; Bai and Qian, 2010; Estache, 2010) but stopped short of further pursuing the relevant subjects. Thus, there seems to be a thin linkage between infrastructure research and theories governing property rights and institutional issues, which deserve serious exploration.

Bai and Qian (2010), for instance, opined that the future of China's railway industry hinges on deregulation and decentralization, as demonstrated by the highway and power industries. For PPPs to work as intended, it is imperative to "get the institutional dimensions right" to attract private sector participation (Estache, 2010, p. 83). From public market institutional investors' point of view, strong protection of property rights and "the stability of government regulation" are important to convince investors to buy in PPP stories (Thierie and De Moor, 2016, p. 287).

Why are institutional arrangements and property rights so important to infrastructure investment? What is the theoretical basis of these warnings, and how does one apply these propositions to interpret and explain what the targeted cases will likely tell? These questions are not just intriguing, but may also unearth potentially insightful and practical solutions after in-depth investigation.

This research intends to apply NIE theories about private property rights, transaction costs, and positive externalities to guide this case-based investigation. In addition, the focus will be narrowed down on how and why Chinese B&R investors initiate and devise firm strategies to address weaknesses in host institutions and, more specifically, transform the local institutional establishment to be more investment friendly.

Aided by these theories and supplemented by several mini cases gleaned from literature review, the conceptual and thematical propositions in Chapter 2 will be refined. These refined propositions will serve as useful guides for this research (Yin, 2014) and be evaluated against findings from case analyses in Chapter 8.

3.1 Why institutional change?

One of Douglass North's contributions to NIE theories is his insight that American economic growth in the 19th century was coupled with drastic improvement in American institutions such as property rights and the formation of new and efficient business organizations. His research into the history of economic growth in Western Europe enabled him to arrive at similar conclusions that efficient organizations are key to institutional innovations, which in turn drive economic growth (North and

Thomas, 1973/2016; Menard and Shirley, 2014).

China's "open-door" policy and economic reforms since 1978 are a typical example of institutional change (i.e., from planned to market-oriented economy) (Cheung, 1982/2005, 2010; Coase and Wang, 2012). These reforms were preceded by policy and legal changes to the prevailing political, economic, and social frameworks that preempted any reform from emerging (Wu, 2018). China's economic success is arguably a result of the "*manifestly and explicitly* (emphasis in original) efficient policies and institutions" installed in the 1980s (Huang, 2008, p. 30). The most important success factors are "private ownership, security of property rights, financial liberalization, and deregulation" (ibid., p. 25). Historically, when Chinese growth falters, the culprits are always "government interventions, illiberal financial policies and practices, and property rights insecurity" (ibid., p. 30). Therefore, institutional reforms are a prelude to China's economic success.

B&R countries (as defined in Section 1.2.2) are similar to pre-reform China 30-40 years ago, when rule of law or market disciplines may not have been (sufficiently) developed, or institutions were either weak, inefficient, or even nonexistent (Khanna and Palepu, 1997; Collier, 2007; Estache, 2010; Kuran, 2011; Gehlbach and Malesky, 2014; Marquis and Raynard, 2014). Given these constraints, it can be argued that the China recipe for reform success, which is the envy of these nations (UNCATD, 2018a), should apply to their effort to induce more investment in their infrastructures and economies as well.

3.1.1 Definition of "institutions"

Before proceeding further, it is necessary to define "institutions" and establish a common ground for this research.

> Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints … and formal rules …. Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline (North, 1991, p. 97).

In metaphorical language, "Institutions are the rules of the game and the means of enforcement, and organizations are the teams that play the game" (Wallis, 2014, p. 36). In the real world of political, economic, and social practices, laws, codes, regulations, government orders, implementation and administrative rules constitute the "rules of the game" or "formal rules." Court systems, independent regulators (e.g., the U.S. SEC and Fed, HK's Airport Authority) established by special legislation, or SOEs with both commercial and noncommercial missions (e.g., HK's MTR, the British East India Company or EIC) are defined as enforcement agents of the formal rules and thus institutions as well (Horn, 1995).

This research will follow the above definitions and distinctions between institutions and business organizations and focus on the "formal rules" part of institutions. "Informal constraints" or "social institutions" will not be a focal point of this study, even though they can be critical to economic growth and be entwined with "formal rules" in how they affect political and economic life of a society (Mokyr, 2014), as revealed in the discussion of Islamic riba rules in Section 2.2.1.

Below, there will be a review of key concepts of such "formal rules," namely, private property rights and how they affect transaction costs and positive externalities. Then, there will be a discussion on how they individually or together relate to infrastructure investment under the BRI and firms' institutional strategies.

3.2 Why private property rights?

The CEO of a Greater China focused infrastructure private equity fund, who was interviewed for this research, points out that the most important success factor in his investment experience is the "certainty of contract enforceability." That is to say, the contract that holds the right to the government-mandated project in the form of Build-Own-Transfer (BOT) or Build and Transfer or concession agreement (CA), must be enforceable in the court of law. If a dispute arose, a fair trial would be reasonably expected and warranted by the local legal systems, "even if the party against you in the court is the local government," he said.

This practical wisdom is consistent with scholarly insight that "Property rights tend to limit government interventions more than executive interventions" (Milgrom and Roberts, 2009, p. 154). This explains why private property rights are so important to the success or failure of PPPs (see Section 2.3.1) and why institutional investors care about property rights (see beginning of this chapter).

3.2.1 Concept and theories

Cheung (1968, 1970, 1998a, 2010) defines private property rights as including: a) exclusive right to use (not necessarily to own) an asset or government concession right; b) exclusive or unencumbered right to derive income, for example, collecting road tolls under a BOT contract; and c) free transferability of such right. These rights must be bestowed by a political authority. Consequently, if a branch of government is also a party funding and operating an infrastructure project, the government's roles are intertwined, hence conflict of interest and other issues may arise (see case of City of Milan in Section 2.3.1.2).

In analyzing the various obstacles to investment and further reforms in China, Cheung (1986) identified ten barriers: the absence of a well-defined legal system; heavy reliance on connections than contracts; high taxes; no free movement of labor; no private ownership of land; major exchange and import controls; all of which can be

“traced to that missing link ---- clearly delineated rights in properties or in productive resources” (p. 27). In countries with weak institutions, contract renegotiations and even outsight nationalization are common due to limited government commitment and accountability. There is little respect for private property or contract rights. Naturally, what happens is that private investment either gets scared away or demands too high a return (Collier, 2007; Estache and Wren-Lewis, 2009).

The above definition of property rights also sheds light on why under the same Chinese state ownership, the deregulated highway and power industries, which introduced competition (e.g., central vs. local governments, inter-regional or among SOEs), performed much better than the monopolistic railway industry. This is because the right to use a property or contract was changed, resulting in lower barriers of entry and more players coming to compete for the unleashed business opportunities, which, in turn, drove down operating costs and inefficiencies (Bai and Qian, 2010).

Separately, China claims that the enactment of the 2007 Property Law (中华人民共和国物权法) is a critical milestone in strengthening its property right institutions. In a pioneering study of this event, Berkowitz, Lin, and Ma (2015) found that stock market performance of private firms listed in China responded positively to the passage of the law, generating statistically significant abnormal returns during the event-study period. This finding confirms conventional wisdom that strengthening property rights protections enhances firm value by handcuffing the government’s “grabbing hands” (at least on paper) and improving the collateral value of a firm’s tangible assets to creditors. This finding also explains and answers why public market investors care about property rights protections (see beginning of this chapter).

Does private sector participation improve performance? Gassner, Popov, and Pushak (2008) investigated that question by looking at performance changes pre and post privatization of 1200 electricity and water utilities in 71 developing and transition economies. They found that private sector participation reduces distribution losses and headcounts, improves bill collection and employee productivity, and increases user connections. All these positive changes translate into lower operating costs and higher profitability. The private sector “has transformed an unmanaged rent … into an explicit profit” (Estache, 2010, p. 83).

3.2.2 Summary discussions and proposition refinement

Clearly defined and rigorously enforced property or contract rights provide potential investors and property owners with the necessary incentives to invest by limiting the risks of government appropriation and diverting more resources away from seeking protection to wealth production. Property rights security also incentivizes investors to be more long-term oriented enterprising than short-term profit arbitraging. It stimulates trades because free transferability of property rights is assured (Galiani and Schargrodsky, 2014). This explains why infrastructure of high upfront capital

intensiveness and long cycle of cost recovery is so sensitive to poor protection of private property rights.

Property rights are not absolute and are subject to change due to individual initiatives and actions. Delineation of property rights is a gradual process because of the cost level and information availability involved in such a process and the changes in the economic value created by existing rights. Defining and continuously refining property rights represent a value maximization effort on the part of stakeholders (Barzel, 1997).

Preliminary proposition P1 in Section 2.3.1.3 emphasizes the proactive nature of investors' strategies and behaviors to seek delineation of property rights (against government ownership backdrop) and to counter any drawbacks rendered by inefficient or dysfunctional governments. Based on the preceding theoretical reasoning of the delineation process, however, investor's proactive actions may or may not be able to achieve their goals given their passive status as an outsider to the host political and social process. Thus, P1 has been refined below to reflect their potentially polarized scenarios:

P1a: B&R investors are unable to effect host institutional change to improve their property right security; Instead, they have to live with whatever exists.

Or

P1b: B&R investors can devise and implement firm strategies to enhance their property or contract rights security required by their investments.

3.3 Why transaction costs?

3.3.1 Concept and theories

Different institutional designs (e.g., property rights) and contractual arrangements result in different economic settings (e.g., planned versus market economies). This leads to varying levels of cost to transact and/or to run the chosen system, which in turn impacts performance efficiency levels (e.g., GDP and productivity growth, profitability of a firm, return on investment or assets). The cost to run the institutional systems or contractual arrangements is called transaction costs.

Cheung (1992/2005, p. 246) defines transaction costs as comprising of "all those costs that cannot be conceived to exist in a Robinson Crusoe (one-man) economy." This includes the costs of information searching, contract negotiation and enforcement, delimitation and policing of private property rights, and "the cost of waiting" (i.e., efficiency lost or wasted). Since Smithian "invisible hand" directs market activities, these costs, arisen from the extant property rights and political systems or even

government intervention, could be viewed as the cost of the "visible hand" or "institution cost."

North and Thomas (1973/2016) adopted a narrower definition, which consists of only costs of information search, contract negotiation and enforcement. Another variation of the definition is only limited to costs associated with delineation, enforcement, and transfer of private property rights (Barzel, 1997). This research will adopt the all-inclusive type definition by Cheung.

Following Cheung's (1992/2005) definition, in the real world of investment business, particularly in the B&R context, transaction costs include all costs of undertaking an investment, such as searching for information (e.g., due diligence, market research); contracting, ongoing monitoring, and exiting investments (e.g., legal help, accounting and reporting, corporate governance); seeking legal protection (e.g., contract enforcement, litigation); lobbying the government (even bribery, for a theory on corruption, see Cheung, 1996); fulfilling social responsibilities (e.g., donation to local schools, sponsor of public events); and paying taxes and levies to host authorities.

Expenses and costs incurred by the host government to regulate and administer FDIs also constitute transaction costs. A typical one is to set up and operate a (an independent) regulatory regime. If a project is run by government-owned entities (e.g., SOEs), all the costs of running the relevant government functions will add to the transaction or institutional costs (see SOE definition in Section 3.1.1).

3.3.2 Nature of transaction costs

Related to this research is the institutional nature of the afore-mentioned transaction cost items. These institutional costs occur outside the direct production or investment process and are imposed by the extant property rights and political systems (e.g., price controls, excessive taxes and fees, rent-seeking, outright appropriation). These "pains," as might be metaphorically described, are inflicted by weak institutions or even institutional designs (e.g., domestic passport to restrict free movement of labor) onto investors and market participants. They are operated outside of the market and created by the "visible hand" (e.g., monopolist interest rates, artificial barriers to entry, outdated administrative practices). They are not subject to market rules of bargaining and competition (Zhou, 2017).

These costs of institutional nature impose the most severe obstacles to economic growth in developing countries like pre-reform China. Hence, institutional reforms that remove or lessen such impediments represent the most effective strategies for inducing private investment and spurring economic growth, as evidenced by China's economic success since 1978 (Cheung, 1982/2005, 1998a, 1998b; Zhou, 2017).

3.3.3 Causes of transaction costs

The transaction costs of institutional and inhibitive nature are primarily caused by the "visible hand," specifically, unclear delineation of property rights, lack of competition or nonmarket behaviors of government, weak institutions or poor institutional designs, and / or failure to accrue positive externalities to their rightful producers (Rowley's preface to Cheung, 1978/2002).

These compulsory outlays imposed by institutions prevent efficient allocation of productive resources and operation of market. Consequently, they inflate cost of products and services to end users and / or diminish returns to investors on invested capital (Zhou, 2017). There is value wasted or rent "dissipated" (Cheung, 1992/2005) or rent "unmanaged" (Estache, 2010). Both investors and society at large lose value.

3.3.4 Strategies to reduce transaction costs

What suppresses rent dissipation and transforms an "unmanaged rent" to investors' profit? That would be the job of private property rights and market that reduces transaction costs.

Why? "The delimitation of [private property] rights is an essential prelude to market transactions" (Coase, 1959, p. 27), and "the market itself is an institution.… created to reduce transaction costs" or maximize profit, if one looks at it another way (Cheung, 1998b, p. 519). Here, market takes in different forms (e.g., bazaar, public tender, stock exchange, or auction), but its role is to facilitate the exchange of goods, services, capital, and information predicated on private property rights.

How? Firms or individuals with private property rights respond to prices in the marketplace and make input and output or investment decisions based on the information and knowledge they possess, resulting in an efficient allocation of productive resources (including capital) and operation of business. Price and profit motives are the "invisible hand" that guides market participants and works in a market environment (Cheung, 2010).

The more market discipline is applied in the investment and operation of infrastructure, the less transaction costs will endure, and the more returns potentially will accrue for investors or shareholders. Several cases gleaned from select literature will be reviewed below to illustrate the variety and the obstinate nature of these costs and inefficiencies.

3.3.5 Transaction costs cases from literature review

Aid programs in Africa (Collier, 2007)

In 2004, a survey in Chad tracking money released by its Ministry of Finance to the intended rural health clinics finds that only 1% of the money reached destinations,

while the remaining 99% was evaporated in the process. This was attributable to “bad governance” (p. 66).

It was further revealed that in Sub-Saharan countries, about 11% of aid money received goes to the military budget; About 40% of military budget are diverted from foreign aid (p. 103). These monies could have been used to build more clinics or roads by the recipient governments or organizations if strong and accountable governments existed.

Additionally, “Projects done in countries with weak governance and poor policies are known to be more likely to fail” (p. 118). The lack of institutional commitment and accountability of government functions leaves enough room for the misappropriation of funds or even outright embezzlement. It is well known that the construction trade is one of the two most corrupted industries in these countries and inflates cost of infrastructures. These observations indicate what institutional weaknesses can cost society and donors.

Indochina-Yunnan Railway by French colonial government

In his case-based PhD dissertation, Rousseau (2014) studied the history of the 848km long Indochina-Yunnan railway (滇越铁路), which links Haiphong, the Vietnamese port city, via Hanoi, to Kunming, the capital of Yunnan province in China. The narrow- gauge, single-track railroad was built by the French colonial government in Vietnam between 1901 and 1910 and has continuously operated to this date.

It is noted that the project emphasized, but failed to achieve, its proclaimed “military, geopolitical and civilizing benefits” (p. 2). Financially, it became a “bottomless money pit” (p. 11) for the French in both the initial construction and subsequent maintenance.

This case demonstrates what limited regulatory capacity or lack of understanding of the potential uses of a railway project can cause to an ill-motivated project.

Taiwan High Speed Railway (Cheng, 2010)

Modern Taiwan is far more sophisticated than backward Sub-Sahara or the French colonial government a century ago. But the experience of Taiwan High Speed Railway (捷运), which was believed to be the largest PPP project in the world in the late 1990s with an initial budget of US$16bn, tells a similar story.

The project represents the first BOT model and infrastructure PPP in this newly democratic society. The private bidders, government planners, legislators, and taxpayers and voters all lacked requisite expertise in dealing with such a massive investment. As a result, the budget was overrun, there were delays in completion, and

the public was dissatisfied. Lack of regulatory competence, or the inability of government planners and regulators to do their job right, bears the blame, even though the causes were all understandable given the maiden nature of the project.

In summary, weak institutions cause a variety of transaction costs.

3.3.6 Summary discussions and proposition refinement

The preceding theoretical reasoning of transaction costs and diagnose of precedent reveal that weak governance, poor policies, political or ill-motives, lack of relevant expertise, and many other forms of institutional weakness, coupled with unclear property rights and projects operated outside of market, result in high transaction costs in undertaking public infrastructure projects in emerging economies. This then results in diminishing investment returns and dampening private investor interest. Thus, such projects are often left to governments or undone.

These discussions of transaction cost theories and examples should raise enough warnings against, and support the prevailing skepticism toward, China's ambitious BRI program. Whether or how B&R investors can overcome institutional barriers or develop appropriate mitigating strategies, such as strengthening host institutions or fostering institutional reforms to suppress transaction costs, will become critical to making their investments profitable and commercially justifiable. Therefore, preliminary proposition P2 (see Section 2.3.2.3) could be deduced into following scenarios:

> ***P2a: B&R investors' institutional strategies would be ineffective to suppress the abnormally high transaction costs to justify their investments from a commercial point of view.***
>
> Or
>
> ***P2b: B&R investors' institutional strategies will be able and effective in reducing the high transaction costs and generate appropriate returns on their investments by proactively securing their property or contract rights and effecting favorable institutional change in the host environment.***

3.4 Why positive externalities?

Following Coase's (1937/1988) monumental work on the nature of the firm, a variety of theories and applications have been developed, for example, to define firm boundaries and scope of businesses (Chandler, 1992). His insight into social costs (Coase, 1960) has triggered both additional theories and applications of positive and negative externalities (e.g., auctioning of radio frequencies (see Section 2.1), trading in pollution credits). The externality concept has spread into various subfields in

economics and business (Medema and Ferey, 2014; McClure and Watts, 2016).

Exploring this body of literature is not the intent of this research, but the heart of these doctrines is very relevant to uncovering potential insights from the selected cases. This research, therefore, will apply this NIE concept and potential monetization strategies of positive externalities in pursuit of real-world infrastructure investment from a business model perspective and attempt to build a link between this body of theories and the B&R investment model.

3.4.1 Concept and theories

Externalities arise when a "divergence between [marginal] private and [marginal] social costs" occurs (Cheung, 2002, p. 25). Positive externalities result if marginal social benefits exceed marginal private costs. The opposite happens if marginal social costs surpass marginal private cost. A specific event or private action could produce both positive and negative externalities, or two actions could produce externalities reciprocally. Narrowing or eliminating the gap between private cost and social benefits is essentially about private property rights and transaction costs, which in turn are determined by institutional arrangements and designs (Cheung, 2002).

In a study of the Hong Kong government's condemnation of the underground strata rights of a residential neighborhood for the construction of underground high speed rail line, Man and Mok (2016) find that the perceived noise and safety concerns potentially posed by the rail construction were offset by the prospect of property price appreciation. This resulted in a net effect of 15.1% increase in property prices between pre and post announcement of the government scheme. Similar empirical research has documented these positive or negative (e.g., factory emissions pollute neighborhood) effects catalyzed by infrastructure projects (e.g., roads, airports).

This research will not delve into the various definitions and types of externalities. Instead, it will simply follow the "Chicago tradition," which focuses only on how to capture or internalize social benefits or positive externalities at a given level of transaction costs (Medema and Ferey, 2014, n.p.). The rest of this subsection will devote to analyzing several cases to shed light on how theories have been applied and how to extract externality benefits in real business situations.

3.4.2 Cases of positive externalities and business models

The preceding discourse of institutional evolution, delineation of private property rights, transaction cost reduction, and monetization of positive externalities can be advanced further by diagnosing how these actions work in real world practices. And such, real-life business models or firm strategies become meaningful in offering insight and prescribing solutions applicable to the B&R context. The following case studies will be conducted in this spirit.

3.4.2.1 Illinois Central Railroad (IC) – Creation of property rights and internalization of positive externalities (Flesher, Previts, and Samson, 2006)

IC was America's first major north-south railroad, linking Lake Michigan to the Gulf of Mexico. It was also America's first land-grant railroad, meaning that public lands were granted to construct private rail lines. The U.S, Congress viewed the land grants not as subsidies, but investment to make federal land marketable and valuable. IC could pledge the granted land to lenders for credit enhancement or sell extra grant to raise capital and pay for construction. The government land along the railroad became more valuable, as railroad building progressed and as people and businesses flocked to the nearby towns.

In 1851, IC was granted 2.5 million acres of land along the designed rail line. It used the land as security for bond issues and raised over $10 million from US and UK investors in 1852. Construction then followed. IC timed the additional bond issuances and land sales with progress in railroad construction. In the end, the incorporators of IC owned the railroad at minimal cost of their own money.

IC's 1855 annual report shows a population increase of 250,000 along the railroad between 1850 and 1855. The government disposed of three million acres of land within 15 miles of the rail track during that same period. IC's average land sale price was $10 per acre in 1855. In the town of Cairo, for instance, land prices doubled in 1856 from the previous year. The railroad became an engine of local agriculture and transportation economies, which in turn drove up land prices benefiting both IC and the government.

> During the 1850s, IC was more than a railroad; it was the change agent in a major social experiment, an attempt by government to foster economic development by using raw, fertile land to motivate not only corporate investors, but to attract a productive population as well. The glue that held this experiment together was the financial capital provided by European investors (p. 22).

A few interpretations can be deciphered from the above description. First, the U.S. Congress deliberately created private property rights through the Land Grant Act, which created a market for the land and enabled private investors to derive credit enhancement from it. Second, IC was incorporated to carry out both railroad investment and operations and real estate development business, expanding the project's business scope. Third, private capital, both private and public market, and both domestic and foreign, was willing and able to commit sufficient amounts to participate in capital-intensive infrastructure investments in emerging economies at the time.

3.4.2.2. Italian opera house – A model of cross subsidies by expanded scope of business and by capturing and creation of synergies in between (Wong, 2014)

Western opera appeared in Italy in the 17th century, and achieved its peak between 1760 and 1780, with 1023 new shows staged. The opera houses were operated as commercial organizations and sought sponsorships from the rich and the royal families in addition to ticket sales. Typically, these opera houses were also licensed to operate casinos to draw in crowds and drive up leisure consumption. As a result, they used gambling receipts to supplement cash flow shortfalls from the opera business. (Verdi was believed to be a master in both composing operas and running casinos.) The two synergistic businesses generated enough revenue to make the opera houses viable and profitable commercial operations, and helped fund ongoing investments in new shows, many of which later become classics.

In 1778, the opera houses' casino licenses were revoked by the Austrian government. Recognizing the loss-making nature of standalone opera business, the government earmarked subsidies to the opera houses, which lasted until 1859 when the government was toppled. The opera industry began its decline in the mid-19th century and few new operas have been created in either Italy or the rest of Europe.

Italian opera has evolved in two distinctive stages: being sponsored and commercially operated, and subsidized. Corresponding industry dynamics were distinctive too: innovative and prosperous versus dull and lackluster. (The same distinction exists in infrastructures, being either a pillar industry in national economies (e.g., telecom in the U.S.) and an asset class for private investors (see Table 2.2), or money-losing public goods that become territories of special interest groups and need public subsidies.)

This classic episode can be interpreted as follows. First, the old licensing regime enlarged the scope of opera occupation and created a business model comprising of two synergistic trades that generate overflow benefits (traffic) reciprocally. Second, the complementary nature of the two professions enabled the core opera segment to internalize some of the overflow benefits from the casino line. Third, institutional change (i.e., revoke of casino license) negatively affected the health and even the survival of the core opera business.

3.4.2.3 Hong Kong's MTR – A model of modern infrastructure capturing positive externalities by expanding scope of business (Tang and Lo, 2010)

The MTR has three revenue streams: a) rider fare receipts, b) non-fare railway revenues (e.g., kiosk, advertising, exhibition, consultancy), and c) property development above stations and depots, which is an exclusive right granted by the MTR Ordinance. In the 2004 fiscal year, railway revenues (a + b, b alone accounts for 20% of total) were insufficient to cover operating expenditures, most costly being

depreciation and financing costs. For the 10 years up to 2004, on average, profits from property development plus net income from rentals of commercial and retail properties accounted for almost 50% of total operating revenues and 90% of profits before taxes.

The contributions from property businesses were measured to accrete about 5% returns on fixed asset investment. This stream of yield is viewed as an indirect subsidy by the government (for the grant of exclusivity to develop properties) and allows the MTR to be commercially viable and appealing to private investors as well.

The MTR case exemplifies some important themes. First, government legislation or "intervention" (Cheung, 2010) is best positioned to design property or concession rights that create unique business models capable of internalizing positive externalities. Second, market-based business models are superior to government mechanisms in delivering cross subsidies. (Hong Kong government could have earmarked a tax on property transactions and used the receipts to subsidize the MTR directly.) Third, clearly defined and rigorously enforced concession rights could become a darling of private capital or a class of investment assets (e.g., MTR shares and debts are traded) in public capital markets.

3.4.2.4 Summary of mini cases

The preceding analyses of several mini cases and their key themes filtered through NIE lenses can be summarized below (see Table 3.1). They all are about private property rights and how to create and capture positive externalities by changing institutional arrangement.

Table 3.1 NIE Themes from Mini Cases

Case	Key Institutional Change	Effect on Business Model	NIE Effect
Illinois Central	Land Grant Act	-Free land -Lower cost of railroad -Financing capacity	-Created property rights and security in land -Internalized externalities -Created and captured positive externalities by government
Italian Opera	Revoke of casino license	-Loss of a synergistic business -Reduced scope of business	-Eliminated a reciprocal externality
HK MTR	MTR Ordinance	-Expanded scope of business	-Created and captured positive externalities

3.4.3 Summary discussions and proposition refinement

In sum, private firms are capable of internalizing some of the social benefits generated by their investments because of their innate abilities of capital and resource pooling (North and Thomas, 1973/2016), adapting to market and business realities as "learning machines" (Chandler, 1977), and maximizing investment returns guided by market price signaling and their profit motives.

This can be achieved by designing appropriate business models or entering mutually beneficial contracts, saving the need of direct subsidies by government, or avoiding traps inherent in weak institutions. These innate advantages in private firms, however, are predicated on specific institutional arrangements or changes (e.g., Land Grant Act, grant or revoke of casino license, and MTR Ordinance) stipulated by polities. Therefore, once an institutional arrangement is made or changed by the government (potentially in consultation with private investors), the market's inherent role could work to reduce the gap between private and social costs (Cheung, 2010).

Based on the preceding line of reasoning, the preliminary propositions P3 and P4 in Section 2.3.3.3 can be recalibrated as below:

> ***P3a: B&R investors would not be able to internalize or capture positive externalities created by their investments given the stagnant nature of extant institutional settings in host countries.***
>
> Or
>
> ***P3b: B&R investors could deploy strategies to facilitate enactment or change of host institutions and monetize positive externalities by proactively seeking delimitation of property or concession rights and appropriate scope of business.***

3.5 Chapter summary

The BRI is a contemporary, transglobal political as well as economic phenomenon, with relevant research still being developed. Brief survey of the existing BRI research landscape highlights the importance, and a potential gap in, project level investigation. This research intends to pursue a case study approach and contribute to the advancement of these explorations.

In the course of reviewing selected literature on infrastructure investment in developing economies, several common themes have emerged to allow for several propositions to be developed (see Table 2.3). These literatures alluded to but stopped short of further pursuing another strand of literature, new institutional economics. Following through this line of reasoning has been a worthwhile endeavor. Integrating these two strands of inquiries, this research has attempted to focalize on

the institutional dimension of infrastructure investment in the B&R context and, more importantly, how Chinese firms react to the institutional settings in those locales. Consequently, preliminary factual or counterfactual propositions postulated in Chapter 2 have been refined by applying NIE lenses in Chapter 3 (see Table 3.2). They are hoped to illuminate and guide the data collection and interpretation, and construction, interpretation, and generalization of case stories in Chapters 7 and 8.

Table 3.2 Proposition Delineation Process

Preliminary Proposition	Key NIE Filters	Refined Proposition
P1: Investors seek to: -Delineate private property rights -Pursue market transactions	- Private property rights - Institutional change (China's reform experience)	P1a: Investors CANNOT / P1b: Investors CAN -Effect institutional change -Enhance property rights
P2: Investors seek to: -Bring capital and other productive resources -Foster institutional change	- Private property rights - Market institution - Institutional change	P2a: Investors CANNOT / P2b: Investors CAN -Effect institutional change -Secure property rights -Suppress transaction costs
P3: Investors seek to: -Suppress transaction costs		
P4: Investors seek to: -Expand business scope -Capture positive externalities	-Institutional change -Private property rights -(Reciprocal) externality -Market institution	P3a: Investors CANNOT / P3b: Investors CAN -Effect institutional change -Internalize externalities
Underlying thesis: -Promote proactive firm strategies and behaviors	-Institutions are amendable -Firms are catalyst of institutional change	-Firm's institutional strategies are proactive forces driving institutional change to achieve their various goals

The preliminary and refined propositions have emphasized on investor firms' proactive behaviors in addressing the institutional constraints in B&R environment. This angle has led this case-based research to zero in on the institutional strategies engaged by these firms, which fall into another domain of literature ---- institutionalism in organizational studies (see Section 4.4).

Synthesizing all these ideas and concepts and building on inter-discipline dialogues, a conceptualization framework is constructed in Chapter 4 to depict this thought process and guide the rest of this research.

Chapter 4 Conceptualization Framework

Given the contemporary and evolving nature of the BRI, research of it requires importing theories and concepts from other disciplines, making this study a multidisciplinary discourse (Maxwell, 2013). This research intends to focus on the investors' institutional strategy aspect of the selected cases. The conceptualization framework to be discussed will largely draw upon NIE concepts and theories reviewed in Chapter 3 (i.e., theoretically driven) and corroborated by historical evidence as illustrated by the several cases in Sections 3.3.5 and 3.4.2 (i.e., empirically grounded). Then, organizational theories filtered through NIE lenses, both theoretically and empirically, will be reviewed in Section 4.4. An analytical framework constructed through these means is well-suited and useful for the type of case study research that this project envisions to accomplish (Jabareen, 2009; Maxwell, 2013).

4.1 Preliminary conceptualization framework

A conceptualization framework is a system of theories, concepts, ideas, personal beliefs, assumptions, and other factors that is constructed or reconstructed to explain or interpret the phenomenological process under study and inform the research questions to be answered. For now, such a framework could be tentative and subject to continuous refinement (Maxwell, 2013). Miles and Huberman (1994) defines a conceptual framework that "explains … the main things to be studied ---- the key factors, constructs or variables ---- and the assumed relationships among them. Frameworks can be rudimentary or elaborate, theory-driven or common-sensical, descriptive or causal" (p. 18, cited in Ravitch and Riggan, 2012, p. 8).

Regardless of the varying definitions, a typical conceptual framework is supposed to argue for causality or an interactive relationship between or among factors. It can incorporate established theories or assumed relationships based on a researcher's own beliefs or understandings. But ultimately, its constructs or relationships have to be grounded in empirical evidence and modified accordingly (Ravitch and Riggan, 2012). The goal of it is to provide an "interpretive approach" to understanding social realities, seek to "generate new interpretations" of existing consensus theories (Jabareen, 2009, p. 51), or help crystalize research questions and guide a research investigation (Maxwell, 2013).

Based on the preceding discussion and authorial advices, a framework of conceptualization is created as below (see Fig. 4.1):

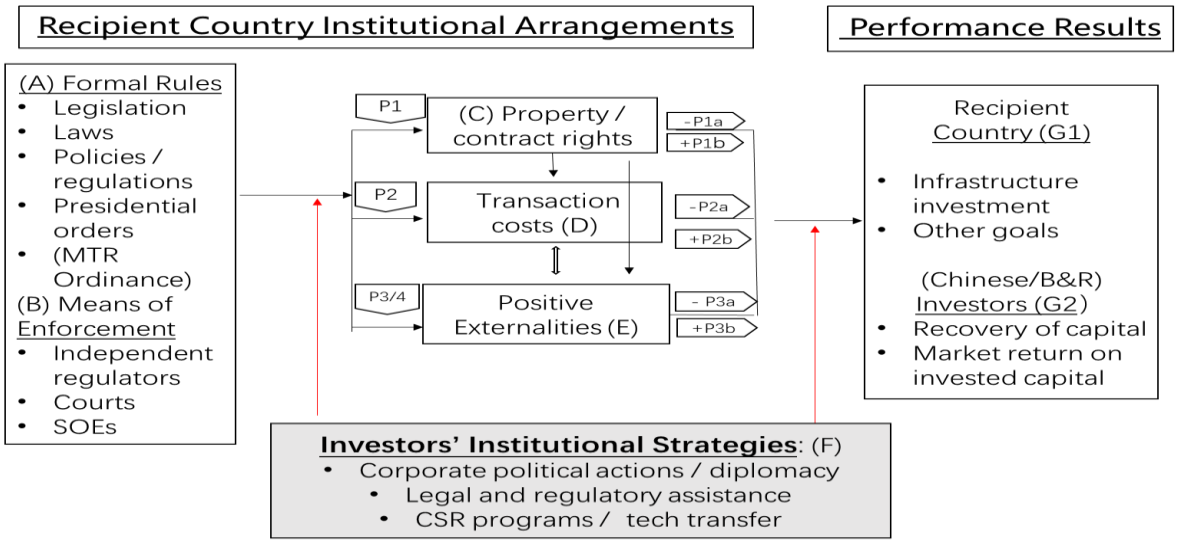

Fig. 4.1 Framework of Conceptualization

It is worth highlighting the following:

First, this conceptualization framework is a key component of this qualitative research design that helps refine research questions and guide the rest of this research (Ravitch and Riggan, 2012; Maxwell, 2013).

Second, in addition to its theoretically synthesizing feature, this framework has incorporated confirmatory evidence from both empirical research of historical business applications (see Sections 3.3.5 and 3.4.2) and preliminary findings from desktop research and preliminary analysis of collected data. Coincidentally, this line of action is consistent with the spirit of conducting "pilot and exploratory studies" before formal data collection and analysis as advised by Maxwell (2013, p. 66).

Third, this framework may seem overly general, simple, or even incomplete, but that is because it is not taken off the shelf or copied from a proven model. It is customized for this research's objective of investigating "causal explanations" (Maxwell, 2013, p. 31) or "causal mechanism" (Gerring, 2007) and for approving or disapproving the theoretically deduced propositions labeled P1a-P3b. Hence the conceptualization is subject to refining, making this research process "interactive" (Maxwell, 2013) or "iterative" (Yin, 2014).

Lastly, this framework is founded on NIE theories and arguments. However, it has further incorporated a sub-theoretical framework of organizational institutionalism or firms' institutional strategies (F) to help crystalize research questions. This is also where *"theoretical focus" (deductive) transitions to "methodological focus" (inductive) in this research process* (Ravitch and Riggan, 2012).

Therefore, this framework and associated propositions will be used as focal light to guide and direct data collection and analyses. They will also serve as analytical lens to

interpret findings and corroborate or delineate these concepts and relationships in an iterative fashion.

4.2 Discussions of key concepts and relationships

Fig. 4.1 lists three groups of concepts: host country institutional arrangements (A-E), investors' institutional strategies (F), and performance outcomes (G1-G2). There are several key relationships between the concepts that are articulated within these groupings.

4.2.1 Host country institutional arrangements and implications

The following concepts and relationships fall under the host or recipient or B&R country institutional arrangements category in Fig. 4.1.

First, "formal rules" or the "rules of the game" (North, 1991; Wallis, 2014), labeled "A" and promulgated by host government, include legislations, laws, policies, and regulations or specific rules governing FDIs and B&R projects. These institutional arrangements and their changes would determine, among others, the security level of private property or contract rights (C), the magnitude of transaction costs (D) to conduct business or investment, and to what extent potential of positive externalities (E) could be unleashed and monetized by investors under a specific law, policy, or regulatory regime.

Second, "means of enforcement" (Wallis, 2014), labeled as "B," is defined in Section 3.1.1 as an inseparable component of institutions and characterized in three forms of enforcement mechanisms: court systems, independent regulators, and SOEs of dual objectives (Horn, 1995).

In addition to their for-profit motive, SOEs can act as implementors of a specific government or political agenda, such as attracting foreign investment, raising treasury or foreign exchange revenues, maintaining employment, or executing government mandated investment or industry policies. SOEs' noncommercial undertakings are typically compensated by government in the form of certain privileges, including monopoly of certain industries or trades, special license or permit, advance of cheap credit, subsidies, and exemption of certain levies that are compulsory to other market participants. To ensure SOEs to perform their mandated functions, governments typically exercise controls by setting their budget, appointing management, giving or taking away privileges, or dictating incentive programs (Horn, 1995; also see Section 6.2 about Russell's experience).

In practice, SOEs as a mechanism of institutional enforcement are not unique to socialist or planned economies, but popular alternatives used by a range of

governments, such as the EIC, the Dutch East India Company, U.S. Postal Service, and Hong Kong's MTR, just to name a few. More varieties to come in Chapter 7.

Third, among the three key NIE concepts, i.e., private property rights (C), transaction costs (D), and positive externalities (E), property rights are a direct result of host institutional design and overarching institutional arrangements, as discussed in Section 3.2. It determines, in conjunction with other formal rules, the nature and magnitude of how much transactions costs (D) could incur or reduce and be transformed to investment returns, as well as how, how much, and in what form (e.g., business scope) positive externalities (E) could be internalized by investors to enhance their investment returns. "Property rights institutions have a first-order effect on long-run economic growth, investment, and financial development" (Acemoglu and Johnson, 2005, p. 949).

(In B&R practice, an investment or a CA negotiated and entered between a host government or its enforcement apparatus and investors would be the most critical constitution defining and regulating their respective rights and obligations. But "contracting institutions" are difficult to "mitigate the risk of expropriation" (Acemoglu and Johnson, 2005, p. 949). See Chapter 7 on how case investors have addressed this risk of weak contracting institutions.)

It is worth noting that transaction costs and externalities are theoretical aggregating concepts that reflect real-life, consequential happenings of formal rules or (non) enforcement of property rights. For example, government policies and their enforcement cause extra taxes or levies on market firms, or undue time taken to complete a business registration, or a concession right not 100% honored by the government that bestowed and signed the agreement in the first place. These "extra taxes," "undue time" or reneged "concession right" are practical forms of transaction costs. These concepts are derivatives of a given set of formal rules or property right systems. For convenience, they have been grouped under host country institutional arrangements.

4.2.2 Performance results

How much infrastructure investment to receive in a specific country or B&R destination (G1) and whether investors will have their money back or make a market return (G2), together or severally, constitute the group of performance outcomes. There can be other forms of social or economic objectives, for example, increasing local employment, importing technologies and knowhow, training local recruits (see more in Chapter 7).

These performance results will be largely contingent on how the local property or contract right systems are defined and enforced, and whether and how investors have influenced the delineation and enforcement of these institutional arrangements. G1

represents investment that has been realized from a host government perspective, a large portion of which overlaps or is doubly accounted for with how much the private sector has invested, as labeled G2. In a market dominated economy, these two items represent the two sides of a coin, because supposedly all commercial investments are made by the private sector, even though, for example, government money could be represented by its shares or debts owned in a (private) company making the investment (e.g., HKSAR's ownership in MTR).

4.2.3 Investors' institutional strategies

As stated in the propositions in Chapters 2 and 3, B&R investors should proactively influence and promote institutional change through their organizational behaviors to strengthen host institutions (e.g., property rights and rule of market) in order to improve safety and return profile of their investment. Thus, these firm actions of an institutional nature are inspired by investor's profit motive and competitive necessities and can take different forms, as discussed below.

Against common perceptions that foreign investors are passive and on the receiving end of host institutional establishment, this research contends that there exists an interactive and "dynamic relationship" between the "interests and incentives" of investors and the host countries' rules and regulations (Wallis, 2014, P. 36). *The central interest of this research is placed on those interactions and, more importantly, the proactive behaviors of B&R investors as well as their effect on institutional reforms implemented by host governments.*

In practice, private investors' profit motive and nonmarket competitive strategies can be expressed in a variety of forms, such as corporate political action, corporate social responsibility (CSR) programs and lobbying, negotiations and contracting, counter offers, legal battles, or even outright decline of a specific investment. Such interactive dynamics can exert influence, for instance, in the formulation of host policies and regulations, bestowing of contract or concession rights (e.g., BOT) by host governments (i.e., the influential effect exerted by F between A and B vs. C, D, and E in Fig. 4.1), and the implementation of those contracts (i.e., intervening actions applied by F between C, D, and E, and G1 and G2). These interactive relationships constitute the preliminary propositions P1-P4 posited in Chapter 2 and their derivative and refined versions in Chapter 3, and are meant to exemplify how investors directly or indirectly impact performance outcomes. These refined propositions will serve as key guides in data collection and analyses and be approved or disapproved against findings in Chapter 8.

It is worth highlighting that the framework in Fig. 4.1 doesn't include "market" as a key institution because it has been assumed as a given. In real B&R countries, however, market economy is not given and not working to its fullest extent (see Section 1.2.2). That is why this research has introduced concepts of transaction costs

or the “visible hand” and focuses on investors’ institutional strategies, which have been devised as a response to establish, restore, or maintain the rule of market.

4.3 Empirical bedrock of conceptualization framework

The conceptualization stylized in Fig 4.1 was largely deduced from NIE theories, which are treated as guiding tenets of this research. Evidence of empirical studies to streamline these theoretical pieces and build a strong link between these root concepts and investor behaviors undertaking infrastructure investment is presented below.

Based on the literature reviews in Chapters 2 and 3, it is believed that this research design represents an extension of NIE theories and their applications to the B&R context (see Section 1.6). This research investigates the causal mechanism, as opposed to the causal effect, of this linkage (see Section 5.1.2).

4.3.1 Empirical underpinnings of the conceptualization framework

In commenting on his contributions to economics, Myhrman and Weingast (1994) wrote that leveraging on the pioneering work by other scholars on “property rights and transaction costs,” Douglass North took a step further and developed “a theory of institutions and saw their relevance for economic history” (p. 186). Their focus on institutions (referring to Davis and North, 1971) led to the enlightening insight that American economic growth in the 19th century was driven by and complemented with “institutional evolution,” which is characterized as “changes in property rights and the invention of new institutional arrangement and forms of economic organization” (ibid., p. 187). In contrast, “the inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World” (North, 1990, p. 54).

These reasonings and insights gained from the analyses of the economic history of modern developed economies reveal not only the key “causal effect” relationship (concept to be discussed in Section 5.1.2) between institutional design and change, and economic growth or stagnation, but also how key institutions like property rights affect transaction costs and firm efficiencies. That in turn determines ***how*** institutional enforcement impacts economic performance, termed as the “causal pathway” or “causal mechanism” (Gerring, 2007), which will be the focus of this research and further examined in Section 5.1.2.

Extending North’s path of theoretical inference, the institutional elements of political nature, the “formal rules” and the “means of enforcement” in Fig. 4.1, are classified by Acemoglu, Johnson, and Robinson (2004, pp. 1-6) as “political institutions,” which determine the form and quality of “economic institutions.” That includes property rights and market and can further drive or constrain “economic performance” and the

"distribution of resources." This chain of inter-relationships echoes the logic by Coase (1959) and Cheung (2010) reviewed in Chapter 3 that private property rights are a precondition to market transactions and that market exists and functions to reduce transaction costs and internalize externalities, resulting in profitability.

The theoretical distinctions between political versus economic institutions and their indirect and direct impact on economic performance are further substantiated by an econometric study (Flachaire, Garcia-Penalosa, and Konte, 2014) of selected developed and developing economies for the period 1975-2005. It concluded that "in autocratic regime, economic performance is highly sensitive to policy changes" (ibid., p. 227), because political institutions affect private investors' desire and risk perspective of investment in human and physical capital. This quantitative assessment also validates Collier's (2007) observations of why both human and physical capital are lacking in developing countries with mostly autocratic regimes (supporting evidence to proposition P2 and more in Chapters 7 and 8).

4.3.2 Institutional theories and infrastructure investment

Applying NIE theories to investment in telecom and electricity infrastructures in over 100 countries over a century long period, Henisz' (2002) econometric study suggests a "significant link between political institutions and infrastructure growth rates" (p. 375). The study also reveals that countries offering better property right protections likely adopt infrastructure innovations earlier than its neighbors of similar institutional heritage and have higher growth rates in subsequent investment as well. It provides further evidence confirming that government policy change or its commitment and credibility not to interfere with private property rights is particularly sensitive to infrastructure investment of capital intensive and long life-cycle nature, consistent with findings by Flachaire et al. (2014).

In sum, the preceding theories and reasonings corroborate the weak institution argument explaining why there is a lack of (private) infrastructure investment in the B&R countries (upholding the assumed relationships and logical flows of concepts from A/B to G1/G2 in Fig. 4.1). In addition, assuming the political and economic institutional setup in these countries are amenable to change (North, 1990/1994), how B&R investors as business firms devise (what) strategies to promote such change constitute another causal relationship that the conceptual framework in Fig. 4.1 tries to demonstrate (an embedded sub-framework).

*This is where my research interests rest and the flow of discussions shifts from grand NIE theoretical to concrete methodological focus (addressing the **how** and **why** questions)* (Ravitch and Riggan, 2012).

4.4 Firm's institutional strategies

Chapter 3 and Fig. 4.1 conceptualization have posited that there exists a dynamic relationship between host country institutional design and change and B&R firms' strategic behaviors, and that these investors should and could proactively explore and pursue this course of strategic actions to their benefits. But what these strategies are and how they work should be defined and understood. That will be discussed next to lay a solid foundation for this research to proceed.

4.4.1 Concept and definition

As introduced in Section 1.2.3, firms' institutional strategies are defined as a "comprehensive set of plans and actions directed at leveraging and shaping the socio-political and cultural institutions within an organization's external environment" (Marquis and Raynard, 2014, p. 5). This definition integrates institutional perspectives with the study of organizational behaviors. Organizations mean both business and nonbusiness firms. Their external institutional settings include both "formal rules," or political and economic institutions and "informal constraints" or social institutions (see Section 3.1.1).

This research is designed to explore how business organizations proactively influence external institutional changes or even alter certain elements of external institutions that constrain their profit and competitive motives. Expressed in another way, the interactive relationships between business firms and their external operating environment of formal rules in B&R contexts are the focal point of this research.

The topic of institutional strategies represents the "new frontier of institutional research in organizational studies" (ibid., p. 6). Depending on one's research focus, for example, corporate political strategies, stakeholder actions, and CSR are grouped under the name of "nonmarket strategies" of business firms (Dorobantu, Kaul, and Zelner, 2017; Saïd, Sevic, and Phillips, 2019) or "corporate diplomacy" (Henisz, 2016). Another stream of research simply calls weakness in, or absence of, necessary formal rules or informal norms to support the operation of markets as "institutional voids." It proffers that organizations need to be "filling the institutional voids" (Khanna and Palepu, 1997, p. 41) or "work these voids" (Mair, Martí, and Ventresca, 2012, p. 822), or engage in "institutional entrepreneurship" or "leverage resources to create new institutions or transform existing ones" (MaGuire, Hardy, and Lawrence, 2004, p. 657). The organizations and individuals possessing the requisite resources and power to exercise such "institutional entrepreneurship" are regarded as "institutional entrepreneurs" (Hardy and Maguire, 2017, p. 262).

Regardless of whether they are called firms' institutional or nonmarket strategies or institutional entrepreneurship, they are merely an aggregating label describing a portfolio of firm actions and plans driven by its profit motive and other strategic goals

to proactively battle deficiencies in its external institutional environment. Recognizing this fundamental nature of such corporate behaviors and the evolving dynamics of the organizational institutionalism research, this research has deliberately chosen the term of "institutional strategies" to describe and encompass Chinese firms' proactive actions and plans in confronting weak or missing institutions in B&R contexts in order to achieve, among others, security in property and concessions rights, reduction in transaction costs, and monetization of positive externalities. The ultimate goal of these firm actions is to recover and generate market returns to their investment. Terms like institutional void and institutional entrepreneurship may be used going forward.

4.4.2 Nature of institutional strategies

Institutions tend to be incomplete and amenable to change, and political or business entrepreneurs and organizations are sources of energy to spur institutional evolution (North, 1990/1994). Legislators sometimes may intentionally leave laws and rules incomplete due to constraints of high transaction costs and political objections, preventing further delineation (Horn, 1995). Formal institutions, therefore, are inherently susceptible to change or even complete reconstruct (Marquis and Raynard, 2014).

There are many examples of drastic institutional change. Some have become common knowledge. Following the terrorist attack on Sep 11, 2001, the US Congress passed the Homeland Security Act of 2002, which established the Department of Homeland Security (Homeland Security, n.d.). Proliferation of internet-based business models and applications has prompted a range of new rules and regulations around the world to govern information privacy, intellectual property rights, and so on. To implement its ambitious reform initiatives and transition its legal and policy environment to be compatible with the rapid growth of its economy, China has enacted numerous laws and regulations governing corporations, contracts, securities, property rights, internet, and intellectual property over the past 40 years (Zhao, 2019). As a unique feature of Chinese Special Economic Zone (SEZ) legislation, the authority of enacting implementation rules and directives was delegated to the local congress of Shenzhen SEZ Municipality (Xu, 2013).

In developing and transition economies where requisite formal institutions are either weak, incomplete, or even absent to facilitate market transactions, underdeveloped product and labor markets, poor contract or law enforcement, lack of adequate infrastructure to enable information transparency (Khanna and Palepu, 1997; see Section 1.2.2), limited accountability and commitment on the part of government and their enforcement apparatus (Estache and Wren-Lewis, 2009), cause prohibitively high level of transaction costs. *Logically, firms' institutional initiatives have emerged as a response to address such market impediments inflicted by the weak or inefficient institutional establishment where they operate* (Marquis and Raynard, 2014)

4.4.3 Types of institutional strategies

Based on the strategic intent of firms' initiatives devising such action plans, institutional strategies can be described as adaptive, additive, and transformative (Dorobantu, Kaul, and Zelner, 2017).

First, ***adaptive*** approach means that a firm accepts existing institutional confines and tries to internalize or optimize its strategic choices within firm boundaries and resources. Examples include working around host institutional voids (Khanna, Palepu, and Sinha, 2005) and designing appropriate entry and governance strategies (e.g., joint venture vs. wholly owned subsidiary, majority vs. minority control in a joint venture) in making infrastructure investment in order to minimize risks of, for example, government expropriation (Henisz, 2000).

Second, ***additive*** strategies seek to lower transaction costs by supplementing institutions, structures, business relationships to existing institutional settings without changing them. This route of strategic action takes a variety of forms and for a range of objectives.

For example, self-regulatory institutions avoid state interventions and regulations, trade and professional associations maintain industry standard and qualifications and organize and rally lobbying (e.g., European Chamber, 2020), CSR programs ease concerns of consumers, employees, communities, political and other stakeholders (see examples in Chapter 7), and innovative business models like sharing economy and crowdfunding allocate costs over more users or generate more revenues over a fixed amount of sunk cost (Mair et al., 2012).

All these firm efforts would lead to improvement in their operating efficiency and external environment or to reduce transaction costs (see Section 4.4.2). The proactive genre of this strategy is particularly effective in capturing positive externalities as well (Dorobantu et al., 2017).

Third, ***transformative*** proposition promotes amending or modifying existing institutional arrangements if they are weak or inefficient to facilitate intended market activities or enacting or establishing new institutions demanded by innovations or new phenomena in marketplace. This course of corporate initiatives involves a significant political element since they are geared mostly towards legislators, policy makers, and rule or standard setters.

The resulting rule change could benefit the initiator and its peer group or simultaneously hurt others as well. For example, political actions and lobbies could cause some imports to be subject to higher duties and at the same time tariffs on other products to decline. They could install fences or entry barriers around certain industries in favor of some players and exclude others. A firm's ability to transform its

external institutional environment hinges on, among others, its size, industry standing, credibility, access to political actors, and experience in introducing similar regulatory changes (Dorobantu et al., 2017).

It is worth noting that each strategy, for example, government lobbying, could command one or more of above typology characters. This categorization is not mutually exclusive. Additionally, as stated at the outset, the above delineation is based on the strategic intent of a specific firm action or plan. It merely provides an analytical tool to sort firm activities into patterns or groups of like forms and potential effects.

This research will adopt the above typology and analytical tools in organizing and coding case data to focalize what these strategy formats carry in terms of their potential effect on property rights, transaction costs, and externalities.

4.5 Chapter summary

Following Yin's (2014) advice, I have attempted to conduct "a thorough literature review" (p. 3) and, based on which, conceptualized the analytical and interpretive framework in Fig. 4.1. This framework has drawn its key constructs from NIE, which is treated as guiding theories (see Chapter 3), and integrated with organizational doctrines, as reviewed in Section 4.4.

From a construction point of view, this theoretical framework has incorporated a sub-framework (Ravitch and Riggan, 2012). The main framework builds the foundation for this research to rest upon, while the sub-framework allows this research to narrow down its focus onto firm's institutional behaviors and helps refine the preliminary propositions to become more concrete to guide this research.

This framework and the associated propositions (P1a-P3b) will serve as key analytical yardsticks for the rest of this research, which will concentrate on the proactive strategic plans and actions employed by Chinese firms in combating institutional voids when making infrastructure investments in B&R countries.

This conceptual framework will likely be subject to further refining, as this research process prolongs (see Chapter 8). This is because of the inherent feature of the qualitative case study and multidisciplinary research approach, which is "a linear but iterative process" (ibid., p. 1). It is also likely because of the unfolding nature of the BRI phenomenon. The fitness of this approach to the task of this project will be discussed and justified in the next chapter of research design and methodology.

Chapter 5 Research Design and Methodology

In survey of the state of BRI research, a gap in case study methodology was identified (see Section 2.1.5). This research intends to occupy this gap. By selecting several projects to perform in-depth investigations, this research aspires to contribute to the build-up or enrichment of knowledge of real-world projects in local or B&R contexts (see Section 1.6).

To carry out the above plan, this chapter intends to ground the standard case study approach in the real world of B&R contexts to ensure fitness and applicability. This exercise is also intended to make sure that the design and execution of this case study research would perform to its desired objectives and outcomes.

5.1 Why case study methodology?

5.1.1 Rationale for use of case study methodology

The BRI is a contemporary phenomenon and still unfolding. Research on this policy-driven, transglobal initiative is constrained at present by several factors, as explained below.

First, both the BRI program and associated research have been only gaining momentum recently since it was initially proposed in 2013. Interpretation and implementation of this grand vision have been slowly coming into force and shape but definitions of its various proposed components and boundaries of each have yet to be delineated and still evolving (Jones and Zeng, 2019; see Section 2.2).

Second, archival data is limited or can be a mixed bag of single investments or work-in-progress data points which can hardly derive systematic trends or themes. That also depends on the type of research questions asked. (The author is mindful of the popular database maintained by AidData (2017) and has reviewed it in the course of this research.)

Third, the few high-profile investments sensationalized by media pundits or fantasized in political arena (Pence, 2018) have been made only recently and are at their early stage of development. Their effects or performance outcomes are tens of years away from fully emerging and become meaningful enough to be measured and evaluated.

Fourth, public information about these events or investments are of limited value, since private and project specific data are difficult to gather for lack of systematic compilation or for confidential reasons.

This situation has posed a significant constraint on the amount and quality of information available for hypothesis testing, but ironically it fits almost perfectly for an exploratory case study exercise to, for example, understand the "causal mechanism" (Gerring, 2007) or generate new hypotheses or theories. "Case studies enjoy a natural advantage in research of an exploratory nature" (ibid., p. 39).

From a methodological point of view, as Yin (2014) points out, since case studies address mostly "how" and "why" questions and a researcher has "little or no control" (p. 14) over the outcome of his study, this approach is appropriate for such a contemporary (as opposed to entirely historical) and evolving phenomenon. Even with its inherent limitations, however, a case study approach still retains "a holistic and real-world perspective" (ibid., p. 4) and affords a unique angle to interpret and understand an individual project in its "local context" (Gerring, 2007; Hillman, 2016).

With that, the insight potentially unearthed from an in-depth probe of individual cases could be generalized to shed light on bigger issues in a broader context, which is one of the objectives of this project. (Generalizability is a common theme recognized by Eisenhardt (1989), Gerring (2007), Maxwell (2013), and Yin (2014), but disagreed by Thomas (2011).)

5.1.2 Comparison between case study and quantitative research

Another angle to better understand the fitness of a case study approach to this research topic is to compare case studies and a potential alternative, quantitative research orientation. Table 5.1 below purports to discern key distinctions between the two methodologies and seeks additional justification of why a case study strategy is more appropriate for this research assignment (see Table 5.1).

Table 5.1 Comparison between Case Study and Quantitative Analysis

	Case Study	Quantitative Study
Research goals		
1. Hypothesis	Generating	Testing
2. Validity	Internal	External
3. Causal insight	Mechanisms	Effects
4. Scope of proposition	Deep	Broad
Empirical factors		
5. Population of cases	Heterogenous	Homogenous
6. Causal strength	Strong	Weak
7. Useful variation	Rare	Common
8. Data availability	Concentrated	Dispersed

Source: Adapted from Table 3.1 (Gerring, 2007, p. 38).

The contrasting illustrations in Table 5.1 can be interpreted as follows: quantitative research methodology is better at generalizing from a large homogenous sample,

exploring causal effect relationships, and testing hypotheses or theories. On the other hand, case studies tend to be more effective in interpreting and even generalizing from heterogenous instances, investigating a "causal mechanism" or "causal pathway" (Gerring, 2007) or "cause explanations" (Maxwell, 2013), and refining, confirming or infirming propositions. They are different research strategies suited to different settings and different research objectives.

As discussed in Sections 4.2 – 4.4, this research intends to investigate why and how investors' institutional strategies influence host country institutional changes, called causal mechanisms, as opposed to how much returns are generated or how much local GDP is produced for any given investment, known as causal effect relationship. The case study approach fits this research's objective of looking into the "causal mechanism" or "causal explanations" of how B&R firms' institutional strategic actions have affected institutional evolutions in recipient countries.

5.1.3 Precedents of infrastructure research cases

It has been noticed in the course of literature review that many published papers on infrastructure topics have employed a case study research methodology. Several have been cited in this research and a sampling of their theses is reflected in Table 5.2 (see Table 5.2).

There are several takeaways from Table 5.2. First, "Case" itself is the focus of studies by Rousseau (2014), Wang (2015), Cheng (2010), Ficker (2000), Ejaz and Jamshed (2018), Karlis and Polemis (2018), and Wang and Yau (2018). "Within-case observations" (Gerring, 2007) or "embedded units" (Yin, 2014) attract the interests of Man and Mok (2016), who further incorporated a traditional quantitative analysis as case evidence to measure causal effects. In a similar vein, Monson's (2013) focus was to solely describe, record, and document the true feelings and experience of the railroad workers and engineers interviewed for her research.

Second, although Ficker (2000), Karlis and Polemis (2018), and Wang and Yau (2018) identified and applied a pre-determined theory as a lens to focus their research, others, such as Monson (2013) and Wang (2015), applied no theory at all. They instead followed a fact-finding approach and then reconstructed a narrative from the information they gathered. Similarly, documentaries by Cheng (2010), Ejaz and Jamshed (2018), and Rousseau (2014) replayed chronological episodes of the targeted events. These authors only drew a few simple but factual lessons and issues in the end without referring to any theory. Man and Mok's (2016) work could be described as an event study based on standard finance doctrines.

The variety and diversity displayed by these few samples serve as a strong endorsement for the design of research strategy employed by this project.

Table 5.2 Samples of Infrastructure Case Study Research

Author(s)	Title	Topic / Research Question	Focus	# Case	Type
Cheng (2010)	Lessons learned from BOT infrastructure development in Taiwan: A case study of the Taiwan High Speed Railway Project	Issues and lessons related to PPP implementation	Case	1	D
Ficker (2000)	Economic backwardness and firm strategy: An American railroad corporation in nineteenth century Mexico	Institutional environment impact on corporate choice of growth strategy	Case	1	I
Monson (2013)	Remembering work on the Tazara Railway in Africa and China, 1965-2011: When "new men" grow old	Social and cultural aspects of workers' experience, as remembered and reflected	Within-case observations	1 (17 units)	D
Rousseau (2014)	An imperial railway failure: The Indochina-Yunnan railway, 1898-1941	Political goal-driven infrastructure project	Case	1	D
Wang (2015)	Merchants, mandarins, and the railway: Institutional failure and the Wusong railway, 1874-1877	Importance of the institution: Government	Case	1	D
Man & Mok (2016)	An empirical study of the impacts on an express rail link on property prices – Hong Kong evidence	Property price changes pre and post government purchase of strata rights	Within-case observations	1 (267 units)	E
Ejaz & Jamshed (2018)	Review of China's role in development of Gwadar port	History and events leading to Chinese investor's takeover of the port in 2013	Case	1	D
Karlis & Polemis (2018)	Chinese outward FDI in the terminal concession of the port of Piraeus	Chinese investment behavior analyzed and tested by an FDI theory	Case	1	I
Wang & Yau (2018)	Case studies on transport infrastructure projects in belt and road initiative: An actor network theory perspective	CPEC corridor projects explained by applying the said theory	Case	3	I

5.1.4 Types of case studies

Case study as a mainstream research strategy has been around for only a few decades (Thomas, 2011; Maxwell, 2013; Yin, 2014). The research community has yet to agree on how to distinguish different types of case studies (Yin, 1984; Gerring, 2007; Thomas, 2011; Gibbs, 2018). This research will adopt the simple categorization as *Descriptive* (D), *Explanatory* or *Interpretive* (I), and *Exploratory* (E) (Yin, 1984; Dudovskiy, n.d.) (see column "Type" in Table 5.2).

In Table 5.2, studies by Cheng (2010), Ejaz and Jamshed (2018), Monson (2013), Rousseau (2013), and Wang (2015) belong to the *Descriptive* breed. Ficker (2000), Karlis and Polemis (2018), and Wang and Yau (2018) all applied a priori theory in understanding and interpreting their case stories, thus their research can be categorized as *Interpretive*. If a case study is aimed at developing a theory or targeting generalization or falsification of something, it is viewed as exploratory. With that, the

event study by Man and Mok (2016) would be considered the *Exploratory* kind.

These typologies are not mutually exclusive. They can overlap with each other because the process of reconstructing and describing a case story incorporates large elements of (re)interpretation and exploration of facts and information supplied by others and treated as data for research (Geertz, 2017).

Following the above typology, this research's outcome will likely consist of three components:

First, a ***descriptive*** part or a "thick description" (Geertz, 2017) that will contain the historical background and investment stories of the targeted cases and their external institutional and social environment. It will serve as the basis for interpretation and cross-case generalization (see Chapters 6 - 8). This work answers the "what" question in a case study. (It also constitutes one of my contributions (see Section 1.6).)

Second, an ***explanatory or interpretive*** portion that will consist of a collection of themes and findings delineated from the data presented in the *Descriptive* part. The theories and propositions discussed in Chapters 2 and 3 and extended in Section 4.4 will be applied. This is the "sensemaking" part of case study research, as discussed in most methodology literatures, that answers the "how" and "why" questions and discovers the "causal mechanisms." The theories and propositions applied will dictate how facts or data are described, or what a coherent story is told or "glued" (Thomas, 2011) together, using the descriptive stories (see Chapters 7 and 8).

Third, an **e*xploratory*** section, or the theory-building part, of case study that will attempt to generalize from the descriptive and interpretive components of the research outcomes. This phase contains a large element of exploratory work and could make up another contribution from this research. At a minimum, some policy implications could be drawn (Yin, 1984) (see Section 1.6 and Chapters 7 and 8).

Therefore, this research could entail all three features of case study investigations.

5.1.5 Section summary

To benchmark against the samples in Table 5.2, this research's strategy is designed to possess these qualities: a) multiple cases; b) use of pre-determined theories; c) a singular focus on cases; d) approval or disapproval of theoretical, pre-developed propositions; and / or e) generalization of policy implications or theories.

To synthesize these strategy elements, I analogize an underground mining scene to this research process. I am the miner, the NIE theories serve as my headlight to illuminate the pit (which is moving and not fixed to one specific spot). Throughout the mining process, the conceptual framework in Fig. 4.1 acts as an engineering or

geological map whose accuracy is awaiting further refinement. The mined products, both expected or unexpected, and my digging experience recycle back to help refine the design and construction of the engineering map and the theoretical basis that produced the initiative map.

5.2 Unit of analysis and design features

In this research, a case will be an individual investment or project. The term "firm" will mean the Chinese investor(s) of these projects. Five projects have been chosen for this study. All have been invested by the group company, codenamed Russell, including four made by its Hong Kong listed port holding subsidiary, codenamed RussellPort (see Sections 5.3.2 and 6.3). Each case will be a unit of analysis.

To paint a holistic picture of the case stories, I will need to understand what, how, and why things were done. To answer these "what, how, and why" questions, I first need to learn facts from various sources, but more importantly, the informants of each case. These investor firms and informants may have followed their own theories and beliefs in pursuing their goals and performing their activities, so I will also be mindful of learning about their motives. "Participants' theories need to be taken seriously" (Maxwell, 2013, p. 53). Then "headlight" theories will be applied to interpret and evaluate potential answers and explanations.

These informants will be individuals, such as the managers, decision-makers, key participants, and other stakeholders, that have first-hand knowledge of these projects. They are most qualified to contribute to the formulation of answers to the "what, how, and why" questions. These individuals will be candidates for semi-structured interviews as one of the key sources of evidence. Consequently, several informants will be targeted for each case in order to ensure data sufficiency and completeness, subject to diminishing return conventions (Eisenhardt, 1989).

Initially, a two-stage data collection strategy was envisioned. Phase I data gathering was conducted onsite between May and Jun 2018. Follow-up sessions were contemplated during the data analysis stage of this research, a year or so from the first data gathering scout. If this data collection strategy got implemented, this multi-case comparative analysis would be augmented with a longitudinal dimension to become "comparative-historical" (Gerring, 2007, p. 31), even though it took place over the span of one year. This design provides a level of within-case temporal contrast and sufficient cross-case comparisons, greatly enhancing the internal validity and generalizability of case research (Gerring, 2007). See Section 5.4.2 for how this strategy has been executed.

The cases, data, and informants will be briefly reviewed in Sections 5.3 and 5.4, paving the way for further discussions in Chapters 6 - 8.

5.3 Case selection criteria and cases

5.3.1 Case selection criteria

The Chinese "going out" and B&R initiatives have been ongoing since the beginning of the new millennium. Chinese infrastructure diplomacy (e.g., Tazara) even dates back earlier (see Section 1.3). There have been thousands of investments, projects, and programs completed to date and many of them are ongoing (AidData, 2017). This has posed a serious challenge in identifying appropriate projects for scrutiny.

To enforce discipline and rigor, the following criteria have been adhered to in the selection of case targets (see Table 5.3). The chosen projects have been invested in recent years with ongoing investments. Thus, they have a short operating history relative to the long-term nature of their useful life and cost recovery. Nonetheless, they have met the preset criteria.

Table 5.3 Case Selection Criteria

No.	Considerations	Details
1.	Industry type	Economic infrastructure, avoid mining, trading and financial
2.	Investment type	Operational businesses, avoid pure financial investments, asset acquisitions, speculative or arbitrage types
3.	Size of investment	Large and impactful, complex in structure, multiple parties involved, and multiple issues to be addressed
4.	Operating history	Relatively long extant history, or long future prospect, avoid general contractors and non-operators
5.	Representativeness	With potential of generalizability
6.	Access to key people	Quality of information is critical to data validity

These selection considerations are simple and straightforward, and easy to operate. Selected projects should conform to the infrastructure definitions in Section 1.2.1. Large size, in terms of dollar value (meaning impactful), and operational businesses, with a certain operating history, will be able to reveal more information or characteristics of the types of issues and cross-case variations that this research attempts to uncover and scrutinize. A combination of these features would make a project become more representative overall, but ultimately my ability to access key informants and rich data is the most critical to case selection. Access to key informants and representativeness of cases are prerequisites to produce quality case study research (Gerring, 2007; Thomas, 2011; Maxwell, 2013; Creswell, 2014; Gerring and Cojocaru, 2016).

The above selection criteria may be challenged, but it is more efficient to address them after taking a glimpse of the selected cases.

5.3.2 Condensed profile of selected cases

For confidentiality reasons (see Section 5.5), codenames or their short forms for both the investors and their invested projects have been developed and will be used throughout this research.

These investments have been made by Russell, a leading port, industrial park, and financial conglomerate, which is directly owned by the central Chinese government, otherwise known as an SOE. Its majority-controlled port subsidiary RussellPort is ranked among the top five globally in ports management industry and listed on HKEx with a market capitalization of approximately US$5.8bn as at Dec 31, 2019 (author's calculation). Russell and RussellPort will be collectively called Russell for simplicity unless distinction between the two is necessary. A brief profile of these cases is summarized below (see Table 5.4).

Table 5.4 Condensed Profile of Investment Cases

Project Code Name	**Sapphire (SA)**	**Abhayagiri (AB)**	**Goulash Radzwill (GR)**	**Khat (KH)**	**Guinni Koma (GK)**
Business	Port (terminal)	Port + industrial park	High-tech industrial park	Port	Free trade zone
Investment Date	8/2011	7/2017	5/2015	12/2012	11/2016
Investor	RussellPort		Russell Group	RussellPort	Russell
Equity %	85%	85%	20%	23.5%	40%/60%
Amount (US$)	$150mm	$973.7mm	$30mm	$185mm	$40mm/NA
JV Partner's Equity	Cash subscription	Diluted from 100%	Cash subscription	Diluted from 100%	Cash subscription
Chinese Policy Loans	Yes/ $400mm	No	Yes $170mm	Yes $405mm	Yes Pending
Government Guarantee	No	No	Yes/ recipient government	Yes/recipient government	No info yet
CSR Program	Yes	Yes	Yes	Yes	Yes
Corporate Form	JV with host SOE		JV with host institutions	JV with host SOE or institution	
Governance Rights	RussellPort majority with management control		Russell minority with operational control		Operational control
Business Status (at Mid-2018)	Fully operational	Trial operational	Early stage of development	Fully Operational	Trial operational
Country / Region	Sri Lanka / South Asia		Belarus / Eastern Europe	Djibouti / Northeastern Africa	
BRI Relevance	Key MSR destination		Icon of SREB	Key MSR destination	
Political Sensitivity	"Pearl"	"Pearl" & "Debt Trap"		"Pearl" & "Debt Trap"	

Sources: Russell website reports, RussellPort annual reports and announcements, and interviews with informants. Financial data were current as of Dec 2019. Also see Chapters 6 and 7.

Table 5.4 is a high-level summary and contrast of key parameters of the cases, which will be discussed in detail in relevant sections in Chapters 6 and 7. These projects are significant and impactful development programs for host nations. They are significant outlays of capital and other productive resources of Russell. Several of them have been officially claimed as BRI projects (NDRC, 2017). In particular, GK represents the first overseas experiment of the Shekou Model (see Box 6.1), which is a unique feature of the BRI promoted infrastructure investment (see Section 1.2.1). Geopolitical fanfare has circulated around AB and KH projects as well (see Section 2.2.1). All these make these projects truly representative cases.

5.3.3 Potential issues of case selections

These cases and their selections can potentially prompt several issues and concerns, which will be addressed below from a research design perspective. The rich data to be presented and discussed in Chapters 6 and 7 should further corroborate these arguments.

First, ***objectivity*** of "purposeful selection." This type of doubt of objectivity or randomness is mostly fielded from a quantitative sampling perspective. In qualitative research, selection of cases, informants, or even interview settings are "neither probability sampling nor convenience sampling" but "purposeful selection." That is, the selection criteria are judged based on how these cases and individuals or settings are relevant to the research questions to answer or research objectives to achieve (Maxwell, 2013, p. 97).

Such a purposeful selection achieves five objectives: (1) representativeness of cases and observations in its population; (2) diversity of cases; (3) testability against critical or extreme cases; (4) cross-case comparability; and (5) access to quality informants (ibid., pp. 98-99). As case profiles in Table 5.4 and more detailed analyses in Chapters 6 – 8 ascertain, these cases and informants meet the goals and criteria established by Maxwell (2013) and attain adequate emphasis on case representativeness and data quality that are appropriate for the research objectives.

Second, ***subjectivity***. This concern could be raised against a variety of aspects in case study in addition to case selection. Again, to borrow from other perspectives. "My subjectivity is the basis for the story that I am able to tell. It is a strength on which I build.... Seen as virtuous, subjectivity is something to capitalize on rather than to exorcise" (Glesne and Peshkin, 1992, p. 104, cited in Maxwell, 2013, p. 45). Researchers' experience and insights are part of the story to be interpreted and (re)constructed and inseparable from the research process (Ravitch and Riggan, 2012; Maxwell, 2013).

With such authoritative endorsement and advice by Flick (2018a), I will exercise my subjectivity not only in case selection, but also in the choice of interviewees, design of

interview questions and guides, use of data and theories, evidential matters to focus, without additional caveat or explanation. Additionally, I will also leverage my interest in and knowledge of NIE, my experience gained through years of capital markets and investment practices, my views developed in observing and following on economic development and institutional reforms in China, and my extensive readings of Silk Road related topics. Because I cannot and should not withdraw "myself" from this research process, I will see it as an asset and fully utilize this vast inventory of resources.

Third, ***validity and reliability*** of research design. Many case studies are subjected to questions of validity and reliability in both research design and execution, but there have been strategies developed to address such concerns (Yin, 1984, 2014). I have incorporated such strategies throughout this research process, from the literature review, to data collection, to analyses of findings, and every stage of this process, including but not limited to:

A) Use of pre-determined or priori theories: to drive the proposition refinement and construction of the conceptual framework, which will steer the probing directions and augment the interpretive and explanatory power of this interpretivist approach. This theory-guided approach enhances the methodological fitness of the case studies and is therefore advocated by scholars (Maxwell, 1992/2002; Edmondson and McManus, 2007; Levy, 2008; Wrona and Gunnesch, 2016).

B) Application of a conceptual framework and theoretical propositions as guides in data gathering (e.g., to ask purposeful questions and collect rich data) and data interpretation and analyses (e.g., to provide theoretical basis, confirm or infirm a proposition, and even generate implications) (Jabareen, 2009; Ravitch and Riggan, 2012; Yin, 2014).

C) Establishment of data files for each case and adherence to established protocols and techniques (e.g., transcription, coding, multiple onsite investigators) advocated in most case study methodology literature (e.g., Yin, 2014; Flick, 2018b). Transcription of interview recordings and preliminary data analyses were performed immediately following the field trips in May - Jun 2018 timeframe. The resulting transcripts are compiled and filed accordingly, as advised by Maxwell (2013).

Fourth, ***independence*** of the selected cases. This concern refers to the situation where selected cases may affect each other since they are subject to one ultimate shareholder, decision-maker, operating strategy, and business philosophy (potentially a confounding factor). Acknowledging such inherent limitation exists, I would argue that the diversities exhibited by these cases in industry, location, political, economic, and cultural environment, and transacting counterparties (see Tables 5.4 and 6.4) should provide adequate freedom and variations to exert differentiated impact on the research constructs and restrain potential confounding effects (Gerring, 2007).

In addition, the variety of these cases' geopolitical nature, BRI receptivity in host country, impact on host political and economic institutional establishment allows for maximum generalizability or falsification, which is emphasized by Flyvbjerg (2006).

Furthermore, the richness of data that have been gathered expects to yield high quality answers to the "how" and "why" questions exploring the causal mechanisms. All in all, these design features should mitigate, to a great extent, the perceived compromise of independence or individuality of the cases.

Alternatively, Russell represents among the optimal choice of candidates executing the MSR vision given its predominance in China's ports business and successful expansion into international markets even before the BRI came into being. Its pioneering experience in operating industrial parks and integrating management of port and parks with administration of urban development in China (see Section 6.2) has become a name card and key distinction of the MSR initiative (NDRC, 2017).

Thus, a case study of Russell Group or RussellPort alone would be a meaningful exercise for a BRI topic. This treatment is consistent with the design of single-case, theory-building study of, for instance, Port Authority of New York and New Jersey handling the homeless issues in the 1980s by Dutton and Dukerich (1991) and the Cuban missile crisis in the 1960s by Graham Allison (Yin, 2014).

With that, I believe that concerns over independence, subjectivity, purposeful selection, validity and reliability should subside, as the robustness of these cases' explanatory powers emancipate, and this analytical process proceeds further.

5.4 Data collection and data

5.4.1 Data and data variety

Based on literature (Creswell, 2014; Yin, 2014) and data collection exercises accomplished to date, five types of data have been gathered for this research (see Table 5.5).

Table 5.5 Data and Data Types

Data Type	Variety and Examples
Documents	*Intra-organizational*: announcements, annual reports, presentations, marketing materials, business proposals, internal memos and analyses, website information. *Public documents*: research reports, feasibility studies, consulting reports, news clippings, industry information and statistics. *Legal:* contracts and agreements or their excerpts or summaries.
Archival records	Macroeconomic, industry, individual company, event or investment data from international, industry, governmental, and associations' archival

	sources. Court filings and legal archives, industry databases.
Interviews	Interview notes, recordings and transcripts / verbatim.
Observations	*First-person format:* observations, feelings, images of physical structures, activities, and people stored in my memory. *Physical artifacts:* pictures taken, field notes.
Audio records	Above data in audio format.

Of the five categories of data in Table 5.5, a key distinction of case study research is evidence gathered from interviews with informants. That will be the primary source of data to accomplish the goals of interpreting, explaining or even generalizing from or across the cases. Other forms of data will serve to corroborate the primary source (i.e., data triangulation (Flick, 2018b)), to contribute to the construction of a holistic descriptive story of the individual projects (i.e., the narratives), or be used for background and data analyses (Yin, 2014; Gibbs, 2018).

It is worth highlighting that onsite observations have helped contextualize how and why informants said what they did and facilitate my comprehension and coding of transcription and written data. I have tried to reflect informants' nonverbal messages in the process of transcribing and interpreting the data (Geertz, 2017; Gibbs, 2018) and developing codes and coding the data (Saldaña, 2009; see Section 5.4.5).

5.4.2 Data collection strategy and its execution

5.4.2.1 Data collection strategy

As mentioned in Section 5.2, a two-stage data collection strategy was envisioned. Their respective roles were designed slightly different. Phase I was aimed at developing a general understanding of the cases and actors involved. Built upon the results of this initial exercise, Phase II was planned to focus on key informants for in-depth probing, as advised by Yin (2014, p. 111) --- because "Key informants are often critical to the success of a case study" --- and expand informant circle to exhaust data yield (e.g., subject to diminishing returns) and to improve data completeness.

Phase I was successfully carried out in May - Jun 2018 period and covered all five cases at three geographic locations. Due to challenges involved in arranging another trip, alternative strategies have been pursued to complete data gathering. The good rapport established with key informants from the initial meetings greatly aided the alternative follow-up process. These alternative techniques include, but are not limited to, face-to-face sessions at the convenience of informants, email and wechat communications, ongoing updates on project progress, and verification of critical data with informants and archival sources. Since these companies all update and communicate their business progress on their websites or through wechat broadcasts, a slew of data has been incorporated and digested into this research.

This modified two-step strategy, on the one hand, adds a longitudinal, albeit a short duration (up to end of 2019), dimension to Phase I data scout and enhances data richness and, on the other, matches the fast-moving progression of these projects. As a result, within-case developments or variations over a time span have been captured and examined in this research. Consequently, internal validity and reliability of data should have been enhanced as well (Gerring, 2007).

5.4.2.2 Execution of data collection strategy

The Phase I data collection was comprised of semi-structured interviews, collection of physical documents, examination of online archival data, and onsite inspections. A general questionnaire or interview guide was developed and circulated prior to most interviews, which were held onsite and in interviewees' offices in Sri Lanka, Belarus, and Djibouti, respectively. Pictures of interview settings, informants or interview sessions were taken during those field trips and filed together with interview transcripts. Data files have been established for each case and have been updated continuously ever since. Onsite data collection including interviews was performed in teams (see Section 5.5). Therefore, a trail of data collection process has been maintained and data reliability is warranted by multiple participants (i.e., investigator triangulation) (Flick, 2018b).

The Phase I trip was designed to maximize the number of informants interviewed and physical documents collected with the possibility in mind that a second trip may not be possible. This precautionary strategy was largely materialized.

Ongoing updates and interactions with key informants have been maintained to this date, and the afore-mentioned alternative techniques have been synchronized with the analytical process of this research (see Chapters 6 and 7).

5.4.3 Interview questionnaires and guides

Following the standard protocol in case study research, separate questionnaires or interview guides were developed prior to the Phase I round of interviews for each of the five cases. The guides were based on publicly available information and company disclosures, documents and information provided by the case owners beforehand, and Russell website and archival sources.

For follow-up sessions targeting key informants, a new set of questions was customized to concentrate on key issues of research interest and previously uncovered ground. Such follow-up meetings were held for Sapphire and Abhayagiri four months after the initial sessions in late May 2018, with Russell Group management in May 2019, and with Khat and Guinni Koma in Nov 2019. Electronical communications have been ongoing with all cases.

Additionally, a set of targeted questions were designed to interview with host regulator attendees at a conference held in Columbo, Sri Lanka in Sep 2018 and solicit their perspectives on Sapphire and Abhayagiri. This design enlarges the within-case informant circle from a non-actor perspective. These individuals are outside the Phase I informant circle but have intimate knowledge of the cases and their stakeholders. This effort has supplemented the data collected initially and improved data completeness and richness (see host comments in Chapter 7 relating to these two projects and Sri Lanka).

5.4.4 Informants and interview sessions

As mentioned in the preceding subsections, both the Phase I round of data gatherings and targeted follow-up sessions have been carried out. These onsite observations and interviews were multipurpose investigative trips (see Section 5.5), which I either tagged along or pursued on my own. A few features are worth noting:

First, interview format. The sessions mostly consisted of more than one participant of the traveling delegate, and one or several informants. Although this arrangement was a result of the multipurpose nature of these trips, the benefits were ironically plenty, since both questions and answers were fielded by multiple participants, lively discursive exchanges occurred, emancipating a greater amount of information from the informants compared to a one-on-one interview. This also achieves the effect of multiple investigators advocated by triangulation technique (Flick, 2018b).

Second, informants. They included senior management (CEOs or equivalent), functional heads (e.g., legal, marketing, business development, finance, operations, human resources), host regulator and /or JV partners, and customers (i.e., resident firms in industrial parks) of the projects (see Table 5.4). Access to key informants was achieved. A total of 38 interview sessions, including five that I did not attend but designed questionnaires and transcribed recordings, had been held with these informants through the end of 2019, as tabulated below (see Table 5.6 and notes).

Table 5.6 Summary of Informants and Interview Sessions

Informants	Code	SA	AB	GR	KH	GK	Total
Russell							
Group Management (RU)	0x						1
Case Senior Management	1x	1/1	1/1	1	2/1	2/1	7/4
Case Functional Head	2x	2	4	4	2		12
Host Country							
Head Regulator	3x	1/1	1/1	1	1	1	5/2
Regulator / Partner Staff	4x	1	1		1	1	4
Customers	5x			2		1	3
Total		5/2	7/2	8	6/1	5/1	32/6

Notes: Based on simple count of number of interview sessions held though end of 2019. If one

meeting with Russell's country head, for example in Djibouti, discussed both KH and GK projects, this session is counted 1 for each of the two projects, or two in total. SA and AB share one CEO at the time of initial round, each meeting credits 1 for only one project since multiple sessions have had with him to avoid inflating interview counts. "1/1" means 1 meeting with informant for each of the initial round and follow-up sessions, a total of 2 altogether.

Third, conduct of interviews. Most sessions were conducted by a lead investigator, following the tailor-made, pre-circulated questionnaire. Other attendees may pitch in for additional questions arising from the course of meetings. This ensured orderly transition from one question to another. If more than one informant was present, multiple answers might be elicited for one question or subject. As a result, multiple perspectives were captured with one group of informants per session.

In addition, these sessions often became discursive. Informants were led to reconstruct the critical scenes or episodes of important events, allowing great amount of historical, political, social, cultural, and other business and institutional cues to be shared, making some of these sessions "episodic interviews" as deemed by some qualitative research literature (Flick, 2018b).

Fourth, transcription. As advised by Maxwell (2013), interview reports were transcribed based on field notes and recordings, immediately or at least within two months of the interviews to ensure capturing of as much of the dynamics and information as possible. Preliminary analyses were carried out simultaneously.

Fifth, codenames. The informants are codenamed to protect their identity. A coding system is designed as follows (see Table 5.6):

A) Project codename will be shortened to a two-letter form. For example, SA for Sapphire, GK for Guinni Koma, and RU for Russell's group management.

B) In addition to project code to identify an informant's affiliation, his or her level of role in the hierarchy of his or her organization is distinguished by a two-digit number. The first digit denotes level (see "Code" column), the second digit indicates mere sequence of interviewees interviewed or speaking in a group session. For example, SA21 means the first interviewee (1) at department or functional head level (2) at Sapphire or SA. RU02 refers to the second speaker (2) at the only session with Russell Group management (RU0x).

C) One informant may bear two codes if he or she assumes multiple roles or speaks for two projects. For example, SA11/AB11 mean the CEO of SA and AB who speaks for both projects. Similarly, SA32/AB32 stand for the head of Sri Lanka FDI regulator since he has authority over, and his comments apply to, both SA and AB. If he refers to only SA or AB, he will be referenced as SA32 or AB32.

This referencing system may be felt cumbersome or overly complex, but it achieves the purpose of accurately relating cited data to the right informant in a simple format.

5.4.5 Codes and coding of data

Codes and coding are basic tools used in analyzing qualitative data. This research has followed and customized the technic guides by Saldana (2009) in developing codes and applying these codes to understanding, interpreting, and generalizing from data.

5.4.5.1 Codes

A code is often "a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and / or evocative attribute" for a portion of data (ibid., p. 3). Based on their uses, two types of codes have been developed and utilized in this research. (This categorization and naming below reflect only the author's own analytical experience and is not copied from any guidebook.)

One is descriptive, which summarizes detailed acts into a succinct concept or pattern to build case stories. Take an example (see Table 7.3), "fast-tracked construction from 60 to 28 months" is a statement by an informant describing RussellPort's expertise and efficiency in port construction. A summative term "tech leadership" or "high efficiency" is assigned and used in conjunction with other codes to posit that RussellPort is an efficient port operator.

Another is interpretive, which is developed based on theories guiding this research. These codes are taken from literature (e.g., adaptive strategies, property rights) to explain or capture the essence of firm behaviors in a given theoretical context. For example, in Table 8.2, under subheading "Guinni Koma," "form two JVs" is a simple description of firm actions, but it implies the need to "align interests" with host stakeholders to improve property rights security (an unspoken message) through NIE lens. Moreover, this act belongs to the "adaptive strategy" category filtered through organizational institutionalism typology.

5.4.5.2 Coding

"Coding is analysis" (Miles and Huberman, 1994, cited in Saldaña, 2009, p. 7). It is an analytic act and technique to search for patterns and ideas in data. These patterns and ideas are assigned codes, and then codes are grouped, integrated, or sewed together either following a theme emerging from coding the data or applying a preselected filter or theory. This can be called an inductive process of reasoning as depicted below (see Fig. 5.1). This is the primary coding method used in this research (see Tables 7.3, 8.1, and 8.2).

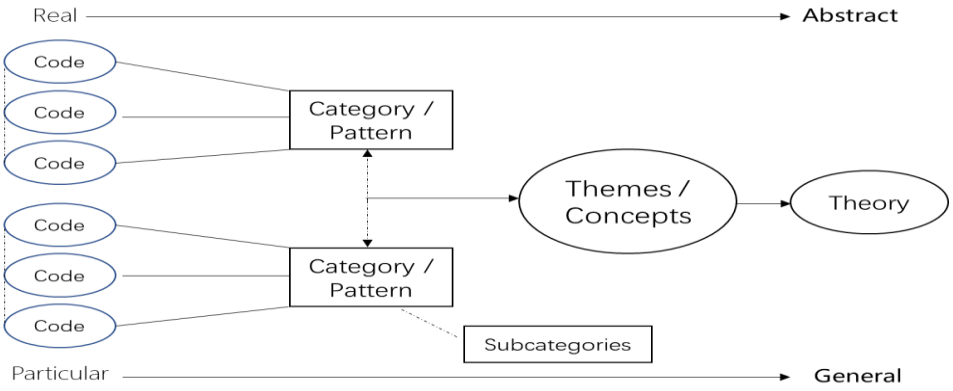

Fig. 5.1 Illustrative Coding Process

Source: Adapted from Figure 1.1: A streamlined codes-to-theory model for qualitative inquiry (Saldaña, 2009, p. 12).

In addition to the above coding analytics, this research has applied a tactic of overlaying coding, where one particular act is coded from two different filters or interpreted from multiple theoretical lenses. For example, in Table 8.5, firm strategy "seek SDP treatment" is coded as an "additive" type of strategy, but its primary objective and effect is to "reduce transaction costs" filtered through NIE lens (see Fig. 8.4). Essentially, Fig. 8.4 is a result of laying NIE "color band" over Table 8.5, creating a three-dimension analytical structure. This is dictated by the conceptualization framework (see Fig. 4.1 and Section 4.4) crafted for this research.

5.4.5.3 What gets coded?

The above discussions about codes and coding can be confusing without physically going through the analytic process. Codes and coding are not a precise science. Rather, they are judgment calls (see "subjectivity" in Section 5.3.3).

For example, in cross-case contrasting analysis, "political risk" in Sri Lanka (SA11) and "government turnovers" in Africa (GK11) imply or are coded as "property rights risk." In addition to the meanings of the informants' words, their unspoken cues and the context of their statements are also reflected in the codes and coding (Geertz, 2017).

Separately, because the author has already applied a preset (NIE) guide and lens to this research, the codes and coding may reflect that as well. There may be elements of "fishing" from the choice of codes and interpretation of the spoken and unspoken messages. This is an advantage or pitfall recognized in coding qualitative data (Saldaña, 2009; Maxwell, 2013).

5.5 Ethical considerations

The five cases selected for this research are among a broad universe of projects that

CityU College of Business has targeted to develop teaching cases and for study by its Research Center on One-Belt-One-Road (the Research Center). Interview data and other information supplied by Russell and informants are covered and protected under a nondisclosure agreement signed between Russell Group and CityU.

Phase I data gathering was a larger group field trip organized by the Research Center. I tagged along the trip, on May 20 – 25, 2018, for Sri Lanka, and June 3 – 12, 2018 for Belarus and Djibouti. I made my identity (a DBA student) clear at all meetings and in subsequent data requests.

As a result of the team effort nature of these field investigations, I have contributed to, as well as benefited from, collaborations and discussions among the delegate participants. Interview questionnaires were created between me and a CityU research associate. I assumed a major role in transcribing recordings and produced the final version of transcripts for all interviews.

I want to acknowledge that the Research Center's access to Russell's senior management has opened up greater exposure, than I could on my own, for me to explore the cases. My access to key informants, as a key case selection criterion, is satisfied and has greatly enhanced the richness of data and the versatility of cross-case and within-case variations.

5.6 Chapter summary

The preceding discourse about research methodologies in the context of selected cases has produced a variety of justifications supporting the choice of a case study approach for the contemporary BRI phenomenon. This design of research strategies is appropriate for the purpose of investigating the causal mechanisms of how and why institutional strategies employed by Chinese B&R firms foster evolution and changes in host institutions. The inherent capabilities and advantages of a case study interpretive approach is postulated in the conceptualization framework in Chapter 4, which further crystalizes this research's focus on institutional dimensions of firms' strategic actions and visualizes deliverables in Chapters 6 - 8.

Chapter 6 Background Information of Investment Cases

The investments targeted for this research locate in three different countries spanning three continents (see Table 5.4). These sparse locations, however, have been connected both historically by the ancient Silk Roads and presently in modern globalization under the BRI. Although this research is not devoted to the history of the Silk Roads or how they have been linked to or revitalized by the contemporary BRI, it is helpful to briefly review some history to situate the BRI and these investments in appropriate historical backdrop.

In addition to the temporal context in which the cases have taken place, it is also important to know who the actors or investors are in order to learn why these investments have been made. It is therefore the task of this chapter to present investors' background before case details are introduced and analyzed.

These background reflections are intended to help enrich the "thickness" or both temporal and spatial dimensions of the events described in this study and ground the case analyses in both real-world business and historical contexts. They will help to facilitate the sensemaking of facts and events, construction and interpretation of case stories, and generalization of implications.

These background stories should constitute a part of the case descriptions, which will become one of the core deliverables of this research (Flyvbjerg, 2006) (see Sections 1.6 and 5.1.4).

6.1 Brief history of the Silk Road

6.1.1 The overland Silk Road

The ancient overland Silk Road was a network of loosely connected caravan trade routes from China through the Indian subcontinent and Central Asia to Europe and Eastern Africa. It was maintained and traveled by people of various races and cultures without a formal name until 1877, when the German geographer Ferdinand von Richthofen proposed the name, which has been recognized by the international community ever since (Frankopan, 2015, 2016; Ge, 2016).

These civilian trade connections gained political significance in China's West Han dynasty (西汉, 202 BCE–8 AD), when Han Wudi (汉武帝) dispatched Zhang Qian (张骞) to seek alliance with remote Central Asia tribes in order to contain and counter the Huns' or Xiongnu's (匈奴) plunders from the Chinese northern frontier (X. Liu, 2010). These commercial and private communications channels, however, were on and off frequently due to wars, natural disasters, and government bans. For example, the famous monk Xuanzang (玄奘) in early Tang dynasty (唐朝, 618–907) essentially

smuggled himself out of the country to fulfill his dream of seeking sacred Buddhism texts in the West (Ge, 2016).

These connecting conduits became far reaching during the Mongol rule over the Eurasian steppe and much of East, West, and Central Asia in the 13th and 14th centuries. This made Marco Polo's trip to Khanbaliq (汗八里 or Beijing) easier under protection of the Mongol khanates and assistance from the efficient Mongol postal networks (Dang, 2010; there is no consensus among historians whether Marco Polo really visited China. This research will adopt the popular view). The routes also made Ibn Battutah's travel a peaceful experience in 1330 from Istanbul to Delhi, India through the Golden Horde territories, one of the four Mongol Khanates in Central Asia and East Europe, which is modern day Ukraine, Romanian, and some European part of Russia as well as Belarus (Grousset, 1996; Battutah, 2015).

Interruptions due to wars and government restrictions and the rise of seaborne trade, particularly starting in the late 15th century in the Great Voyage Age, rendered these overland trading routes less efficient and obsolete. This caused them to gradually disappear into history, leaving their glory days behind (Ge, 2016). Taken along with these Silk Roads, the great powers of the Huns, the Persians, the Khitays or Cathay (契丹), and the Mongols slowly dissipated too (Frankopan, 2016).

6.1.2 The "Silk Road on the Sea"

6.1.2.1 Brief history

According to chronicles in Chinese history, seaborne trade between China and the Arab world began no later than the Qin (秦, 221–7 BCE) or West Han dynasties, evidenced by the first official expedition on records ordered by Han Wudi (汉武帝) around 111 BCE. With Xuwen (徐闻), Guangdong Province and Hepu (合浦), Guangxi Province as departing ports, the official expedition explored the seafaring world, reaching as far as modern Sri Lanka (Huang, 2003; Q. Li, 2017). (Zhen (2014) argues that the furthest destination reached by that expedition was an island near the Maluku Spice Islands in modern eastern Indonesian.)

Towards the end of the Tang dynasty, however, Guangzhou became the empire's major trading port. It was recorded that thousands of Persian and Arabian traders lived there, making up a large foreign trade diaspora capable of rebelling against the local Chinese authorities (Huang, 2003; Ge, 2016). This was a sign of the large trading volumes and the connectedness of various trading partners along these routes. In the Song (宋, 961-1279) and Yuan (元, 1271-1368) dynasties, such a glory was taken over by Quanzhou (泉州), Fujian Province, or Zayton (刺桐) in Marco Polo's travelogue, which is how it has been known in the West (Dang, 2010). This was viewed as the starting port of the "Silk Road on the Sea" by Takatoshi Misugi (三杉龙敏), a Japanese scholar, in 1967. This is widely recognized as the origin of the name of Maritime Silk

Road (Huang, 2003).

Early in the Ming dynasty (明朝, 1368-1644), the founding emperor Hongwu (朱洪武) ordered a seal-off of the dynasty's seashores, banning all private maritime trades except a few government controlled meeting points, such as Macau (Q. Li, 2017). The Portuguese arrived in Macau in the 1550s to procure supplies and trade with the locals, but gradually turned this temporary arrangement to become a long-term lease of several hundred years. Throughout the Ming dynasty, Macau acted as a narrower door of China, left open to the outside world, allowing a continuous flow of people and goods (Huang, 1995).

For example, the famous Catholic priest Matteo Ricci (利玛窦) landed in Macau in 1582 before he ventured inland (Huang, 1995; Ricci, 2018). He went on spearheading the modern East-West communications in religion, science, and literature. He was thought to send the Roman Catholic Church world maps from China, which inspired and guided Columbus' exploration to the East (Lee, 2012a, 2012b). After the Opium Wars in the mid-1800s, the Qing government was forced to open more coastal cities for direct commerce with foreign powers (Q. Li, 2017). These port cities (e.g., Guangzhou, Nanjing, Tianjin, and even Hong Kong) have become China's leading ports today.

Historical records and archaeological findings suggest that these seaborne trading routes stretched from the afore-mentioned Chinese ports to the east and west coast of the Indian subcontinent, destinations along the Persian Gulf, Aden, Hejaz, Red Sea coastal lines, the Horn of Africa, and even further down the East African coast to cities like Mogadishu in Somalia and Mombasa in Kenya.

6.1.2.2 Historical maritime exchanges

The exchanges of goods, ideas, and cultures and interactions of people between China and these seafaring destinations were active during the ancient times (Huang, 1995,2003; X. Liu, 2010; Alpers, 2014). Locations along the Straight Malacca and Sri Lanka, for example, acted as trading counterparties and service stations or trading entrepôts for the merchants and adventurers. They were also meeting and exchange points among Chinese, Arabian, Greek, Indian, Persian and other merchants before the 1500s, when the Portuguese, Dutch, and English traders and interlopers arrived (Huang, 2003; Bernstein, 2008; Alpers, 2014; Q. Li, 2017).

Buddhist monk Faxian from the East Jin dynasty (东晋, 317-420) sought the sacred Buddhism texts on his pilgrimage trip to ancient India between 399-412 AD. He spent two years in a temple in Abhayagiri Mountain in central Sri Lanka to further his study before jumping onto a merchant ship sailing back to China (Faxian, 2006a, 2006b). When the great Muslim traveler Ibn Battutah was trapped in the Maldives in early 1340s, he located a Chinese merchant junk, the largest of three types of ships

traveling between China and India Ocean then, to continue his trip to China. When he finally arrived in Quanzhou or Zayton in 1345, he was surprise to find that there was a sizeable diaspora of well-established Muslim businesspeople and felt like a return to home for him (Battutah, 2015).

One of the most renowned historical figures in all these cross-region and cross cultural exchanges along the Maritime Silk Roads might be Admiral ZHENG He (郑和), who led fleets of ships and thousands of soldiers for seven expedition voyages in the early Ming dynasty. They ventured into the India Ocean and to the coast of East Africa (and likely beyond – see Menzies (2002) and Lee (2012a)) to build diplomatic and commercial ties with kingdoms and monarchs along the way. His last mission was completed in 1433 (Yamamoto, 1980; Alpers, 2014; Ge, 2016). (59 years later in 1492, Christopher Columbus set sail to the New World (Bernstein, 2008).)

Admiral Zheng He showed a special interest in establishing trading and service posts in Sri Lanka, as demonstrated by his six stopovers there out of the seven trips he took. On his fleet's third trip to the India Ocean, between 1409 and 1411, he arrived at the port of Galle, the southern tip of Sri Lanka island, and erected a trilingual (Chinese, Arabic, and Tamil) inscription tablet to commemorate the event (Dewaraja, 2006), which was rediscovered in 1911 and is now preserved in the National Museum of Sri Lanka in Colombo (Maritime Lanka, 2003; author's eyewitness).

Zheng He's efforts and achievements, unfortunately, were not sustained and the Chinese retreated onshore ever since. On these trading routes, the Arabians, Chinese, Indians, and Persians were gradually replaced by the Portuguese, Dutch, and English who were active in the South Chinese Sea and India Ocean trades, beginning in the 16th century, ultimately culminating to the era of Western "gunpowder capitalism" (term by Osterhammel and Petersson, 2005) or colonialism (Huang, 2003; Bernstein, 2008; Barrow, 2017; Q. Li, 2017).

6.1.3 Exchange of goods and cultures along the Silk Roads

As the name suggests, silk was a major commodity or currency traded along both the overland and maritime routes. As seaborne travels became relatively convenient and far reaching and shipping costs declined, bulk commodities like china and tea, in addition to silk, became popular luxury export items of the Middle Kingdom (Huang, 2003; Bernstein, 2008; Ge, 2016; Q. Li, 2017). These exports attracted a considerable amount of hard currencies, primarily silver, flowing into China during the Ming and early Qing (清, 1644-1911) dynasties. This produced a huge trade surplus in favor of the Chinese, prompting the British (merchants) to first smuggle opium into China and later launch wars, the so-called Opium Wars, in the mid-1800s to force market opening by the Qing court and to increase exports to China to balance their trade deficits (Yan, 1981; Huang, 1995; Barrow, 2017).

While silk, chinaware, and tea have garnered so much attention historically, there were many less known Chinese imports, in terms of their variety and diversity of origins, that have had profound impact on people, culture, economy, society, and even political systems in China. While Han Wudi (汉武帝) tried to solicit military alliances and import superior horses from Central Asia to equip his troops, Buddhism followed merchants coming to southern Xinjiang around 100 BCE and further to central China, culminating in its recognition by the Han emperor around the mid-first century AD (Shen, 2006; X. Liu, 2010).

When history reached Tang dynasty (唐朝), its capital and modern Xi'an (西安) was filled with people from Central Asia and far remote places. People were entertained by music, music instruments, and fashions from today's Xinjiang and Persia. The rich consumed perfumes, fruits and vegetables, wine and precious stones from Samarkand and spices, incense, and exotic animals from modern Indonesia (Schafer, 1995; Shen, 2006). Similarly, Arabian merchants and Zheng He's fleets brought China blue gemstones or sapphire from Sri Lanka, myrrh and frankincense from Somaliland or the Horn of Africa, even Persian lions and African giraffes and ivory (Yamamoto, 1980; Shen, 2006; X. Liu, 2010; Ge, 2016).

After the Spaniards discovered rich silvers in Latin America, a significant portion of their looted and mined silvers flew to China since the 16th century through Manila in exchange for silk, chinaware, tea, and various other consumer items, the so-called Great Galleon trades (Yan, 1981; Huang, 1995; Bernstein, 2008; Frank, 2011; Li, 2020). The import and accumulation of huge amount of silver in China contributed to the establishment of a quasi-silver standard in Ming and Qing monetary systems (Chen and Yang, 2012; Zhu, 2012; Ma, 2013).

People in the colonial North America developed an irreversible habit of tea drinking and fondness of Chinese porcelain and artworks. In 1784, eight years after the people of New World gained independence from the British, merchants in the New England organized the *Empress of China* trip to Canton (Guangzhou), marking the first direct and legal (it was illegal during the English colonial rule) commercial contact between the newly independent state and the old trading nation (Frank, 2011). The already popular tea drinking and china collecting culture became even more popular. In contrast, American ginseng gradually gained popularity as a health supplement among the Chinese (He, 1997; Frank, 2011), which has perpetuated to this date (but Americans' tea drinking habit has been reversed).

It is worth noting that these trades and trading routes were not exclusively point-to-point between China and their remote counterparts. Rather, they overlapped and intertwined with other local, regional, international exchange channels of goods and services, such as East Indian (modern Indonesia) spices or the so-called Spice Road, or even African or Slavic slaves. Trading in Chinese silk, porcelain, tea, and other commodities was an integral part of a global trading web. That drew in people of a

variety of colors, races, and religions (Grousset, 1996; Huang, 2003; Osterhammel and Petersson, 2005; Bernstein, 2008; X. Liu, 2010; Frank, 2011; Alpers, 2014; Frankopan, 2016).

Thus, it can be argued that globalization occurred and existed long before modern globalization as we know today.

6.1.4 Discussions and summary

The preceding brief overview of Silk Road history may not warrant any serious conclusions, but a few intuitive conjectures could be inferred as below:

First, from a geographical perspective, the six economic corridors outlined under the SREB essentially mirror the ancient overland Silk Road routes. The Maritime Silk Road broadly replicates the seaborne trading patterns that have been active for the past two thousand plus years.

Second, the exchange of goods has never been limited to the utilities of the physical objects. What comes with them are interactions of people, tastes, habits, ideas, technologies, production modes, customs, social norms, political influences, cultures, and so on. It is logical to conjecture, therefore, that the massive cross-border infrastructure investment and unimpeded trade flows promoted under the BRI would facilitate technology transfers, export ideas and cultures to recipient countries, or even nurture changes and innovations in social norms, political and economic institutions within these economies, which may reciprocally exert impact on China, its people, and economic and political operations.

Third, it is not surprising that the ancient Silk Road was anchored around the Middle Kingdom because it was the largest economy throughout most of history until at least 1820 when Qing empire or China's share of world GDP remained at about 32.9% (Maddison, 2006. Maddison's estimates have been criticized for being either overly positive (D. Liu, 2010) or misplacing peak time (Jin, Guan, Li, and Broadberry, 2019)), and its economy was facilitated by a huge unified domestic market at least since the Ming dynasty (Luo, 2002; Li, 2010). China has regained its historical leading spot in global economy and trades when China overtook Japan as the second largest economy in the world in 2010 (Barboza, 2010) and surpassed the US in becoming the world's largest trading nation in 2013 (Monagham, 2014). Consequently, the BRI's impact on world trades and economies could resemble that of the Silk Road in the medieval times.

Fourth, people living in the ancient times on the Eurasian and East African contingents and oceanic islands in the Western Pacific and Indian Oceans were probably more connected, and the exchanges of goods and cultures was far more frequent than what modern people could imagine (Alpers, 2014). Chinese influence

through trades and goods on pre-revolution America has yet to be adequately comprehended (Frank, 2011). Driven by inhabitants' desire to live a better life or merchants' profit motives, those early interactions or exchanges produced far more long-term impact on polities and peoples than what they intended then or what we can appreciate now (Osterhammel and Petersson, 2005; Bernstein, 2008; Frank, 2011).

The BRI, thus, could be felt as a continuation of such a historical inertia of globalization but only in "China Style" (Nomura, 2018) and under a new brand label.

6.2 Brief history of Russell Group

As mentioned in Section 5.3, all the chosen cases are invested by a Chinese SOE, or Russell Group codenamed in this research. Before presenting detailed case-specific data, it is beneficial to understand who the investor is, why it has made all these investments, and what its business logic or rationale is about. Understanding this background will essentially serve as a process of interpretation (Geertz, 1973) to learn and appreciate "participants' theories" (Maxwell, 2013) and may also disclose important answers to the research questions (Flyvbjerg, 2006).

6.2.1 Russell's pre-life

6.2.1.1 The American Russell and Company

The water testing *Empress of China* trip (see Section 6.1.2) was a successful one, delivering a net profit of $37,000 or a gain of 30% to its organizers and promoters. The initial success encouraged those New England traders to invest more and also enticed more American merchants to participate and compete in such lucrative trades with China, culminating in the establishment of their permanent presence in Canton (Guangzhou) by the American merchants. One of them was Samuel Russell & Company, formed in 1812 and later renamed Russell and Company (旗昌行), specializing in commission agency or buying and selling activities on behalf of its principles and clients back home in America and elsewhere (He, 1997).

In 1830, it merged with another New England agency firm, Perkins and Company. The combined firm inherited the name Russell and Company and became the leading American trading firm in the Far East (He, 1997). Shareholders of the new firm included John and Robert Forbes and Warren Delano (Great grandparent of Franklin. D. Roosevelt). During the Anglo-French Wars between 1803 and 1815, EIC's trades with China were significantly disrupted. Russell and other American merchants seized the opportunity to expanded both their commission business in Canton and trades to England and continental Europe, eroding EIC's home market and creating a true global trading triangle (He, 1997; Barrow, 2017).

As a result of increasing difficulties in sourcing ginseng, otter pelts, sea lion skins,

and other American Indian local specialties, depleting savings of Spanish silver dollars at hand, declining profits from triangle trades, and rising appetites for Chinese tea, silk, porcelain, and other exotic and household goods, these American merchants were confronted with a huge trade imbalance. They learned quickly from their British competitor, the EIC, and found a lucrative substitute trade item, Turkish opium, because the EIC and their agents such as William Jardine and James Matheson had a lock on good quality India opium (Bernstein, 2013). They joined forces in opium smuggling activities to reduce their trade imbalances (He, 1997; Frank, 2011). After 1834, when the EIC's monopoly on China trades was revoked by the English throne, Russell, augmented by its successful inroads into the India opium supplies, became the third largest opium smugglers into China after its British rivals Jardine Matheson and Dent & Co. (He, 2005; Barrow, 2017).

After the Opium Wars in the mid-1800s, unlike their British counterparts, these Americans slowly quit their opium dealings and used their accumulated profits to start up other businesses in America, for example, railroad investment in the Midwest (Chandler, 1954; He, 1997), and in China, leading to the eventual formation of Shanghai Steam Navigation Co. (上海轮船公司或旗昌轮船公司) in 1862. The new venture pooled capital from various international and Chinese investors, the first of its kind, and specialized in cargo and passenger shipping business along coastal China and the Yangtze River (Luo, 2005; Chen, 2007). By 1870, Russell's shipping business enjoyed a dominant advantage along the Yangtze River over its rivals Jardine and Swire. During 1867-1870, it generated an annual net profit over taels 700,000 (or liang, 两) in silver (a Chinese silver based monetary unit in Ming and Qing dynasties, see Section 6.1.3) or a net profit margin of over 40% (Chen, 2007).

6.2.1.2 The birth of China's first SOE shipping company

The humiliation suffered from defeat by foreign powers in the two Opium Wars in the mid-1800s and a depleting treasury paired with mounting financial obligations to pay a huge war indemnity prompted the Qing Court to seek alternatives to raise revenues, revitalize a struggling economy, and save its imperial rule in China. One such alternative was to create China's modern steam shipping company to sustain its long-standing government grain shipping (漕运) business, which had used traditional and technologically backward sailboats to transport grains from China's southern part to the capital city Beijing in the north. Additionally, it hoped to compete for a slice of the lucrative shipping profits monopolized by foreigners at the time.

In Jan 1873, China Merchants Steamship Navigation Company (轮船招商公局), as the first Chinese capital funded modern business, officiated its entrance into the industry by pooling capital from private Chinese investors in a form of joint-stock company. It was the first regulated company (官督商办企业, or government supervised and privately owned) in Chinese history (Zhu, 1994; He, 1997; Luo, 2005).

In addition to the steam shipping business chartered by the Qing government, it was required to invest in other industries either coerced or induced by the government promoted industry policy (洋务运动). Its other mandate included learning and importing foreign shipping technologies and management knowhow, and contributing to government appropriations, among others. In return, it received loan support from the government to buy ships initially but later to acquire the Russell assets (see next section). It was also granted privileges in the government grain shipping business, which provided nearly a third of freight receipts during the early years of its operation but later became a money losing burden.

By 1874, China Merchants had branches in Japan, Malaysia, Singapore, the Philippines, and Vietnam in addition to Tianjin, Xiamen, Hong Kong, and other domestic port cities. It was growing fast and promising a bright future to the Qing government and its shareholders.

6.2.1.3 The first outbound Chinese acquisition in history

Four years later, in early 1877, an upbeat China Merchants and a dwindling Russell and Company agreed to a deal in which the former acquired all the latter's shipping assets including ships, ports and terminals, warehouses, and other facilities. The transaction returned Russell's shareholders a 1.2x net gain on their initially invested capital, created China's first multinational company (MNC), and represented the first outbound acquisition in Chinese corporate history (Chen, 2007; Hu, 2009; Hu and Li, 2010). (***The combined new company is the predecessor of Russell Group, as first codenamed in Section 5.3.2***.)

Because the company was privately owned but government run, its board, consisting of significant shareholders or their representatives and government appointees, didn't hold a shareholders' meeting until 1909. All major business decisions were made by regulatory officials or government appointed managers. It was run more like a government-owned organization than a for-profit private enterprise (Lai, 1990/ 2005; Chen, 1999/2005). Post 1885, as government control essentially drove out private shareholders in governance and operational management, cronyism, corruption, government or interest group induced non-core investments, outright appropriations and embezzlements, and bureaucracies significantly escalated its operating costs and impaired its competitiveness in the marketplace, draining its cash flow and financial health (Lai, 1990/2005; Zhu, 1994; Luo, 2008). Private shareholders' property rights were severely infringed by the Qing Court and its successors after the Qing government was overthrown in 1911. In 1932, Russell was nationalized by the Republic of China government (Lai, 1988/2005; Luo, 2008). Russell's independent life ended.

6.2.2 Russell's rebirth

6.2.2.1 Russell as a reform pioneer

Fast forward to 1978 when Russell was only survived by its near dormant Hong Kong branch office. Its direct owner, the Ministry of Communications of the Peoples' Republic of China (PRC), applied and proposed to the Central Government to expand and leverage this offshore platform to advance China's upcoming reform initiatives. Upon government approval, Russell's mandate in the new open-door era mirrored its old ones a century earlier. That meant introducing foreign investment into China, learning foreign technologies and management knowhow, raising foreign exchange receipts, and experimenting new governing systems and practices under the Chinese reform policies. It received, in return, loan support from state-owned banks and tax breaks from government, was permitted to retain profits for reinvesting, and enjoyed specially granted management freedom and decision-making power not available to other SOEs then.

As part of its official missions and unique privileges, Russell launched, in 1979, the construction, operation, and later municipal administration of Shekou Industrial Zone or Park (SIP), China's first industrial park (Zhu, 1995; H. Zhang, 2007; Wu, 2018) and this work continued through the 1980s and 1990s. It engaged in the investment and operation of both economic (e.g., power, telecom, water and sewerage, road and rail, in addition to its core port business) and social (e.g., schools, hospitals, recreation facilities, community parks) infrastructures, industrial ventures (e.g., container, glass, paint, food manufacturing), and real estate businesses (e.g., industrial, commercial, and residential, hotel and travel related). It also branched out into financial (e.g., insurance, commercial bank, and securities) services to complement its industrial and park businesses, leveraged its real estate holdings and development expertise to grow logistic and supply chain services, and spun from the Shekou port pivot into a leading port network spanning major cities along the Chinese coast (Zhu, 1995; H. Zhang, 2007)

To accomplish the above, it pressed reforms in salary and bonus systems and employment practices, contracting and bidding rules, land use regulations, private housing market, and social security offerings. It formed among the first Sino-foreign joint ventures and joint-stock companies and supported sole foreign invested enterprises in order to attract foreign investment and seed new businesses (Zhu, 1995; H. Zhang, 2007; Wu, 2018). In a word, it is a pioneer in the promotion and implementation of China's various reform initiatives.

Russell's initial success in Shekou served as a prelude to, and pilot project, for the eventual establishment of Shenzhen SEZ in 1980 (H. Zhang, 2007; Wu, 2018). Its continuous experiment and refinement, and expansion beyond Shekou in the 1980s and 1990s eventually evolved into the Port-Park or Zone-City (前港-中区-后城) development model, or the so-called "Shekou Model" or "PPC Model" (Zhu, 1995; H. Zhang, 2007; He and Liu, 2014; also see Box 6.1).

Box 6.1 **The Shekou Model**

The Shekou Model consists of four key elements: First, industry clustering: attract, co-invest, if necessary, and locate industrial and manufacturing enterprises in the park; second, business incubation: invest or co-invest in startup or early stage businesses and help grow them; third, land development: build infrastructures and factories and lease or sell to industrial or commercial users; fourth, community functions: develop residential properties and social and community functions to meet the comprehensive needs of residents and households (H. Zhang, 2007; He and Liu, 2014).

The bedrock underpinning the Shekou Model is its development strategies, which were initially port-centered and then supplemented with ongoing expansion, upgrade, and rapid modernization of port facilities. These efforts have enabled and built transport, communications, industrial, and financial linkages first with Hong Kong and other coastal cities in China and then to the rest of the world, quickly integrating an once isolated fishing village and a burgeoning export-oriented industrial park into the global economic web (H. Zhang, 2007).

The start-up of SIP timely took advantage of a global trend of relocating labor intensive and manufacturing productions to low cost regions and MNCs' desires to access the vast inland market unleashed by China's open-door policy (Wu, 2018).

There are a variety of interpretations of what the Shekou Model signifies, but the consensual theme is that business firms should be separated from government, managed to maximize efficiency and profit, and operated on the premises of rule of law and rule of market, striving relentlessly for continuous institutional innovations and improvement in their external operating environment which was then predominantly socialist and planned economy (H. Zhang, 2007; Wu, 2018).

6.2.2.2 Russell's rapid conglomeration riding on China's growth

The rapid expansion of Russell's investments and operations was boosted in part by the formation of Russell Group in 1985 with the blessing of the PRC government (Zhu, 1995). The government took advantage of Russell's experience and expertise and overseas business connections and financing capabilities to spearhead reforms in inland cities, while Russell has also exploited such privileges to establish and solidify its leading positions and market shares in several industries including ports and logistics, commercial banking and securities business, and property development.

Buoyed by China's rapid industrialization and explosive export growths in the past forty years, Russell has experienced rapid growth and conglomeration. For fiscal year 2018, Russell, with three core business segments in transport infrastructures,

financial, and property development and industrial park operations, was ranked the first in terms of asset size and profitability among more than a hundred central government administered SOEs in China (Russell, 2019; RU01). It was 244th in the Fortune Global 500 list with total revenues of US$459.3 billion (Fortune, 2019). Within its transport segment, its flagship port business claims to be the second globally based on 109.7 million TEUs handled through its owned ports and terminals worldwide. It has become a major implementor of the BRI as well (Russell, 2019).

6.2.2.3 Summary discussions

The preceding brief profiling of Russell's recent history communicates at least the following messages:

First, Russell's Shekou experiment was coupled with outright changes and innovations, spearheaded on its part, in its external institutional environment, which predominantly consisted of planned economy and socialist orthodox. SIP and later Shenzhen SEZ as experimental enclaves were a result of dynamic interactions and reiterations of top-down policy drives from central and provincial governments and upward proactive proposals and strategic actions initiated by Russell and its fellow reformist firms. This experience is similar to what North observed in the 19th century America where economic growth was spurred by drastic institutional innovations and reinventions of new and efficient business organizations (Menard and Shirley, 2014). This account of Russell's Shekou history also supports the argument that China's reform success has been driven by bold institutional reforms and innovations in both top-down and bottom-up fashion (see Section 3.1).

Second, in addition to its SOE background, Russell's dual mission of both commercial and noncommercial motives qualify it as an institution, or the "means of enforcement" to be exact, under the definition by Horn (1995), as opposed to a pure business concern. This hybrid nature accrues it (perceived) credibility, legitimacy, and trustworthiness when initiating changes to the orthodoxical establishment on the one hand and, on the other, yields an attractive dividend for its shareholders and business partners by, for example, gaining preferential treatment and first mover advantage or even exclusivity in newly deregulated industries and business opportunities. This dual status positions it with certain advantage both at home, for example, several of its overseas projects are included in official blueprint (NDRC, 2017), and in B&R countries in fulfilling its missions (see Section 8.4.1).

Essentially, the Shekou Model is about business firms' proactive behaviors and relentless efforts to foster and innovate changes to its external institutional environment when advancing its business interests and objectives.

6.3 RussellPort's growth history

6.3.1 RussellPort's growth history

Russell's new mandate in the reform era, since 1978, has placed a particular emphasis on shipping and port related businesses, which it even declared in 2001 as a strategic priority. With that strategic reorientation, Russell then started injecting its port related assets into a listed vehicle on HKEx already owned by itself and transformed the listed platform, through both organic growth and strategic acquisitions, to first become the leading port operator in China in 2006 (H. Zhang, 2007) and then a global leading player (RussellPort, 2019; RU01). This listed vehicle, codenamed RussellPort, has acted as Russell Group's flagship in leading the charge of forging its domestic port network and exploring overseas waters. Consequently, RussellPort is an investor and operator of Sapphire, Abhayagiri, Khat, and Guinni Koma (see Section 5.3.2 and Chapter 7).

RussellPort's growth history is illustrated in Table 6.1 (see Table 6.1). A couple of notes and interpretations might be necessary to help better understand what is behind the numbers.

First, a port operator's business size is commonly measured by the number of standard 20-inch containers or TEUs handled through its ports. Numbers in Columns (a), (d), and (h) in Table 6.1 represent the gross throughput volumes handled by RussellPort invested ports, meaning that it has an equity stake, regardless of majority or minority, in the companies owning the ports. It could act as both an investor and / or an operator of a port. For the gross throughput of 109.1 million TEUs handled by its owned port system worldwide in 2018, its proportionate share of TEUs, or on equity accounting basis, is about 41.0 million, over a quarter of which was done outside of its home markets in Mainland China and Hong Kong. This was the first time the company reached that milestone and this trend continued into 2020 (RussellPort, 2019, 2020).

Second, after several years of high growths in Mainland China between 2000 and 20007, as indicated in Column (a), RussellPort rapidly built its leadership position (H. Zhang, 2007) and has sustained its leading market share of over 30%, as seen in Column (c) ever since. As domestic industry growth and the HK market have trended down since 2011, as implied in Column (b), it makes sense for RussellPort to seek growth elsewhere. It is therefore no surprise to see volumes highlighted in Column (h) gradually kicking in since 2011 from outside its traditional home markets, culminating in the mix of over 20% in gross throughput, see Column (j), and a net share of over 25% of proportionately owned or equity-accounted volumes in 2018 and 2019 (RussellPort, 2019, 2020).

The contributions from its overseas operations could be further corroborated and explained by the following key milestones.

Table 6.1 Container Throughput Handled by RussellPort Managed and Invested Ports: 2000-2019

			Mainland China			Hong Kong					RussellPort Worldwide			
(TEUs'mm)	Russell-				RussellPort	Russell-				RussellPort	HK +	Rest of		HK+China
Year	Port	Change	Industry	Change	Share %	Port	Change	Industry	Change	Share %	China	World	Worldwide	Share %
	(a)		(b)		(c)=(a)/(b)	(d)		(e)		(f)=(d)/(e)	(g)=(a)+(d)	(h)	(i)=(g)+(h)	(j)=(g)/(i)
2019	83.7	3.6%	261.1	4.5%	32.0%	5.6	-5.9%	18.3	-6.6%	30.4%	89.2	22.5	111.7	79.9%
2018	80.7	4.7%	249.8	5.5%	32.3%	5.9	3.0%	19.6	-5.7%	30.2%	86.7	22.4	109.1	79.5%
2017	77.1	7.2%	236.8	8.6%	32.6%	5.8	11.7%	20.8	4.8%	27.7%	82.9	20.0	102.9	80.6%
2016	71.9	17.0%	218.0	3.0%	33.0%	5.2	11.5%	19.8	-1.3%	26.0%	77.1	18.7	95.8	80.5%
2015	61.5	3.2%	211.6	4.5%	29.1%	4.6	-21.6%	20.1	-9.7%	23.0%	66.1	17.6	83.7	79.0%
2014	59.6	5.0%	202.4	6.4%	29.4%	5.9	-0.2%	22.2	-0.6%	26.5%	65.5	15.4	80.8	81.0%
2013	56.7	4.3%	190.2	7.2%	29.8%	5.9	8.5%	22.4	-3.3%	26.4%	62.6	8.7	71.3	87.8%
2012	54.4	7.0%	177.5	9.5%	30.6%	5.4	-10.6%	23.1	-5.2%	23.5%	59.8	0.4	60.2	99.3%
2011	50.8	10.3%	162.0	10.9%	31.4%	6.1	-2.1%	24.4	2.9%	24.9%	56.9	0.4	57.3	99.3%
2010	46.1	20.9%	146.1	20.8%	31.5%	6.2	7.6%	23.7	12.6%	26.2%	52.3		52.3	100.0%
2009	38.1	-12.6%	121.0	-4.0%	31.5%	5.8	-16.4%	21.0	-14.1%	27.4%	43.9		43.9	100.0%
2008	43.6	8.7%	126.0	12.5%	34.6%	6.9	-1.4%	24.5	2.1%	28.2%	50.5		50.5	100.0%
2007	40.1	19.7%	112.0		35.8%	7.0	3.9%	24.0	1.9%	29.2%	47.1		47.1	100.0%
2006	33.5	85.0%				6.7	5.6%	23.5	4.1%	28.6%	40.2		40.2	100.0%
2005	18.1	155.4%				6.4	13.7%	22.6	2.8%	28.2%	24.5		24.5	100.0%
2004	7.1	42.3%				5.6	12.9%	22.0	7.5%	25.5%	12.7		12.7	100.0%
2003	5.0	52.1%				5.0	15.5%	20.4	6.8%	24.3%	10.0		10.0	100.0%
2002	3.3	47.2%				4.3	30.0%	19.1	7.4%	22.5%	7.6		7.6	100.0%
2001	2.2	23.1%				3.3	1.8%	17.8	-1.5%	18.6%	5.5		5.5	100.0%
2000	1.8	32.4%				3.3	23.5%	18.1	11.6%	18.0%	5.1		5.1	100.0%

Source: RussellPort data, namely, Columns (a), (d), and (h), from corresponding years of RussellPort annual reports. Mainland industry data Column (b) from annual statistics released by the Ministry of Transport of PRC (规模以上港口国际标准集装箱吞吐量). Missing years mean no data (available). Hong Kong industry data Column (e) from Hong Kong Annual Digest of Statistics released by the Census and Statistics Department of HKSAR.

6.3.2 Key milestones of RussellPort's overseas expansions

RussellPort's management expressed and reiterated its aspiration to become China's leading port operator in its annual reports to shareholders (RussellPort, 2002, 2003) and achieved that goal in 2006 (H. Zhang, 2007). Facing a moderating growth environment and entrenched competition in Mainland China and Hong Kong markets and weathering a booming growth in China's export driven economy, management set its eyes on overseas opportunities and took actions in 2007 to implement this new growth initiative (SA11). A series of strategic investments and acquisitions have been contemplated and completed, with a few unsuccessful attempts, to build its global port network (see Table 6.2), culminating to its current top 5 ranking among global port operators (author's calculations; SA11).

Table 6.2 Key Milestones of RussellPort's Overseas Expansions

Date	Strategic Actions and Milestones	Investment Amount (US$mm)	Cumulative Overseas Presence
2007/04	Russell Group signs an MoU to develop Ben Dinh Sao Mai deep-water port in Greater Ho Chi Minh area in Vietnam.		
2008/09	Signs JV agreement to form Vung Tau International Container Port Limited in southern Vietnam.		
2008/10	Enters JV agreement to invest in a general cargo port in Ben Dinh Sao Mai in Vietnam.		
2009/11	Signs an MoU with Port of Long Beach, CA for strategic cooperation on "green ports."		
2010/04	Signs a (revised) JV agreement to develop container port and logistics park facilities in Greater Ho Chi Minh area.		
2010/09	Forms consortium to bid for BOT concession of Colombo Port South Container Terminal and awarded a non-binding letter of intent by Sri Lankan government (GoSL).		
2010/11	Forms JV to acquire 47.5% stake in Tin Can Island Container Terminal in Logos, Nigeria.	92.4	1
2011/08	Signs a 35-year BOT CA to invest in and manage Colombo South Terminal (Sapphire or SA).	150.0+≈400 commitment	2
2012/08	Acquires 50% stake in Lomé Container Terminal in Lomé, Togo, which owns a 35-year concession granted in 12/2011.	≈197.6 (€150mm)	3
2012/12	Forms JV and acquires 30% stake in Kao Ming Container Terminal in Kaohsiung, Taiwan.	ND	4
	Agrees to acquire 23.5% stake in Port de Djibouti S.A. (Khat or KH; deal closed in 2/2013).	185.0	5
2013/01	Acquires 49% stake in Terminal Link SAS which owns interests in 15 container and bulk cargo terminals including Antwerp (and Zeebrugge), Belgium; Dunkirk, Fos, Le Havre, and Montoir, France; Marsaxlokk, Malta; Casablanca and	≈527.7 (€400mm)	18

	Tangier, Morocco; Abidjan, Côte d'Ivoire; Busan, South Korea; Houston and Miami, USA; and two others in China (closed in 6/2013).		
2013/01	Agrees to develop a port zone in Tanzania.	ND	
2014/08	Commences construction of Doraleh Multipurpose Port (DMP) under Khat in Djibouti.	405.0 EXIM loan	
2014/10	Begins trial operation of Phase 1 project at Lomé Container Terminal, Togo.		
2015/09	Forms consortium and acquires 65% stake in Kumport container terminal, Istanbul, Turkey (equity interest of 26%).	376.0mm	19
2016/11 2017/01 2017/08	Enters JV agreement to develop Djibouti International Free Trade Zone (Guinni Koma or GK); forms consortium to invest in the proposed Asset and O&M JVs with Djiboutian parties.	40.0 equity +150.0 loan by Russell	
2017/07	Enters CA to develop, manage, and operate Hambantota Port, Sri Lanka (Abhayagiri or AB; closed in 12/2017).	973.7	20
2017/09	Agrees to acquire 90% interest in TCP Participações S.A. in Brazil (closed in 2/2018).	≈862.0	21
2018	Terminal Link acquires Thessaloniki, Greece.	ND	22
2018/06	Acquires 50% equity in Port of New Castle, Australia.	≈487.7	23
2019/12	Advances financing to Terminal Link SA, which acquires 10 terminals in China, India, Iraq, Jamaica, Singapore, Thailand, the Netherland, Ukraine, and Vietnam.	$955.1	32

Source: RussellPort's annual reports and announcements during 2001-2019. Non-US$ amounts were converted at the then prevailing exchange rates. Commitment amounts were provided by informants. Cumulative number of points of presence is a simple count based on events captured in this table and may not match that by RessullPort's internal accounting which may apply a different criterion. ND, not disclosed. Empty cells mean data not applicable.

Several notes to and interpretations of Table 6.2 are worth mentioning:

First, among the port investments listed in Table 6.2, Sapphire represents RussellPort's first major overseas investment in terms of dollar value size, the first greenfield project ever undertaken in a foreign country, and the most successful to date in terms of TEU volume growths among its managed and operated international ports. Abhayagiri has been the largest single investment to date with a price tag of US$973.7 million. Guinni Koma project is the first overseas experiment of the Shekou Model or the PPC development design (see Box 6.1) (GK11; GK12; Ji and Li, 2019). These features substantiate the claim of representativeness and uniqueness of the cases selected for this research (see Section 5.3.2).

To put the above argument in perspective, the Chinese party that took over the management right of Gwardar port Phase I (original cost estimate of $248mm) in 2013 committed to invest about $500mm to build the Phase II terminal (Ejaz and

Jamshed, 2018). Chinse shipping giant COSCO Pacific committed an estimated payment equivalent to NPV €664mm in 2008 price terms for the 30-year concession of operating the Greek Piraeus port terminal II (Karlis and Polemis, 2018). The port investment named in this section are the major ones consummated to date by Chinese firms and branded under the BRI label (Chen, Fei, Lee, and Tao, 2019).

Second, Sapphire and Khat were initiated and invested before the BRI was announced in late 2013 and have been claimed officially as representative B&R projects. This fact evidences the argument made in Section 1.3 that the BRI is a continuation and expanded form of the Chinese government's "going out" policy initiative announced more than a decade earlier.

Third, Australia, Brazil, and Houston and Miami, U.S. were not envisioned as a component of the Maritime Silk Road but Russell's interest in the US market at least dates to 2009 as indicated in Table 6.2. (In contrast, COSCO Pacific's investment in the port of Long Beach, CA was made in 2001 (Chen et al., 2019)). These events confirm the message, reiterated in this research, that the BRI's scope and geographic boundaries are still evolving and undefined. It wouldn't be unlikely for North American interests to eventually join the BRI for the common good, as they did with the ancient Silk Roads, because the BRI represents only a Chinese storyline of globalization which has been in fact preached by all races and nations throughout the human history (see Sections 6.1).

As pointed out by Russell's senior team for international operations, barring all the political rhetoric, Japan was the first country to sign in Dec 2018 a third-market cooperation agreement with China (i.e., to cooperate on BRI project in a third country), and followed by France and Italy (RU01). (As of Jun 2019, 14 countries have signed up such programs (NDRC, 2019)). At the Second Belt and Road Forum for International Cooperation held in Apr 2019, over 50 American firms attended (RU02).

6.3.3 RussellPort's overseas expansion strategy

The preceding two subsections have illustrated RussellPort's overseas expansion trajectory and the management rationale behind its strategic moves as disclosed by the publicly available documents, industry archival data, and management confirmations. It is obvious that among the five investments chosen for this research, at least two are pre-BRI and commercially motivated, and the three post-BRI projects may carry a policy-driven perception (see Table 5.4). RussellPort has effectively incorporated government policy calls into its own growth strategy. The interactive relationships in between are best narrated in its own words (see Table 6.3)

Table 6.3 RussellPort's International Strategy Statements

Year	Selected International Strategy Statements	Overseas Presence
2009	Negotiations in Vietnam and Sri Lanka on schedule	
2010	"Debut entry overseas" acquisition in Nigeria	1
2011	"Continues to adhere to its strategy of "Going Out" … achieved breakthrough in securing Sapphire"	2
2012	"Internationalization" as one of three strategic objectives; Acquire ports along "major international shipping routes" and strengthen "strategic relationship with major shipping liners"	5
2013	"International positioning, homebase establishment, and innovative development" as three strategic objectives; "Goal to become the world's leading port investor, developer, and operator"	18
2014	"Overseas operation has become … key growth drivers"… "long established philosophies and business expansion … align with" the BRI	18
2015	"Tagging along the "**One Belt, One Road**" strategy" [and invested in Kumport in Turkey]	19
2016	"Solidify ports layout in Asia, improve ports network in Africa, expand footprint in Europe and acquire new exposure in Americas;" Capture "opportunities arising from the **BRI**"	19
2017	"Solidify ports layout in Asia, improve ports network in Africa, expand footprint in Europe and acquire new exposure in Americas;" "Optimize the ports network by leveraging on the opportunities offered by implementation of the **BRI**"	21
2018	"Constructing homebase port in Asia, increasing controlling stakes in Europe, further development in African and presence in Americas"	23
2019	Integrate Sapphire and Abhayagiri to create an "overseas homebase port;" Further expand global port network along the "East-West routes, South-North routes, regions along the Belt and Road;" Leverage on China's outbound "industries migration" and "**PPC** development model" in regional markets; Transform from a "terminal operator to a comprehensive port services provider" and promote the **PPC** model.	32

Source: RussellPort Annual Reports 2009-2019 and Table 6.2.

The above strategy statements are gleaned from the Chairman's statements and management discussions of operating results in RussellPort's annual reports for the fiscal years of 2009-2018 that cover its venture into international markets from the very beginning. These statements and the timeline of their evolutions are analyzed in conjunction with the key milestones (see Table 6.2) and TEU volume additions from international operations (see Table 6.1), it may reveal that RussellPort's international strategy started from opportunistic investment. Then, it has gradually become systematic development and optimized among its cumulative portfolio. It could be argued, therefore, that its international expansion strategy has been primarily driven by its for-profit motive and management views on global market dynamics instead of Chinese government policies and mandates. The latter is considered more of a source of opportunities to capitalize on than a top-down order to execute (RU01).

6.4 General information of case location countries

After contextualizing a temporal perspective of the Silk Road (see Section 6.1) as situational backdrop and Russell as the actor of focus (see Sections 6.2 and 6.3), this section will take a spatial snapshot of the institutional dynamics of these markets where the cases locate. The resulting coordinates will be expected to provide a framework to understand, explain, and interpret why the investments have happened that way and why Russell has taken the firm strategies that it has.

For easier reference and comparison, the case locations along the terrestrial "Belt" and maritime "Road" are identified in a schematic map (see Fig. 6.1). Respective country information gleaned from archival, interview, and literature sources is tabulated next (see Table 6.4) and further interpreted and thematicized in subsections thereafter.

6.4.1 Geographic locations of case countries

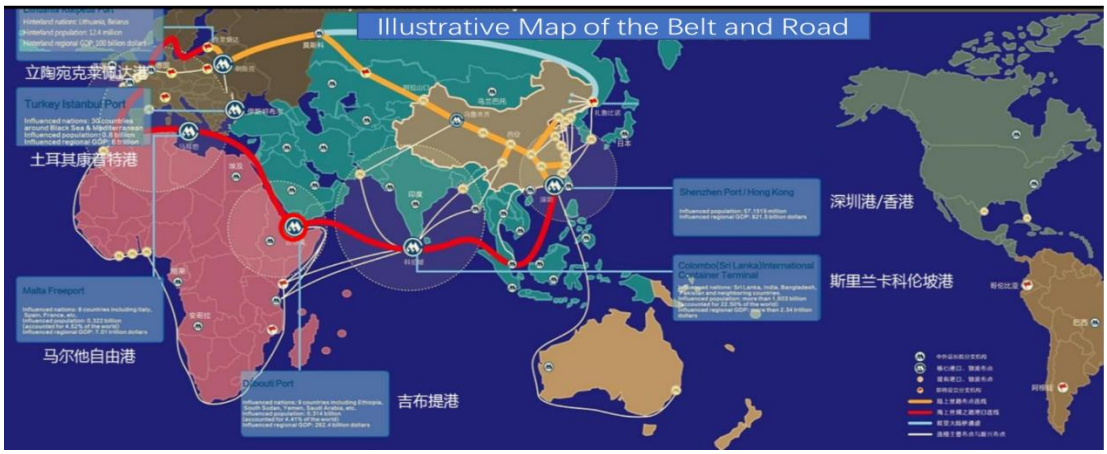

Fig. 6.1 Case Locations along the Belt and Road

Source: RussellPort.

Just a simple note to Fig. 6.1. The red line depicts the MSR while the yellow line denotes the SREB. Sri Lanka, a node on the red line, is located on the southern tip of the Indian Subcontinent and near the center of India Ocean. Djibouti is located west of Sri Lanka on the red line guarding the gate of Red Sea between Arab Peninsula and the Northeast Africa. Belarus sits on the yellow line and is squeezed between Russia and West Europe.

6.4.2 General information of case countries

Case countries' general political, economic, and social and cultural information and data are compiled and compared below (see Table 6.4).

Table 6.4 General Information of Case Location Countries

Country	**Sri Lanka**	**Belarus**	**Djibouti**
Region	South Asia	Eastern Europe	Northeastern Africa
Population (mm)	21.67	9.49	0.96
Surface Area (km^2)	65.6	207.6	23.2
GDP ($bn) (2018)	88.90	59.66	1.97
GDP Growth (2018)	3.2%	3.0%	6.0%
GDP / Capita (2018)	$4,102	$6,286	$2,052
Domestic Credit Provision (% of GDP)	71.3 (vs. China 218.3, US 235.6)	40.7	37.2
Export / Import (% of GDP)	23/30 (vs. China 20/19, US 12/15)	70/69	35/82
Economic Structure (State Dept., 2018, 2019)	SOE monopolies of key infrastructures	Over 75% GDP by SOEs	Over 80% firms are SOEs
Institutional Character	"Chaotic democracy" (SA32/AB32)	"Adaptive authoritarianism" (Frear, 2019)	"Clannism" or "The rule of the clan" (Weiner, 2011)
Legal Tradition (CIA, 2020)	Primarily English mixed with Roman-Dutch laws (SA21/AB21)	Civil / Socialist (Saidov, 2003)	Mix of French, Islamic, and customary laws (Dahir, 2015)
Dominant Religion	Buddhism	Eastern Orthodox	Islam
Economic Freedom Index (a)	57.8 (vs. HK 90.2, China 57.8)	58.1 (vs. Russia 58.2, Poland 68.5)	45.1 (vs. Nigeria 49.5 Zimbabwe 44.0)
Economic Freedom Ranking (a)	111 (vs. HK 1, China 110)	108 (vs. Russia 107, Poland 45)	171 (vs. Nigeria 160, Zimbabwe 174)
Ease of Doing Business Ranking (b)	100 (vs. HK 4, China 46)	37	99
Rule of Law Index (c)	55.3 (vs. HK 93.8, China 44.7)	21.6	17.8
Corruption Control Index (c)	41.4 (vs. HK 92.3, China 46.6)	47.1	29.3

Sources: 2018 World Bank Country Profile. Retrieved Aug 9, 2019, from

https://databank.worldbank.org/views/reports/reportwidget.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd= y&inf=n&zm=n&country

(a) 2018 Index of Economic Freedom by Heritage Foundation https://www.heritage.org/index/
(b) Doing Business (2019) by World Bank.
(c) World Governance Indicator, 2017: Rule of Law and Corruption Control (% rank among all countries). Retrieved Jul 24, 2019, from https://info.worldbank.org/governance/wgi/#home

Several observations, as thematicized in the next two subsections, could be inferred from the information in Table 6.4 and expanded with reference to archival and literature sources and informants' accounts of explanations.

6.4.3 Characteristics of case country economies

Five thematic observations can be said of the case countries:

First, these countries are smaller economies in absolute GDP dollar terms and measured by their population, a proxy of domestic market size, whose purchasing power is further restrained by a relatively low per capita GDP level.

Second, these economies rely heavily on (re)export trade flows as they are both limited by their smaller home market and encouraged by or path dependent on their claimed geolocational advantages as either interconnecting section of the East-West maritime (i.e., Sri Lanka) or terrestrial (i.e., Belarus) transit corridors or gatekeeper of a key international transport choke point (i.e., Djibouti to the Bab al-Mandeb Strait).

Third, domestic financial institutions are unable to provide adequate credit to facilitate their economic growth. Hence, FDI or international aid and financial assistance are highly sought after to mitigate internal shortage of capital formation and credit supplies. A commonly used strategy by all three economies is to set up free trade zones (e.g., Sri Lanka and Djibouti) or free economic zones (e.g., Belarus). To attract FDI, these governments offered packages of incentives, typically including exemption or lower rates of taxes, guarantee of profit and dividend repatriation, ease of business registration, people movement (e.g., visas), and employment.

Fourth, these economies are dominated by government monopolies or SOEs in, for example, key infrastructure industries. Like everywhere else, SOEs are typically marked as low productivity or loss making (e.g., Sri Lanka national airlines or the Djiboutian equivalent) and enjoy cheap credit and tax privileges from government (e.g., Belarus). Private sector participation in the general economy is limited in scope and free enterprising is significantly hindered by government policies and practices as measured by the Heritage Economic Freedom Index. Consequently, these economies' internal growth engine is incapable of generating the power required to fuel their expected growth.

Fifth and lastly, their political, legal, economic, social and cultural institutions are not conducive to market economic rules and practices and FDIs, as implied by their poor Rule of Law Indices and Doing Business (2019) rankings.

These unique characters may provide ample ground for cross-case (or cross-country) generalizations from a case study research design perspective (see Section 8.5).

6.4.4 Institutional dynamics of case countries

Doing Business (2019) is a flagship matrix developed and used by World Bank to monitor and measure business regulations and their enforcement across 190 economies. It is also extensively referenced by the US State Department (2018, 2019) in forming its perspectives and assessment on these nations' business climates. The current index comprises of 11 indicators, including registering a business and property, obtaining credit and building permit, paying taxes, enforcing contract, resolving insolvency, and so on. The index has an aggregate (of 11 indicators) as well as individual indicator rankings.

In overall ranking, the case countries except Belarus are ranked way below China, and all of them and China show a far distance from a global benchmark like Hong Kong. Belarus, for example, has been recognized as making significant progress in recent years based on the aggregate indicator, but when individual and other factors (Corruption Control Index is a separate measurement by World Bank and not a component of the Doing Business Index) are scrutinized under the microscope, law enforcement and corruption rankings have constantly remained low, implying an under protection of contract or property rights and high transaction costs of doing business there. These are all typical syndromes of weak institutions, as detailed next.

First, laws on property rights protection remain inadequate in these countries. During the Rajapaksa administration (2005-2015) in Sri Lanka, for example, the government expanded state control of the economy and seized the assets of 37 companies under a special act. Historically, Sri Lanka frequently nationalized private businesses when socialist oriented Sri Lanka Freedom Party (SLFP) was in power. The land acquisition law particularly allows the government to take over private land for public use with government-determined compensation (State Department, 2018; 2019). The Sapphire concession was tendered and unilaterally canceled by the government and then retendered and won by RussellPort (SA11). In Djibouti, a new law was enacted in 2017 to empower the government to unilaterally terminate contracts on sovereign grounds (State Department, 2018). As a result, it revoked in 2018 the DP World's (DPW) management franchise of the Dohaleh Container Terminal (DCT), a unit of Khat, causing DPW to seek arbitration first and then sue RussellPort for inducing the Djiboutian government to breach the CA (FactWire, 2019). Frequent policy changes and opaque rules, regulations, and practices pose serious risks to private property rights and foreign investments in these countries.

Second, court and contract enforcement remain inadequate as shown by their poor Doing Business (2019) rankings, even though, for instance, Sri Lanka has inherited a common law system where relevant business legislations are comprehensive and the three branches of legislation, justice, and administration are separate. In Belarus and Djibouti, for example, enforcement could discriminate against private sector and foreign investors (in favor of state or SOEs) given the state's strong influence (see Section 7.2.2.3 on Djibouti). Presidential Decrees (PDs) in Belarus carry more force in practice than legislation does (State Department, 2019).

Government staff's lack of technical capability has created problems with the tendering process in Sri Lanka (SA11). Their poor appreciation of private property rights has interfered with the normal administration of foreign invested firms in Belarus (GR21). They abused their authority in performing agreed government procedures in Djibouti (KH11). These are all typical forms of weak institutions as discussed in Section 2.3.1.3.

Third, rule of market in these countries is weak or malfunctioning as a result of prevalence of SOEs in transport (rail, ports, and air), electricity, energy, water, banking, insurance, telecom, TV and broadcasting, publishing, which are operated mostly following bureaucratic instructions and less on market disciplines. Even in the case of Sapphire, for instance, where RussellPort has management control, when joint decisions need be made, Sri Lanka Ports Authority (SLPA) appointees have to consult and seek consent from their SOE superiors. Consequently, delays and inflexibility are common. Raising container handling fees benefits all shareholders, but SLPA balks at such a decision because it operates less efficient terminals next door (SA11). In Belarus, even milk prices in supermarkets are set by officials, as reported by informants (GR11). Market forces or price and profit signaling are constrained by government directives or the "visible hand."

Fourth, corruption, cronyism, and rent-seeking coexist with SOEs and poor property rights protection. In Sri Lanka, unions are all aligned with political parties who in turn extend protections, employment security, and other favoritism in SOEs or public sectors (SA22/AB22).

Lastly, labor unions, workforce training, and labor legislation and practices pose significant extra cost and administrative burdens to do business there. For example, in Sri Lanka, SOEs' unions have opposed privatization generally and foreign (RussellPort's) investment in Abhayagiri in particular, increasing RussellPort's acquisition cost by an amount of "handsome compensation package" (AB41). Complying with the peculiar staff vacation application and reporting system in Belarus causes employers extra burden (GR24).

In sum, poor private property rights protection, extensive government interference in the economy through outdated regulations and practices, SOEs operating outside of market, incompatible social institutions and practices (e.g., manipulation of unions, forced hiring quota regardless of qualifications), contribute to high transaction costs to invest and operate in these markets. This explains why international and private investors either stay away from these countries or demand high returns if they invest (see Sections 2.3.1.1 and 3.2.1).
These institutional dynamics are consistent with the themes emerging from the literatures reviewed in Chapters 2 and 3 and offer fertile ground for testing the fitness of NIE theories and refined propositions (see more in Chapter 7).

6.4.5 Section summary

Since China has claimed not to attach strings or preconditions to its investments, these countries have been eager to "get ports and … [no] lectures on economic reform and human rights," to quote a former U.S. ambassador to Sri Lanka by Samaranayake (2011, p. 126). "Nobody helps Sri Lanka," "they [government] looked around of those various countries who promised but found only China could come to help us," commented two senior functional or department heads of local hires at Sapphire (SA21; SA22). "Djibouti is in extreme needs of infrastructures, and only China has responded to our call. World Bank, the US, France, and European Union have failed to come as promised," said President Ismaïl Omar Guelleh in an interview (Guelleh, 2019). Belarus is eager to cash in potential opportunities of the BRI agenda (Kamusella, 2018; Zogg, 2018). These voices from case countries may explain why over 130 countries have jumped on the BRI bandwagon (NDRC, 2020).

These interesting dynamics between China's stance of "no strings attached" and the weak institutional environment in these B&R countries have presented a unique contrast and conflict. How Russell has dealt with such conflicting dynamics will be described in detail in Chapter 7. These could represent the typical institutional challenges confronting B&R investors. Hence, the institutional strategies Russell has experimented with may have broad implications for the BRI course.

6.5 Chapter summary

This chapter has attempted to construct both temporal and spatial coordinates for the case stories that this research draws from. It has also excavated deep into the case actor's background to glean cues and prepare to understand the informants' theories in the coming chapters. This work is expected to set the stage for detailed case descriptions and aid in case interpretation and analyses in Chapters 7 and 8.

Chapter 7 Description and Interpretation of Investment Cases

As profiled in Tables 5.4 and 6.4, each of the five investment cases is unique, which requires specific treatment in order to uncover their enlightening stories. This chapter intends to describe in detail these cases and draw observations and implications along the way.

The case descriptions will start with Russell's investments in Sri Lanka, where RussellPort makes its overseas debut, and then move on to Djibouti, where Russell invests in port and showcases its Shekou Model. These are representative investments along the MSR (NDRC, 2017). Two of them are also tractions of the "Debt Trap" rhetoric, which will be dealt with inevitably in the interpretations and analyses of these cases. Russell's project in Belarus will follow next. It represents the only SREB story in this research. At the end, implications or observations will be generalized and discussed.

7.1 Sri Lanka and RussellPort's Sapphire and Abhayagiri investments

7.1.1 Sri Lanka's institutional environment

In addition to the common institutional characters identified in Section 6.4, each of the countries has its unique aspects that are important to these investments and this research.

7.1.1.1 Sri Lanka's institutional evolution

The comparative analysis of political, economic, and social and cultural institutional dynamics in Section 6.4 conveys important cues to understanding the background of where the investments have taken place. Further excavation will likely not only unearth fundamental causes of why the institutional conditions are what they are, but also offer solutions of why investor firms like Russell have used the strategies they have. As such, a quick summary of key events in Sri Lanka's modern history has been compiled from various literatures as below (see Table 7.1).

Table 7.1 Chronicle of Events in Sri Lanka's Recent History

Time	Major Events	Institutional Feature
1505-1658	Portuguese arrive in 1505. Catholicism at work in 1550s. Coastal cities annexed and colonized in 1590s-1620s. The inland Sinhalese Buddhist kingdom rebels constantly.	Colonialism Religious conflict
1640-1796	Invaded and later occupied by the Dutch colonists. Indigenous fighting against Europeans continues.	Rising conflict

1796-1802	EIC invades and takes over Dutch coastal belt. EIC manages from India as a part of Madras Presidency.	Colonial and Indian influence
1802-1948	Colonial rule by the British Crown. Effective rule extended to the entire island in 1815. Indian laborers (later known as Tamils) arriving in 1830s.	British influence Hybrid identity Religious tensions
1948-1956	Gains independence; United National Party (UNP) in power. Adopts the first Constitution (1948) based on British model.	Parliament model of governance
1956-1959	S. Bandaranaike-led SLFP wins the election and promotes state control and Sinhalese culture and language to supremacy, triggering ethnic conflict.	Ethnic tensions
1960-1965	SLFP institutes socialist policies and strengthens ties with China and the socialist world. Declares anti-West stance.	Nationalization State monopolies
1965-1970	UNP returns to power and promotes private sector. Conciliatory efforts fail and ethnic tensions persist.	Economic reform Ethnic tensions
1970-1977	SLFP elected to power and pursues socialist policies. Land reform allows state to acquire privately-owned rubber and tea plantations. Land awarded to party supporters. Policies of import substitution, restrictions on movement of goods and people, foreign exchange controls, etc. First youth uprising quelled in 1971. Becomes a republic in 1972. Extends parliament tenure by two years in 1975.	Property rights abuses State monopolies Rising discontent Constitutional changes
1977-1994	UNP back in power, introduces free-market policies. Welcomes FDI, relaxes migration, promotes private enterprising, reforms finance sector, reduces taxes, etc. Introduces a new constitution and concentrates power with the President. Strikes prohibited, expressions of discontent banned, parliament term extended, one-party rule established. The 1978 Constitution is enacted, expanding President's power and recognizing Buddhism as a national religion.	Neo-liberal economic policies Constitutional change One-party rule
1994-2005	SLFP assumes presidency again.	
2005-2015	SLFP Rajapaksa elected to presidency in 2005 and 2010. 26 years of ethnic violence ended in 2009. The 18th amendment in 2010 to the (1978) Constitution. More power to the President and term limits phased out. Rajapaksa's relatives appointed to cabinet posts and SOEs. Builds port and other projects in his hometown district. Pro-China stance, improves trades and FDI with China.	Authoritarian capitalism Corruptions Constitutional change
2015-2019	Sirisena defeats Rajapaksa on anti-China stance and forms SLFP and UNP coalition government.	Pro market

	Launches constitutional amendment and free market initiatives.	Constitutional change
Nov 2019	Gotabaya Rajapaksa, younger brother of former President M. Rajapaksa, won Presidential election (NPR, 2019).	

Source: Braithwaite and D'Costa (2018), Constitutionnet (n.d.), Gamage (2009), Lambert (2019), Lankalibrary.com (n.d.), and Sivasundaram (2010); certain dates and names are from Wikipedia.

Sri Lanka is situated near the center of the India Ocean and historically at the crossroads of East and West and North and South trade and cultural exchanges. The country has profited from such a trade entrepôt status but suffered from the enduring conflicts as well. Politically, it has undergone frequent constitutional changes and long lasting ethnic or civil violence; economically, it has rotated between socialist or authoritarian policies and free market reforms; and socially, it has perpetuated tensions resulting from religious, linguistic, and ethnic diversities.

In recent history, such a state of instability has been spurred partly by the ruling party's political beliefs and partly manipulated by politicians as weapons to gain advantages in votes, power, group interests, and so on. Ultimately, this has resulted in corruption, cronyism, and a dysfunctional government (Gamage, 2009; Sivasundaram, 2010; Braithwaite and D'Costa, 2018). This chaotic web of political, economic, and social and cultural institutions is dubbed a "chaotic democracy" (SA32/AB32), or weak institutions with Sri Lankan characteristics.

7.1.1.2 Sri Lanka's institutions

The following institutions are directly relevant to the cases in Sri Lanka and consequently targeted by Russell to implement its institutional strategies. Below is a brief review of these institutions based on data from interviews and supplemented and corroborated by literature and archival sources (i.e., data triangulation).

Sri Lanka's legal environment

Company Laws: Sri Lanka has a mix of Roman-Dutch and English laws. Legislation on business is basically the Company Law, which has been amended from New Zealand Company Law and English common law. The Company Law is further divided into Listed Company Law, a set of rules for public companies, and Private Company Law, which regulates companies including foreign investments. PPPs are governed by Company Law and are therefore legally joint ventures. There is no particular law for PPPs (SA21/AB21).

Foreign investment: It is overseen by the Board of Investment (BOI), a government department formed by law, that serves as a window of the country to attract foreign investment, determine and recommend tax and other incentives, guide and implement

industry policies, and so on. Section 17 of the BOI Act, also called the Special Development Project (SDP) Act, empowers the BOI to grant greater tax and other benefits than what its regular authority permits to potential investors and projects, that are deemed of special importance to the country. This law has been phased out and replaced with a new Finance Act that took effect on Apr 1, 2018 as a result of the broad discretionary power available to the regulator. Both Sapphire and Abhayagiri were granted SDP status, and Abhayagiri is the last SDP project under the old law (SA11/AB11; SA21/AB21; SA32/AB32).

Labor regulations: Factories Ordinance regulates labor matters. The country adopts a set of pro-labor legislation that is "more favorable to the employees than employers." It is very difficult for employers to terminate employees, but employees can leave by only giving one-month notice (SA21/AB21). There are no black and white rules on the number of expatriates that can be brought to the country, but in practice, an investment agreement must agree on a maximum target of expatriates. For example, only 17 out of close to 1,000 staff at Sapphire are expatriates regardless of the roles and skills required. As a result, Sapphire has opted to invest heavily in employee and management training of local hires to operate its advanced equipment and management process (SA11; SA22; SA32).

Unionization is another important feature of labor matter. The law permits union's collective bargaining if union workers account for more than 40% of employees. A collective agreement reached at one firm applies to all players in the sector. Then, if it becomes a gazette, a document published by the government, it essentially makes it the law. In the port sector, for example, Sapphire would have to comply with the collective agreement entered by a fellow operator if it became gazetted (SA21).

Political parties control unions. Each party has a mother union that operates branch unions. There are three mother unions in Sri Lanka. A union may not publicly announce its allegiance, but its *de facto* affiliation is known. The government sector is the country's largest employer and about 95% of the hires are from the ruling party and its affiliations (SA21). As a result, public sector employment keeps blooming, while efficiencies decline. For example, Sapphire has less than 1,000 people, while the government terminal next door employs 6,000, but handles less volume. "All pumping up by the government and politicians" (SA22).

Sri Lanka Ports Authority (SLPA)

SLPA was established by the Sri Lanka Ports Authority Act No 51 of 1979, or port law, to own, manage, service, and regulate the country's ports (GoSL, 1979). It is a port owner, industry regulator, landlord, and services provider (e.g., navigation, pilotage). It is governed by a nine-person Board whose members are appointed by the Ministries of Ports and Shipping, Customs, Finance, and Fisheries. The Ministry of

Ports and Shipping appoints six of the nine directors, including the Chairman. It claims to be a self-financed institution (SA21/AB21; SA31/AB31; SLPA, n.d.).

SLPA is the designated and the only choice of local partner to co-invest with foreign investors in the ports sector. In 1999, the first BOT concession was awarded. It marked the opening of the ports industry to foreign investment. Sapphire is the second and Abhayagiri is the third port JV (SA21/AB21) or PPP (by international practice) project in the country. SLPA has retained a 15% equity interest in all three PPPs or JVs as required by the government (SA31/AB31).

The PPP model has been used by the government to attract foreign investment, technology transfers, and management and operational knowledge sharing. This is similar to the roles or contributions that Chinese government has expected Russell to deliver historically (see Section 6.2). They are, therefore, institutions of hybrid nature, or means of enforcement, in their respective home institutional arrangement (Horn, 1995).

SLPA operates both 100% owned ports and terminals and the JVs. As a regulator, it approves various governmental matters these JVs need to deal with and participates in the decision-making of these JVs at the Board level. It is the monopolistic provider of warehousing land in port areas, navigation, and other essential services to ship and terminal operators but at the fee levels determined by itself without market competition. These real or potential conflicts, either legalized in the statues or practiced by SLPA, pose a significant threat to the interests of private and foreign investors and operators, and business partners like RussellPort (SA11; SA31/AB31).

There are other ministries or government agencies, for example, Ports and Shipping, Customs, Urban Development (the government landlord) that foreign investors or RussellPort may have to deal with but they will not be covered here.

7.1.2 RussellPort's investment in Sapphire

As mentioned in Section 6.3, RussellPort turned in 2007 to overseas markets for growth opportunities, the first of which was Sapphire. Why and how this investment happened and what it has meant to RussellPort and the BRI subsequently is the interest of this research.

7.1.2.1 Rationale of Sapphire investment

"During 2008 to 2009, I personally followed four projects in Vietnam, Malaysia, Panama, and Sri Lanka, and only this one became successful." "Success rate is very low." "Our proposal for the Malaysia project won the highest marks but due to its national election, the project got cancelled." "Negotiations in Vietnam lasted for three years, but the government decided in the end not to hand the port to a Chinese

investor due to its disputes with Chinese government over the South China Sea." "Ports are national strategic resources and not easily granted to foreign investors." These are candid and live accounts of investment experience reported from the field by a senior member of RessullPort's overseas investment team, also former CEO of Sapphire and current CEO of Abhayagiri and Country Head of Russell in Sri Lanka (SA11/AB11).

Given its high upfront capital investment and long cost recovery cycle, plus RussellPort's higher financing costs relative to its competitors like CK Hutchison, Port of Singapore Authority (PSA), and DPW, it is very challenging for it to recover the cost of an investment, not to mention achieving reasonable returns. Industry nature could magnify local political risks (SA11/AB11). (This is consistent with the findings (Henisz, 2000) discussed in Section 4.4.3.)

"When we ventured abroad in 2009 driven by declining growth back home, we had to pay ticket to enter the game." "We were late to the international game, when most of the safe and low hanging fruits (i.e., ports that are easy to make money) were already divided among the early movers and shakers." "We had to test our luck in emerging markets, where risks are high and political stability is an issue." However, "risks and opportunities coexist" (SA11). These perspectives are indicative of the rationale behind RussellPort's moves.

In port investments, business risks are a given and can be addressed in the normal course of operations. The biggest risk is political. For example, the "Debt Trap" or "String of Pearls" political rhetoric has posed real challenges to RussellPort's business in Sri Lanka (SA11/AB11). In its internal evaluation, however, Sri Lanka's geolocational advantage and proximity to a two billion population regional market encompassing India, Bangladesh, and Pakistan were regarded as highly attractive. In addition, the long-lasting friendly relationships between China and Sri Lanka dating back to Faxian and Zheng He in history (see Section 6.1) and mutual support between the two countries since the 1950s (see Section 7.1.5.1) have provided RussellPort with comfort to address potential political risks when emerging (AB25).

These accounts of investment considerations seem to further attest that it has been a rationally conceived business strategy to expand overseas, as discussed in Section 6.3. But, where and when to put money down is a matter of balance between choice and availability, and even timing and luck (see Table 6.2). As the strategy statements (see Table 6.3) tell, investing came first and strategizing among the investment portfolio followed. When Sapphire was invested, "there was no BRI yet" (SA11). In this sense, the "Debt Trap" or "String of Pearls" or spins of BRI as a political gambit are unjustified or factually misplaced, as stories of Sapphire and Abhayagiri will show.

7.1.2.2 Sapphire investment history and performance

RussellPort formed a consortium in Sep 2010 to bid for the BOT concession of Sapphire. It was the only bid in the post financial crisis environment and awarded a non-binding letter of intent by GoSL. Following the signing of a 35-year BOT (including five years of construction) agreement in Aug 2011, Sapphire started construction in Dec 2011 and commenced trial operation in Jul 2013 when it had only phase one berths and three cranes. “Chinese are smart, very fast,” said marketing head of Sapphire (SA22). It was fully completed and went into formal operations in Apr 2014, taking exactly 28 months, less than 50% of the five years required by the CA (SA11). RussellPort set the benchmark in building quality port infrastructure in South Asia (SA22; RussellPort annual reports).

To capitalize on a market window brought about by an emerging trend of large container ships, Sapphire fast-tracked its construction process at additional costs. This strategy has made Sapphire the first and only deep-water port capable of handling the largest container ships in South Asia (SA22). In 2018, for example, 70% of Sapphire’s TEU volumes were contributed by mega ships (Daily Mirror, 2019). This percentage increased to 72% in 2019 (Daily FT, 2020). “If not for us [Sapphire], there would be no Colombo Port, because mega ships wouldn’t come” (SA21). These are true incremental volumes brought to Colombo by Sapphire, which, in another word, has helped to grow the pie of the regional business as opposed to cannibalizing the incumbents’ “cheese” (see Table 7.2 and Fig. 7.1).

Augmented by its superior services and productivity, Sapphire ramped up its operations rapidly and achieved its designed capacity of 2.4mm TEUs in 2017, the third year into full-year operations. Such performance has not only demonstrated its ability to attract incremental transshipment business, but has also helped to build and solidify the Port of Colombo as a regional transshipment hub, as measured by its high growth and high transshipment ratios of over 75% of the total throughput volumes (SA22; SA31; see Table 7.2), compared to global industry average of about a quarter (UNCTAD, 2018b).

Its stellar performance has won kudos for itself and the Port of Colombo as well. Asia Cargo Review, an industry publication, awarded Sapphire the Best Container Terminal in Asia under the 4 million TEUs’ category for three consecutive years 2017 to 2019 (Daily FT, 2020). Sapphire’s global network reach and relationships with the major shipping lines have been accredited for propelling the Port of Colombo to move up to the 11th best connected port in the world (Daily Mirror, 2019). SLPA has even invited Sapphire and its peers to market the Port of Colombo as the “Logistic Excellence in the Silk Route” to the global shipping industry, a new vision statement uplifted from its earlier ambition to become a regional container hub (SLPA, n.d.).

These and other efforts by RussellPort and Sapphire have contributed to the sustained level of high transshipment business coming into the Port of Colombo, and have even generated overflow volumes to other terminals within the port since Sapphire has

already reached its technologically optimized (and greater than design) capacity, as indicated by its market share capped at 38% levels in Table 7.2 (SA11). (Its TEU volumes increased to 2.88mm in 2019, equivalent to 40% market share, due to additional technology upgrades (Daily FT, 2020).)

Table 7.2 Sapphire's TEU Volume Growth and Local Market Share

(TEUs'000) Year	Sapphire	Change %	Trans-Shipment	Change %	Industry Total	Change %	Transshipment As % of Total	Sapphire Share %
	(a)		(b)		(c)		(b)/(c)	(a)/(c)
2018	2,680	12.1%	5,704	18.2%	7,047	13.5%	80.9%	38.0%
2017	2,390	19.5%	4,826	8.8%	6,209	8.3%	77.7%	38.5%
2016	2,000	28.2%	4,435	11.8%	5,735	10.6%	77.3%	34.9%
2015	1,560	126.1%	3,967	4.9%	5,185	5.7%	76.5%	30.1%
2014	690	1050.0%	3,781	15.5%	4,908	14.0%	77.0%	14.1%
2013	60		3,274	3.4%	4,306	2.8%	76.0%	1.4%
2012			3,167	-1.5%	4,187	-1.8%	75.6%	
2011			3,216	0.3%	4,263	3.0%	75.4%	
2010			3,205	18.2%	4,137	19.4%	77.5%	
2009			2,712	-5.6%	3,464	-6.0%	78.3%	

Source: Column (a) from RussellPort Annual Reports 2013-2018; Columns (b) and (c) from Table 12.9, Economic and Social Statistics 2019 by Central Bank of Sri Lanka (CBSL, 2019).

From 2009 to 2018, the Port of Colombo gained over 3.5mm TEUs (see Column (c) in Table 7.2) due to Sapphire's entry into the regional market. "Traffic from Bangladesh has grown over 22% year on year and it is sustaining that way" (SA22). Its traditional volumes have stayed within a range of 3.5 to 4.0mm TEUs. Sapphire's striking impact is best illustrated in the below graph (see Fig. 7.1).

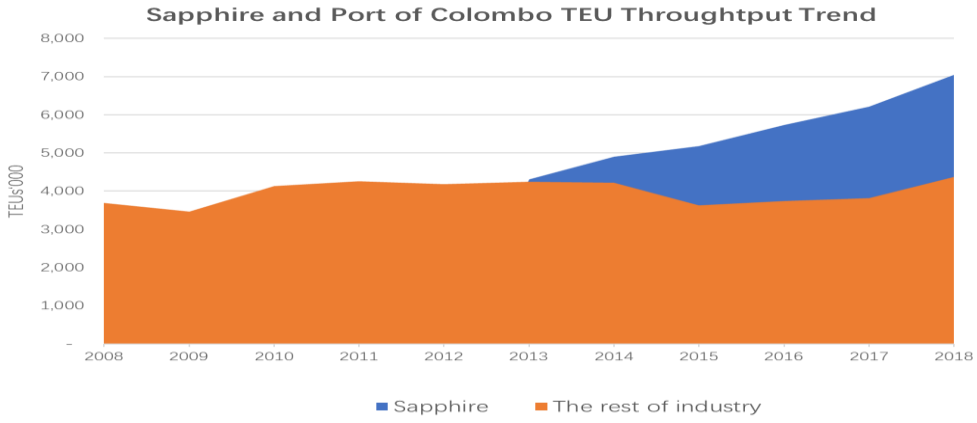

Fig. 7.1 Illustrative TEU Growth Trend of Sapphire and the Port of Colombo
Source: Based on data in Table 7.2.

7.1.2.3 Sapphire's success factors

In answering questions on Sapphire's success, informants unanimously reported (see Table 7.3) that Sapphire's service quality and delivery are the most important factors. This is further attributable to RussellPort's leadership in technologies, employee training, management and operating expertise, and the benefits of being an integral

part of a vast global network. Sapphire's ability to avoid unionization is also viewed as a critical factor in maintaining its service level commitment to customers and partners. The fact that a few Chinese expatriates and the overwhelmingly majority of local management and employee teams have learned to co-inhabit and have fostered a mixed culture is also unique to the success story.

Table 7.3 Key Attributes of Sapphire's Business Strategies

Key Strategy Elements	Strategy Implications	Effect
Fast tracked construction from 60 to 28 months. Advanced cranes and deep-water terminal to attract the largest carriers. RussellPort's leadership in IT. The first to use electricity-powered cranes, reducing carbon emissions by 45% in terminal. Supply electricity to vessels, reducing carbon emission by 120,000kg/TEU (but constrained by power supply monopoly).	Tech leadership High efficiency Innovative "Green technology"	Service quality Socially responsible
Market insight in transshipment business. Terminal ready timely to capture growth trend. Grow the pie and capture a bigger slice. Improve global connectivity.	Market savvy Operational knowhow	Management and industry expertise
Offer container tracking services. Custodian services for empty boxes. Competitive pricing. Service Level Agreements with customers.	High productivity Innovative services	Superior services and quality
6-month training in China for new recruits. Huge investment in employee training. Good rapport with employees. Better pay plus bonuses. Overseas job prospect (i.e., job change potential).	Commitment to employee Competitive compensation	Employee loyalty
English as working language. Emphasis on professionalism. Respect of local culture and customs. Localize management and key functions (e.g., HR, legal, marketing, operations).	Build mixed culture Create opportunities for local community Being a local	Corporate culture
CSR programs to sponsor sports programs, school repairs, and disaster reliefs.	Local commitment	Community image

Source: Interviews with informants.

The above table is not an exhaustive list of what has been done by RussellPort in managing the Sapphire operations. Rather, it is merely indicative of how management has packaged its business and operating strategies geared towards delivering superior services to its shipping liner customers. Given Sri Lanka's small domestic volume of less than 1.5mm TEUs (SA22; difference between Columns (c) and (b) in Table 7.2),

the only traction to convince major shipping liners to divert some transshipment volumes to the Port of Colombo from Singapore or Salalah, Oman or Dubai is by offering superior services and productivity. If the deep-water terminal had not been fast-tracked, the mega ships would have gone elsewhere. “When cargos are locked into Salalah or Dubai, it is difficult to attract them back” (SA22). “If you had a strike, shipping liners would skip Colombo” (SA11).

In 2018, the Port of Colombo recorded the highest TEU volume growth in the global port industry. Sapphire prices its services at a premium over its neighboring peers, and still cannot meet the demand due to capacity constraints. Sapphire has advised and assisted SLPA in how to keep these incoming volumes (SA11).

7.1.3 RussellPort’s investment in Abhayagiri

Abhayagiri was part of a massive Free Zone Project undertaken by the Mahinda Rajapaksa administration (2005-2015) in his hometown region. (Some suggest that this location was identified by his predecessor (Samaranayake, 2011).) The entire program, including port, airport, highways, hospitals, conference and other facilities, was conceived by GoSL, financed mostly by Chinese policy loans, and executed by Sri Lanka SOEs. The port, for example, was already constructed and operated by SLPA before RussellPort came to the country in 2010 and the BRI was announced in 2013.

7.1.3.1 Events leading to RussellPort’s takeover of Abhayagiri

The idea to build a deep-water port along the 150km southern coast of Sri Lanka (see Fig. 7.2) was reportedly conceived by the Dutch in the 1970s, and later proposed again by the British in the 1990s (AB11). Located 10 nautical miles off the East-West main shipping lane in the Indian Ocean, Abhayagiri became a part of a grand vision by President Rajapaksa to jumpstart economic growth in southern Sri Lanka of mostly agrarian economies. GoSL claimed that it was only President Rajapaksa who “took practical steps to make these desires a reality” (US Fed News, 2010, n.p.).

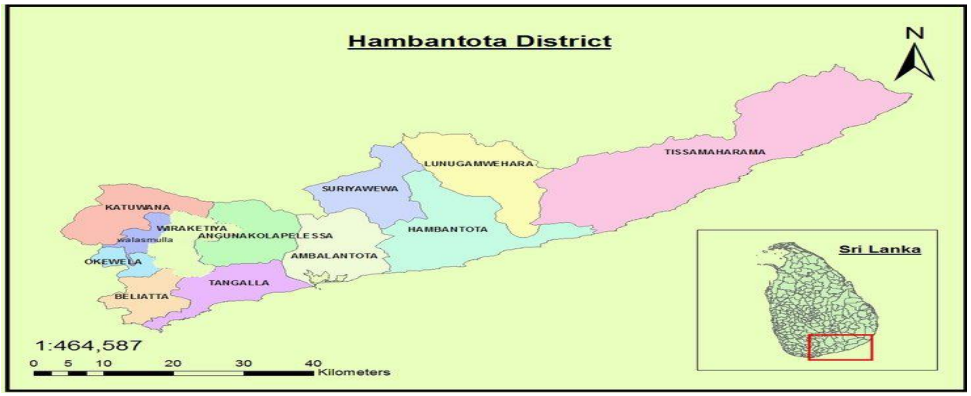

Fig. 7.2 Map of Sri Lanka’s Southern Coast
Source: RussellPort.

GoSL wanted to keep the entire development project to itself because of the Rajapaksa administration's pro-socialist stance and its successful securing of the required financing from China (AB31; De Alwis, 2010). During the Phase II program, however, SLPA realized that it didn't have the requisite expertise to build a modern container port and that the heavy debt service cost was eroding its cash flow and profitability. It became eager to find a partner to share the burden (AB11).

RussellPort was solicited in 2014 by the contractor, China Harbor Engineering Group (CHEG), to join in the form of supply, operate, and transfer, or the SOT model. "Supply" means supplying equipment that typically constitutes a third of a container port's capital expenditure, whose cost was not budgeted by SLPA. RussellPort declined the invitation based on its views that there would be no overflow in TEU volumes from the Port of Colombo in the near term. Hence, Abhayagiri would not be able to nurture a meaningful container business. It was also concerned about timing since there was a government transition taking place, where the opponent party (i.e., Sirisena-led UNP, see Table 7.1) campaigned on a strong anti-China agenda (AB11).

When the opponent-turned Sirisena coalition government took office in early 2015, it acknowledged Abhayagiri to be commercially unfeasible and financially unbearable to his government or SLPA. When its pro-market prime minister visited China in 2016, he requested Chinese lenders to convert debt into equity in the port. The request was rejected by his Chinese host, citing that sovereign loans could not be swapped for equity or, if done, the Chinese government would become the owner of such assets, implying that is unacceptable (AB11; Sultana, 2016). Nonetheless, the Chinese government recommended CHEG and RussellPort to work with GoSL for a solution. RussellPort's bid proposal was chosen by GoSL (AB11).

Thus, it was SLPA's inability to operate a modern port facility and generate sufficient business and cash flows to service the heavy debt obligations resulted from the huge upfront capital investment that prompted GoSL to request for help from the Chinese government. And it was the Chinese government that, responding to GoSL's outcry, recommended Chinese firms including RussellPort to the rescue. It is reasonable to argue that Russell's Abhayagiri investment is to a great extent an inter-government transaction. Either RussellPort or SLPA are the execution agents of this government-initiated deal and designated to bear the outcomes (e.g., profit or loss) as well. These roles are consistent with their SOE institutional gene to fulfill their noncommercial missions expected by their respective home government (Horn, 1995).

Below is a chronology of events detailing the above discussions (see Table 7.4).

Table 7.4 Chronology of Abhayagiri Investment History

Date	Major Events
1977	The port was conceived as early as 1977 by GoSL. It later became a part of a large development project (Mena Report, 2014a).

2002	GoSL [re]considers building the port as part of an official development plan (Hillman, 2018b).
2003	A French engineering firm's feasibility study result is rejected by GoSL on basis of underestimating market potential (Hillman, 2018b).
2004/12	CHEG is dispatched by Chinese government as an aid-executor to Sri Lanka to repair a fisheries port damaged by the Indian Ocean Tsunami (Zhu, 2015).
2005-06	CHEG proposes that GoSL build port and other infrastructures (ibid.).
2006	GoSL commissions a second feasibility study by a Danish consulting firm who produces an optimistic assessment (Hillman, 2018b).
	Indian government and lenders are approached by GoSL, but declined, to finance the port (Abi-Habib, 2018).
	U.S. ambassador to Sri Lanka is approached on several occasions by Rajapaksa soliciting American interests in the port (Samaranayake, 2011)
2007/02	President Rajapaksa requests during his official visit and China agrees to finance the port and other projects (De Alwis, 2010), including a $307mm loan (Hillman, 2018b).
2007/03	A JV between Sinohydro Corporation and CHEG is awarded the Phase I contract (World Market Intelligence, 2014).
2008/01	Phase I construction work commences (SLPA, 2016).
2010/08	Port construction progresses ahead of schedule and public is invited to tour port site before water-filling (US Fed News, 2010).
2010/11	Phase I work completes and opens for business. CHEG is awarded Phase II contract (World Market Intelligence, 2014).
2011/08	SLPA needs extra loans of $147.9mm for equipment (Asia Pulse, 2011a). SLPA announces $610mm in warehousing projects (SeeNews, 2011).
2011/12	SLPA invites 2nd round of request for proposals (RFPs) for investments in the Free Zone, targeting manufacturing, assembly, packaging and storage industries. The 1st round RFPs had closed with over a billion-dollar investment interests in port-related industries (Asia Pulse, 2011b).
2012/06	Roll-on-roll-off (RORO) car forwarding operations begin (SLPA, 2016).
2012/08	EXIM Bank approves $600mm loans and the Chinese government grants $160mm concession loans to finance Phase II port project (LBO, 2012).
2012/09	Starts direct link with Chittagong port, Bangladesh (Mena Report, 2012a).
2012/11	SLPA Chairman announces investment interests by 17 firms worth $2bn in the Free Zone and the port to be a viable venture (Mena Report, 2012b). Phase II work commences (SLPA, 2016).
2013/10	Receives 100th RORO car carrier (Maritime Gateway, 2013).
2014/06	Receives two modern cranes handling containers. President Rajapaksa inaugurates new services (Mena Report, 2014b).
2014/07	Increases design capacity to 20mm TEUs (World Market Intelligence, 2014).
2014/09	Following a meeting between President Xi and President Rajapaksa in Colombo, RussellPort signs framework agreements to develop Phase II port and to explore feasibility to offer bonded warehouse and commercial services in the Free Zone (Mena Report, 2014c).

2015/06	Aviation Minister says the port needs to make a profit as the Port of Colombo and gets on the right track to develop it (LBO, 2015).
2016/01	GoSL calls for proposals to set up industries in the Industrial Zone and plans to undertake all ventures in PPPs (LBO, 2016).
2016/04	Prime Minister Wickremesinghe reportedly asks Chinese government / lenders to convert debt to equity in infrastructure projects (Sultana, 2016).
2016/12	SLPA offers RussellPort 80% stake in the port for a 99-year lease for $1.1bn and China agrees to invest $5bn in the Industrial Zone over the next five years (deal canceled due to workers' protests) (Oxford Analytica, 2017).
2017/02	Port workers protest GoSL for selling the port to Chinese investor and claim the port to turn into a Chinese colony (Maritime Gateway, 2017).
2017/03	CBSL says that leasing the port to China is crucial for the economy, supports dwindling reserve, and averts default crisis (GBN, 2017).
2017/07	Ports and Shipping Minister announces: RussellPort to lease port for $973mm and invest another $146mm. Treasury to take over the responsibility of loan repayments. The Minister as having the right to appoint a Port Regulator. Chinese investor not to use the port for military purpose. GoSL to retain control of port security, customs, immigration activities. SLPA acknowledges losses at port threatening its survival and true RORO ships were only 19 for 2015, 14 for 2016, and 10 in the first half of 2017. Cabinet announces approval for the CA and presents it to the Parliament for debate and vote (Mena Report, 2017a).
	RussellPort announces signing of the CA for 85% equity in SLPA subsidiary holding the port assets (AssetCo), which in turn will acquire 58% in ServiceCo, which provides common user facility services.
2017/08	Former President Rajapaksa opposes sale of "national asset" to Chinese and says the $1.12bn proceeds will not be used to repay loans but instead to pay for day to day expenditures by the Treasury and vanish (LBO, 2017).
2017/12	GoSL Treasury receives $292.1mm, the first tranche of proceeds. SLPA hands over management to RussellPort's team (Mena Report, 2017b).
2018/06	GoSL Treasury receives $584.2mm final tranche of proceeds (LBO, 2018).

Source: Various media reports, RussellPort annual reports and announcements, literatures, and interviews with informants.

7.1.3.2 Key terms and profiles of the Abhayagiri investment

Key terms of Abhayagiri investment

The following key investment terms are summarized from RussellPort's announcements (see Box 7.1).

Box 7.1: **Key Terms of Abhayagiri Investment**

- Initial signing date: Jul 29, 2017 (certain terms amended subsequently).
- Assets acquired: 85% stake in AssetCo, which in term owns 58% of ServiceCo.
- Cash consideration: US$973.658mm, to be paid in three tranches:
  - First tranche: 30% or $292.1mm at closing.
  - Second tranche: 10% or $97.4mm within one month after closing.
  - Third tranche: 60% or $584.2mm within six months after closing.
- Concession term: 99 years.
- SLPA's repurchase rights after the CA becomes effective:
  - Up to 20% within the first 10 years at the higher of appraised fair value and the above consideration value.
  - 100% of RussellPort's interest in AssetCo within 6 months after the 70th anniversary at appraised fair value; or
  - Increase its ownership to 60% at a price of $1 after the 80th anniversary.
  - Acquire all shares in both AssetCo and ServiceCo for $1 upon the 99th anniversary.
- Other terms:
  - Deposit of investment commitment: $146mm within one month after the third tranche payment of cash consideration.
  - Exclusivity: no competing concession rights to be granted within 100km of the port for a period of 15 years.

Source: RussellPort announcements of various dates.

Organizational and management structures

Under the CA entered among GoSL, SLPA, and RussellPort, RussellPort acquired 85% equity interest in an SLPA subsidiary, or the AssetCo that is newly organized to hold the revenue generating assets, the main vehicle to operate the port and the attached industrial park. The AssetCo in turn owns a 58% equity stake in the ServiceCo, which is also newly formed and functions to provide the common user facility services of government or sovereign nature, such as navigation, pilotage, and security (AB11).

The resulting governance structure (see Fig. 7.3) achieves both management and operating control by RussellPort of key operating assets and Sri Lankan economic majority (i.e., 50.7% of direct 42% plus indirect 15%*58% stake) of politically sensitive services. The latter is essential to port operations, but is not a profit center. This design improves the chance of passing Sri Lanka Cabinet and Parliament scrutiny as discussed next, and preempts potential political sabotage down the road (AB11).

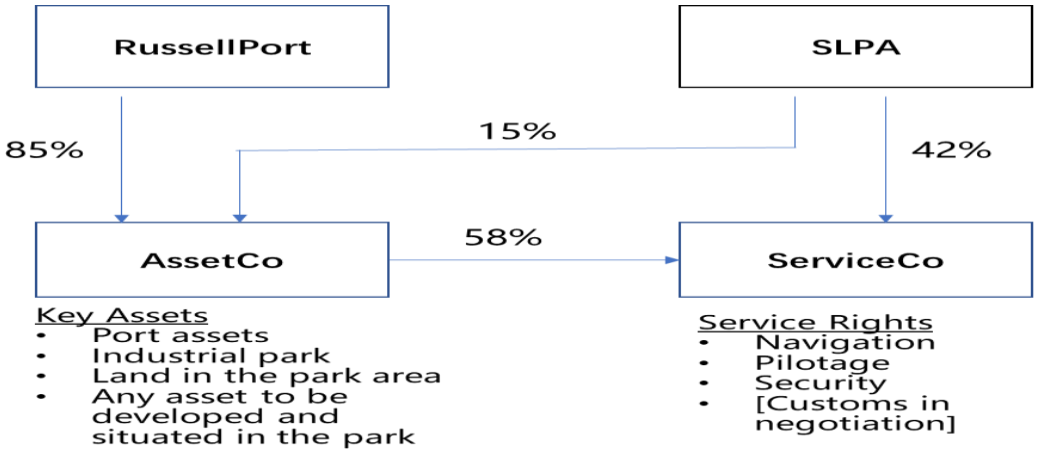

Fig. 7.3 Abhayagiri Organizational Structure

Source: RussellPort announcements and interviews with informants.

Considerations paid by RussellPort

The announced consideration of $973.7mm paid by RussellPort is for the 85% stake in the AssetCo plus an indirect interest of 49.3% (58%*85%) in the ServiceCo business. These equity interests, however, are capped at a maximum of 99 years. Essentially, RussellPort's acquisition of equities is turned into a long-term lease. GoSL also has rights to buy back shares at certain milestones (see Box 7.1), which is a key selling point to the Sri Lankan public. For instance, the Ports and Shipping Minister Samarasinghe was quoted saying, when it reaches 80 years, GoSL's ownership will increase to a 60% majority (Sunday Observer, 2017).

In addition, RussellPort is required to deposit a bond or future investment commitment of $146mm, resulting in a headline transaction value of $1.12bn (Mena Report, 2017a; Sunday Observer, 2017). Furthermore, former SLPA employees refused to sign employment agreement with the new company, instead protested the government move, demanding separation compensation. RussellPort paid an undisclosed amount of money to settle their claims and remove a key roadblock to close the transaction (AB11). The all-in cost to RussellPort is greater than the headline number.

Negotiations and key approval hurdles

RussellPort's strategy was to qualify Abhayagiri as an SDP under relevant laws and seek potential benefits available under Sri Lanka's free zone and free port policies. As such, RussellPort went through lengthy negotiations with GoSL (or BOI) and obtained extensive tax and other incentives permitted and discretionary under the relevant laws and policies (see Table 7.5). However, to qualify for SDP status and secure the hard-won tax incentives in excess of regular FDIs, an investment must be

approved by the Sri Lankan Parliament and is essentially made a law once it is voted and approved (AB11; AB21).

The negotiations between RussellPort and GoSL centered around how best to protect each other's interest, which, for RussellPort, is the safety of the acquired property free from government expropriation. The resulting CA doesn't specify in much detail what Abhayagiri will do in the future because GoSL's free zone and free port policies lack specificities and RussellPort needs time to explore what could be pursued. RussellPort strove to push the CA through the country's Cabinet and Parliament to make it a law. Core to this strategy is to address risks potentially arising from frequent government turnover (AB11). "Regardless of one acting as the ruling party or its opponent, it has to face a higher hurdle to change the law once an investment becomes law" (RU01).

Further, one of the unique risks confronting RussellPort has been the coalition government's "strange marriage" (AB21) between SLFP's pro-socialism and UNP's pro-market ideologies, resulting in ongoing infighting. The fact that the project locates in former President's home constituency and that lots of negative news has associated with him could also fuel or magnify the potential risks of government instability and other unpredictable political swings over the course of this 99-year long lease. For example, ironically, it is the pro-China Rajapaksa who took to the street in early Sep 2019 protesting the Sirisena administration of selling Abhayagiri, a national asset, to the Chinese (AB11).

RussellPort's strategy to counter such risks is to exhaust all possible legal remedies ostensibly granted under the host judicial systems, as to be detailed in Chapter 8.

Tax and other investment incentives

Abhayagiri was declared a Free Port in 2013 under the Sri Lankan Finance Act No. 12 of 2012. It is considered "geographically inside" but "legally outside" of Sri Lankan customs and permitted to carry out such industries as re-export manufacturing, freight forwarding, outbound services and business headquarters, bonded warehousing and logistic services, and so on (BOI, 2019).

SLPA is the legally mandated entity to operate the Free Port and regulate activities within it as well. As events in Table 7.4 show, SLPA was not successful in operating the port and attracting industries to the adjacent Free Zone either. RussellPort has been enlisted to take over the financial burden, turn around the port, and achieve the legislative goals expected for the Free Port and Free Zone surrounding the port.

To do so, RussellPort resorted to seeking SDP treatment of the project and obtaining additional benefits not available under the Free Port status, significantly reducing cost of investment and doing business in the newly established industrial park it has inherited (see Table 7.5). These benefits are applicable to both RussellPort and likely

incoming firms to the park, since they are qualified to apply for tax benefits from the BOI (AB25).

Table 7.5 Abhayagiri Key Tax Incentives

Benefit Item	Tax Base	Applicable Tax Rate	Preferential Treatment
Corporate income tax	Profits	28%	Exempt for 32 years
Withholding tax on:	Dividends Fees etc. Interest	14% 14% 14%	Exempt for 32 years Exempt for 7 years Exempt for 32 years
Nation Building Tax (NBT)	Turnover	2%	Exempt for 25 years
Value Added Tax (VAT)	Imports	15%	Exempt for 7 years
Personal income tax (PAYE)	Personal income	4-24%	Exempt for 7 years: AssetCo: 27 expatriates ServiceCo: 3 expatriates
CESS	Imports	Rates vary (0%, 15%, and 30%)	Exempt for 7 years
Port and Airport Development Levy (PAL)	Imports	7.5%; 2% for machinery	Exempt for 7 years
The above applicable to:	AssetCo and its (sub)contractors		

Source: GoSL (2017), KPMG (2018), BOI (2019), and interviews with informants.

Business plans for Abhayagiri

The port and the adjacent region have been designated by GoSL as a Free Port and an Industrial Zone since 2013 to attract foreign investments (BOI, 2019). Though SLPA targeted a variety of industries (see Table 7.4), none of the indicated interests materialized. The port only handled a few RORO carriers and its container terminal and bunkering facilities were incomplete at the time of RussellPort's takeover (Mena Report, 2017a). As such, RussellPort needed to bring in a new mindset to revitalize the port and the attached park.

A. Profile of Abhayagiri concession area

Under the CA, RussellPort has inherited an 11.51km^2 industrial park (the area within the dotted red line in Fig. 7.4) as its core operating assets. Excluding the port water area and roads and other public facilities, only 1.5km^2 remains available to locate in-port industries permitted under the Free Port act. The artificial island outside the entrance of the port, which was made with materials excavated from the port area to construct deep draught, serves as both a breakwater and additional land to situate management or productive facilities.

Port Features:
Depth: 17m
Shoreline: 3487m
Distance to the India Ocean shipping lane: 10 nautical miles
Berths and Facilities:
Multipurpose berth: 4
Container berth: 4
Oil & Gas berth: 2
Bunkering facilities: incomplete

Fig. 7.4 Abhayagiri Concession Area
Source: RussellPort presentation and interviews with informants.

B. Development of business plans for the Abhayagiri industrial park

Since the Abhayagiri region is mostly agrarian, and Sri Lanka's import and export trades are mostly handled through the Port of Colombo, which presently generates no overflow volumes, Abhayagiri has to create business flows from its geolocational advantage and RussellPort's expertise in order to fill its port capacity as outlined in the stylized business blueprint (see Fig. 7.5)

Since it started evaluating an investment in Abhayagiri, long before its eventual takeover of the entire operations in Dec 2017, RussellPort had conducted and has continued extensive studies by engaging external consultants to develop business plans for the Free Zone and identify suitable businesses to attract.

RussellPort's strategy could be calibrated into two-fold: One is to identify opportunities to exploit its geolocational advantage and monetize sunk investment as much as possible. The other is to develop an integrated business model for the entire port + park property targeting at creation or anchoring of industry chains (Wang, 2019).

In addition to market research, RussellPort has drawn on its experience in operating Sapphire and in creating and innovating the PPC Model (see Box 6.1) as its unique value-add in formulating business plans for Abhayagiri.

Fig. 7.5 Abhayagiri Business Development Blueprint
Source: RussellPort.

C. Existing businesses

Among the businesses pursued in its first leg of business strategies, which is to exploit locational advantage and sunk investment, is the RORO automobile trade facilitation started by SLPA and continued by Abhayagiri. Such business is handled in the left-down area in Fig. 7.5 if it is divided into four equal sections. Auto importers and exporters in the region use Sri Lanka, now Abhayagiri port, as a distribution center, to import, store or refurbish new or second-hand cars made by Japanese and Korean producers and forward customer orders to destinations in Bangladesh, India, Pakistan, and even East Africa. This business is afforded by its advantage as a regional geolocational center and Abhayagiri's Free Port status. During the first half of 2018, Abhayagiri handled more car volume under RussellPort than the entire year in 2015 under SLPA. Abhayagiri's "operating efficiency has improved dramatically" (RU02). In 2019, RORO volume further increased to 0.41mm vehicles, or 75.6% year-on-year growth; bulk cargo increased to 0.50mm tons from 0.18mm in 2018 (RussellPort, 2020).

D. New businesses

Another business contemplated to leverage its geolocation is to provide maritime services, such as refueling, replenishment of daily supplies, seaman rotation, security and protection, to the bypassing ships, which are in the range of 200-300 ships daily traveling along the Indian Ocean maritime corridor connecting the Malacca Strait and the Suez Canal (Daily FT, 2017). This business, however, is constrained by the current lack of storage facilities (right-down section in Fig. 7.5) and in-port refinery, whose business is reserved by law for Sri Lankan monopolies (AB11) and a potential business for Abhayagiri to break in (see Chapter 8).

In addition, Abhayagiri has aggressively enticed Chinese export manufacturers that are looking to relocate factories overseas. These firms, if attracted, could utilize the

in-port industrial space (upper-left section in Fig. 7.5) and generate import and export shipping volumes for the port. This would fall under the Park related business under the PPC Model; similar businesses are being contemplated (AB11).

Development of container business, shown in the upper-right section in Fig. 7.5, will depend on how much and when overflow TEU volumes come from the Port of Colombo and how much such business the in-port manufacturing will generate. It will be predicated on additional investment to complete the port construction and installation of the required equipment (AB25).

7.1.4 Evaluation of RussellPort's investments in Sri Lanka

By the end of 2019, Sapphire's 35-year BOT tenure has lapsed about nine years. In contrast, Abhayagiri's 99-year lease has only completed its second year in business. Thus, it is too early to jump to conclusions about their performance, but both can be explained and interpreted from a theoretical and logic point of view.

7.1.4.1 Performance results and evaluation of Sapphire

This evaluation analysis is conducted from key stakeholder perspectives:

For the host country, the total investment of Sapphire, including both equity capital of $150mm by RussellPort and Chinese policy loans of approximately $400mm granted to the project totaling $550mm (AB11), represents among the largest single FDI in Sri Lanka since the end of its civil war in 2009 (see Fig. 7.6: assuming these monies were brought into the country over 2011-12 timespan. This amount is equivalent to 22.5% of total FDI inflows in 2011 and 2012 (550/(1066+1382))). These FDIs have been a significant boost to an economy recently coming out of more than two decades of internal conflicts and in a post financial crisis environment. Sri Lankan regulators, both BOI and SLPA, have good words to say about Sapphire (see Table 7.6). Sapphire has set an example of how FDI can help achieve host government economic growth agenda.

For Sapphire, its operating efficiency and performance have won recognition within the global shipping industry and brought a positive image to the Sri Lanka nation as well. Its attraction of transshipment business to the Port of Colombo has proved not only to be a viable business, but also a healthy addition to the local industry that has helped to propel Sri Lanka to become a competitive transshipment hub in South Asia (SA31). Sapphire achieved breakeven financially in 2014 and profitability in 2015, its first full year of operations, setting a benchmark for RussellPort's international operations and for the global port industry as well (SA22).

For RussellPort, Sapphire has proved to be a financially rewarding investment. Cost of investment is expected to recover within eight to nine years, compared to an

industry average of 15-20 years. Operationally, RussellPort has demonstrated its ability to construct and operate greenfield port project in a foreign country. Sapphire has become a major contributor to RussellPort's overseas volume growth and validated its initial overseas expansion thesis. It has also contributed rich experience to RussellPort's additional investments globally (SA11).

For the local community, the success of Sapphire has created and maintained an employment base of nearly 1,000 local people, supporting an equal number of families' living. The quality job training provided by RussellPort has prepared the young recruits to be capable of competing not only in the local market, but also for overseas opportunities, enriching their career prospect and earnings power. The local communities have also benefited from the CSR programs offered by RussellPort and Sapphire. They are net gainers.

It would not be premature to conclude, therefore, that the Sapphire investment is a successful one by all measures and to all stakeholders.

7.1.4.2 Performance progress and evaluation of Abhayagiri

Following the preceding format, this analysis will also focus on the key constituents:

For GoSL, it has offloaded a huge financial and political burden and gained $1.12bn in new FDI and foreign exchange receipts into its Treasury, improving its balance of payment immediately and helping potentially to avert a default crisis. It has also avoided additional investment obligations to complete the port and other facilities and stopped loss-making at SLPA, saving public finances for the country (Daily FT, 2017; GoSL, 2017; Sunday Observer, 2017). This is obviously a great deal for the host government and its taxpayers.

From an investment risk and return perspective, GoSL borrowed money to build an asset in its own territory and now sells equity in it and exits most of its cost. It still retains a huge equity upside afforded by SLPA's repurchase rights (see Box 7.1) and the entire taxing potential to be created by the new investor.

In contrast, Chinese lenders and investors paid twice for the same asset and still need to invest more to complete the project to create a viable business in order to recover their investments. The deal has also secured commitment from both the Chinese government and a more capable Russell, whose management expertise and technology leadership have been recognized and sought after by the host government, to cure a government mismanaged venture and revitalize an ambitious but defunct government growth program (GoSL, 2017).

While it is too early to forecast the outcome of this 99-year project, it is safe to postulate that it was a smart decision by GoSL to contract RussellPort. RussellPort is

the most qualified port operator both financially and expertise wise to take on the challenge of turning around a "white elephant." It is probably the least controversial choice given its credibility and positive image established with both the government and the general public in Sri Lanka (Daily FT, 2017; see Table 7.6). GoSL is already a winner of this partnership and has all the upside but no downside, regardless of what happens in the future.

For Abhayagiri project and the region, they are now in competent hands and have a better chance to gain from this massive investment program (Sunday Observer, 2017). Abhayagiri has steadily increased its headcounts since 2018, reaching about 800 in mid-2019 (Wang, 2019) and attracted local talent to return too (AB24). Any progress made at attracting new businesses to the port or the park would mean additional job and business opportunities for the local community. They are winning.

For RussellPort, it has paid more than $1.12bn for a long-term call option on an opportunity that presently exists primarily on drawing board. It will take decades, a significant amount of additional capital, strategic and operational expertise, and possibly the goodwill of the Chinese government to make this whole thing work. The outcome cannot be predicted. Thus, this research will focus only on interpretation of the recent past and evaluate specifically how RussellPort's strategies have worked in arriving at this initial stage of a 99-year journey. More on this in Chapter 8.

7.1.4.3 Stakeholder perspectives on Sapphire and Abhayagiri

The preceding assessments are substantiated by stakeholders, namely RussellPort managers, both Chinese expatriates and locals, and host regulators and partners, all of whom are informants interviewed for this research.

They are unanimous on Sapphire's success but tend to be cautiously optimistic or negative on Abhayagiri's prospect. Some of their comments are sampled below (see Table 7.6). It is interesting to note that although their personal background, roles, and capacities differ, their assessments and perspectives are very similar.

Table 7.6 Stakeholder Perspectives of Sapphire and Abhayagiri

Stakeholder	Comments on Sapphire	Comments on Abhayagiri
Host regulator/ FDI promoter	"Crown jewel" (SA32), "Committed on time," "efficiency…capital …technology" all important (SA42)	"Every good economic reason to be successful" (AB32)
Local partner/ Industry regulator	"Terminal was built in record time," "captured market" of large vessels, "attracted the market" to Colombo, "made the full capital	"No immediately available opportunities," "need to create a

	commitment," SLPA and RussellPort a "strategic alliance" (SA41)	business case," "will be a successful story" (AB42)
Russell's Chinese managers	"Excellent returns," taking eight to nine years to recover cost vs. 15-20 years of industry average (SA11)	"Good location with prospect, but five years too early and too much sunk investment" (AB11); "Expected to take half the committed time to break even" (RU01)
RussellPort's local managers	"The only deep-water terminal that connects globally," "the first largest operator," "at forefront … [serving] mega ships," "the only choice," "if not for us … no Colombo Port" (SA21) "Set the benchmark in … quality of port infrastructure, productivity, service delivery and customer service," $500mm investment is "peanuts" (SA22)	"Government to government" deal, "a billion dollar…white elephant" (AB21)

Source: Interviews with informants.

7.1.4.4 Comparisons between Sapphire and Abhayagiri

Sapphire and Abhayagiri present a rare chance to draw comparisons between two large scale infrastructure or B&R projects with similar characteristics in terms of industry and business scope. They also share the same institutional background. What sets them apart is that Sapphire is a pure market-driven investment, while Abhayagiri prior to RussellPort's takeover was a typical government undertaking. The rest of this section intends to explore their commonalities and differences and what implications they mean for this research.

What they have in common

Both Sapphire and Abhayagiri are major development programs of Sri Lanka. Both are significant FDIs into the country and are politically sensitive given their size and impact to the local economy, SDP status, nationalist sentiment, and political symbolism. Abhayagiri has gained an additional international geopolitical dimension as the top "Debt Trap" conceived by the Chinese (Chellaney, 2017; Pence, 2018).

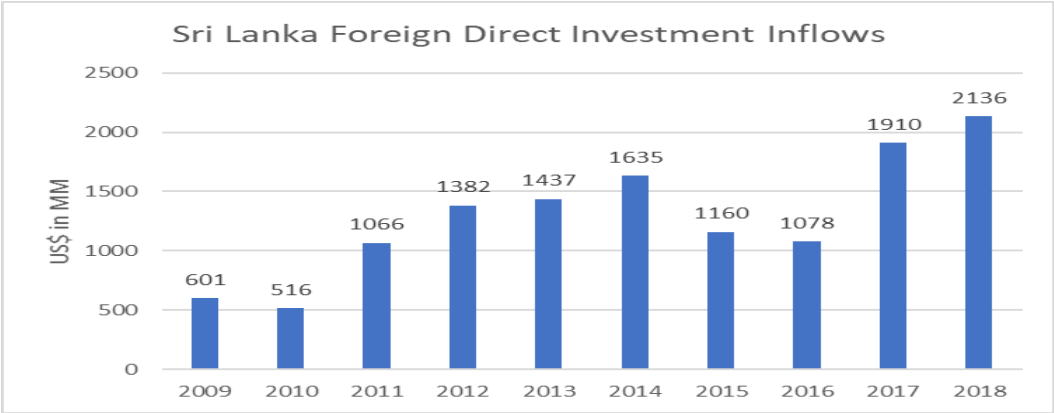

Fig. 7.6 Sri Lanka FDI Inflows

Source: CBSL Annual Reports 2009-2018.

It is worth noting that of the total incoming FDI of $2,136mm in 2018 (see Fig.7.6), the equity and earnings reinvestment portion amounts to $1,611mm, of which Abhayagiri's contribution is $828mm (i.e., difference between the first tranche of $292mm paid in Dec 2017 and $1,120mm total transaction value, see Table 7.4 and Box 7.1), or 51.4% (CBSL, 2018). Sapphire represents an equivalent of 22.5% of FDI inflows in 2011 and 2012 combined (see Section 7.1.4.1). It is obvious, therefore, that both Sapphire and Abhayagiri are very significant FDIs to the host country (which add to the quality of a representative case from a case selection point of view, as discussed in Section 5.3.2).

In addition, both investments have contributed to China's (including Hong Kong since Hong Kong might act only as a conduit of Mainland Chinese OFDIs. Minimal true Hong Kong investments have been noted by BOI (AB32)) growing share in Sri Lanka's FDI equity (total FDI excluding loans) stock compositions. As at end of 2018, China ranks the largest FDI holder, accounting for nearly a quarter, of the country's total FDI equity stocks (see Fig. 7.7).

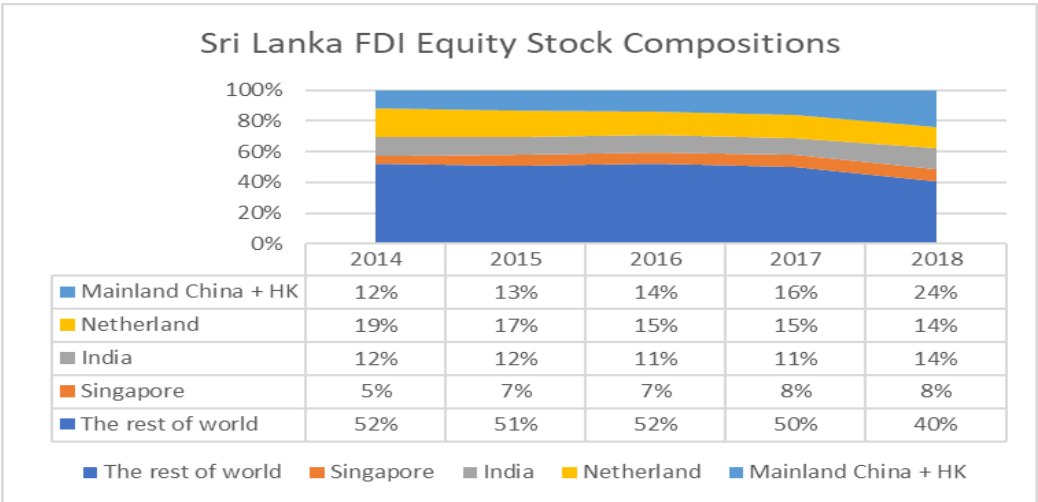

Fig. 7.7 Sri Lanka FDI Equity Stock Compositions

Source: Table 93, CBSL Annual Report 2018.

Where they differ

From a methodological perspective, this pair of investments presents a unique chance to perform a controlled study, comparing a pure market investment against a government-run project financed by foreign aid money, where the background political, social, economic, regulatory, and industry dynamics are identical. The only caveat is a slight difference in business scope, that is, a terminal versus a port with a small industrial park. The former represents a form of private FDI capital, while the latter before RussellPort's takeover combines both government undertaking of financing and operations of infrastructures and foreign development assistance falling into recipient governmental processes, covering all three sources of infrastructure financings identified in Section 2.3.

The preceding descriptive stories of the two investments have revealed or inferred the following:

First, investment motives differ. Government tends to be motivated by political agendas (e.g., investment in the President's home constituency) or unfeasible economic goals. For example, Abhayagiri invested in 10 berths and about $1.4bn with no meaningful business in sight. From a market perspective, the investment is at least five years too early and the money should have been spent over a span of 10 to 15 years (AB11) to match the spending speed while nurturing business demand. Without adequate monitoring and intervention, foreign aid falling into host government hands would end up in the trap of a typical government-run and ruined project.

In contrast, as told by informants (see Table 7.3), every step taken by Sapphire was to maximize chance of revenues and profitability. "Putting political ambitions ahead of market demands" (comments on Abhayagiri by Hillman (2018b, n.p.)) elegantly summarizes the cause of Abhayagiri's failure and is a typical form of institutional deficiency.

Government process or political motivation incurs huge transaction costs and diminishes opportunity of profitability and optimal returns to investment (see mini cases in Section 3.3.5).

Second, transaction natures differ. Sapphire is a pure market-based investment where private investor captured opportunities present in a market window (post 2008 financial crisis) and industry cycle (trend of mega ships), brought in new technologies and management knowhow, and achieved superior efficiency and productivity, all of which the host government hoped for. In the case of Abhayagiri as a government project, "they even cannot manage it, cannot pay the loans." "They were dumping money" (AB21). These divergent behaviors and results point to the essence of government organizations' incompetence or "limited regulatory capacity" in carrying

out commercial activities (see Section 2.3.1), which is a form of institutional weakness and source of high transaction costs.

This contrasting effect is real evidence from the BRI context substantiating the thesis that market-based investment outperforms government-mandated projects.

Third, investor firm nature differs. Sapphire has performed far more efficiently than sole SLPA-operated terminals (within the Port of Colombo) by all measures (SA21; SA22; SA32). Abhayagiri performed poorly in the hands of SLPA but has seen drastic improvement in RORO volumes after RussellPort's takeover (RU01; RussellPort, 2020). This contrast in performance results magnifies the difference between SLPA and RussellPort, though both are SOEs and institutions in their home country.

The former is managed and acts more like a government entity than a (market) business firm (SA31), while the latter performs much like a market participant, perhaps because it is a Hong Kong listed public company and subject to international governance standards and shareholder pressure (SA11/AB11). It could be because it has to compete for survival outside its home court. Whatever the reasons might be, market disciplines have prevailed over its hybrid firm nature of listed SOEs and, therefore, it has conducted itself more like a market profit-seeker than a privileged SOE. *This is also why Sapphire is viewed as a form of private FDI throughout this research.*

To summarize the preceding discussions, below table is created to highlight the key similarities and differences between the two projects (see Table 7.7).

Table 7.7 Contrasting Analysis between Sapphire and Abhayagiri

Key Parameter	Sapphire	Abhayagiri (Prior to RussellPort Takeover)
Significant FDI to host country	Yes	Yes
Host development program	Yes	Yes
Port business / SLPA regulated	Yes	Yes
Ownership structure	PPP / Private control	SOE / Sole government
Investor motivation	Private, for-profit	Government, politically driven
Investment process	Market / market tender	Government process
Project execution / operation	By market firm	By SOE monopoly
Performance results	Record cost recovery "Crown jewel" Positive returns to all stakeholders	"Dumping money" "White elephant" Poor outcome to all stakeholders
Geopolitical impact	No issue	"Debt Trap"
Local community impact	Positive image	Target of anti-China sentiment

The salient comparisons in Table 7.7 reinforce the established wisdom that *market is more efficient than government. Market process preempts political ramifications. Therefore, BRI investments should be conducted in market context.*

The preceding interpretations and inferences may warrant additional implications to be drawn next.

7.1.5 Sapphire and Abhayagiri in the BRI context

7.1.5.1 About the "Debt Trap" and "String of Pearls" rhetoric

It is worth cautioning that this research doesn't intend to participate in the BRI geopolitical debate. Instead, this section is designed to follow up on and conclude the natural progression of the descriptive storytelling and answer potential questions on Abhayagiri's notoriety as the top "Debt Trap" or both as "Pearls."

As discussed in preceding sections, RussellPort's venture into the international market was initially driven by moderating growth at home and the long-term favorable prospect of China's growing international export and import trades that can be exploited as additional sources of growth. This strategic thinking culminated in its investment in Sapphire several years before the BRI came into life (SA11; SA22). Separately Chinese lenders and contractors' involvement in Abhayagiri also started long before the BRI era (see Table 7.4).

These are all typical cross-border investment and commercial flows and rational firm behaviors, none of which seemingly constitutes a Chinese government masterminded conspiracy to either "trap" GoSL or plant "pearls" encircling India. In fact, the Indian government or lenders had an opportunity to bid for and/or finance both projects initially (Abi-Habib, 2018). It subsequently could take over Abhayagiri for a billion dollars or so if it (or anyone) were willing to. The only explanation, therefore, is that such rhetoric is politically inspired and ill-conceived and motivated.

RussellPort is the most qualified and favorably positioned in terms of its in-country expertise and synergy potentials, industry and managerial knowhow, technology leadership, and financial resources. However, it can be argued that to take on the assignment of turning Abhayagiri around, it is still its Chinese SOE imperative to combine normal business activities with performing a government mandate that outweighs what it as a Hong Kong listed company would do in making a significant investment in its normal course of business, as revealed in Sections 7.1.4.2 and 7.1.4.3. The RussellPort managers expressed cautious to negative views on Abhayagiri (see Table 7.6), which is strong evidence of the above argument.

Unfortunately, the political rhetoric has assumed the outcome of an inter-government arrangement to be the cause of a problem (AB11). RussellPort's Chinese SOE

background leaves a perfect impression of a smoking gun or executing gambit, but in effect, it is a convenient scapegoat at best.

The political rhetoric's flaws would be more obvious if the scope of the above analysis were further expanded and put into the broad context of Sino-Sri Lankan bilateral relations. Since the early 1950s, China and Sri Lanka have developed a strong, mutually supportive partnership starting with the well-known rubber-rice barter program in 1952. China has gradually become a major and preferred provider of economic assistances to the latter because of no strings imposed, which were not available from other aid providing nations, and because of depleting old aid sources. China's military assistance became particularly important in Sri Lanka's fight against its internal ethnic violence that ended in 2009 (De Alwis, 2010). In the post war reconstruction, China has continued its generous assistance programs and advanced US$5.664bn to Sri Lanka during the 2005-2013 timeframe, building power plant, railways, expressways, airports, and seaports (including both projects; see Table 7.8).

For an economy of predominantly agriculture (e.g., tea and rubber) and export processing (e.g., garments), Sri Lanka relies heavily on FDIs to invest in infrastructures, create nonfarming jobs, and maintain balance of payments (Sultana, 2016). In addition, Chinese aid has financed a range of civic and cultural, humanitarian and disaster control, communications and public services programs and facilities over the past half a century (see Table 7.8).

Table 7.8 Selected Infrastructure Projects Financed and Donated by China

Time	Project	Sector	Amount (US$MM)	Chinese Institution
Major infrastructure projects financed by China				
2019	Kadawatha-Meerigama Expressway	Highway	989	EXIM
Ongoing	Colombo Port City	CBD	1400	NA
Ongoing	Extension of Southern Expressway	Highway		CDB
2009-13	Mattala International Airport	Airport	209	NA
2011-14	Sapphire	Sea port	400	CDB
2007-14	Abhayagiri port	Sea port	1100	EXIM
2012	Matara-Kataragama railway	Railway	278	
2009-14	Lakvijaya power plant (Puttalam)	Power	1346	EXIM
2009	Colombo-Katunayake Expressway	Highway	248	EXIM
2009	Mirigama Exclusive Economic Zone	Ind. Park	28	NA
Public services, civic, and humanitarian facilities donated by China				
2018	Udawalawe fresh-water breeding station		NA	
2017	State Hospital		NA	
2011	National Performing Arts Theatre (Lotus Tower)		30	
	Supreme Court Complex		NA	
	Central Telecommunication Exchange		NA	
	Gin Ginga flood protection		NA	

	Polonnaruwa water supply project		
	Lady Ridgeway Children's' Hospital Renovation	NA	
2009	Abhayagiri Buddhist institute and programs	100	
1970s	Bandaranaike International Conference Hall	NA	

Source: De Alwis (2010), Samaranayake (2011), Kelegama (2014), Sultana (2016), MoFSL (2019), and The Sunday Times (2019).

In sum, Chinese aid and investments have played an important role in infrastructure development (CBSL annual reports) and key social programs in Sri Lanka. These were sought after by its government and have translated into tangible benefits to the Lankan citizens (e.g., transport convenience, jobs, cultural activities).

Thus, it is inappropriate to single out China (China has only recently become a major investor in Sri Lanka, see Fig. 7.7) or the ports (other countries have also invested in strategic sectors like oil, water, ports (Samaranayake, 2011), and highways) to politicize or misrepresent respective government's initial intent.

What should be questioned, instead, is, for example, the M. Rajapaksa administration's ability to manage government finances and the country's economy, and Chinese lenders' credit evaluation capability or the effectiveness of Chinese government aid policy and management in general. These issues are of Chinese institutional nature and require further diagnosis (see Sections 7.1.5.3 and 9.3).

7.1.5.2 The BRI as an aggregating or branding scheme

As stated above, though both Sapphire and Abhayagiri are labeled as Maritime Silk Road projects, both started before the BRI era. RussellPort's initial contact with Abhayagiri in 2014 was purely commercial (see Table 7.4), even though it eventually took over the project largely due to government-to-government intervention and Chinese BRI policy considerations.

It is worth reiterating that RussellPort venturing overseas was primarily driven by competitive dynamics in its industry and firm strategic orientation (see Section 6.3). This sequential timeline background supports the argument put forth in Section 2.1.4 that the BRI is an aggregating or branding label for Chinese outbound investment and commercial flows that have occurred since the new millennium and been motivated by their respective internal business imperatives. It represents a Chinese storyline of how Chinese MNCs participate in globalization.

7.1.5.3 The BRI policy implications to Chinese SOEs

RussellPort's international strategy statements (see Table 6.3) best illustrate how its such strategies have evolved to date and interacted with Chinese policy calls over

time and the BRI specifically. RussellPort's investments can be representative of how Chinese SOEs position themselves and react to a policy environment like the BRI.

SOEs' political correctness under the BRI

Take Abhayagiri as an example. RussellPort may have reluctantly fulfilled its noncommercial mission, for example, to take over the project on the one hand, but on the other, it has willingly implemented government policies or initiatives (e.g., "going out" and the BRI) or integrated them into its business strategies (see Table 6.3) for its own benefits, such as potential business opportunities, favorable policy support (at home), and cheaper credits. As a result, policy promoters of various governmental apparatus love to claim projects like Abhayagiri as indicative achievements of the BRI (NDRC, 2017). Russell managers may have voluntarily attributed their projects as concrete BRI implementation actions to demonstrate their allegiance and seek endorsement (see Section 2.2.4).

This is consistent with the patterns of how SEOs regulate their relationships with their government supervisors observed in other cases (Zhu, 2015) and how SOEs as means of institutional enforcement balance their dual missions (Horn, 1995).

SOEs' profit-seeking behavior under the BRI

To further decode such intricacies, it is helpful to further diagnose the Abhayagiri case and decipher potentially unique cues that may facilitate insightful implications to be drawn.

Abhayagiri is probably an extreme case where the contractors made over a billion dollars in revenues from general contracting of a "white elephant," and in effect augmented a host politician's reckless ambition. In contrast, Chinese creditors have been ended up owning over a billion dollars of GoSL debts (informants suggest that proceeds from the Abhayagiri sale were not used by GoSL Treasury to repay loans borrowed to finance its construction, confirming Rajapaksa's accusation, see Table 7.3), which have exhibited a deteriorating credit quality in recent years (Moody's, 2016-2020). On top of that, RussellPort has paid another billion dollars for, and shouldered a burden of salvaging, the "white elephant." In the end, Chinese lenders and investor have been scapegoated as having conspired a "Debt Trap." Such rhetoric has caused tremendous backlash to both the BRI and RussellPort (see Sections 2.2.1 and 7.1.2.1).

SOEs' conflicting dual missions

These complex Chinese government versus SOE actor dynamics seem to warrant the following implications or lessons:

First, **Chinese SOEs' interests may contradict that of the Chinese state**. SOEs are a unique combination of stakeholders, including government, politicians, managers, employees, and domestic and even foreign public constituents. Their interests could be either aligned or conflicted with SOEs' commercial or noncommercial missions, depending on the specific situation.

It is naive to assume that the contractors didn't know there was no meaningful shipping and container business for the port or "white elephant" that they proposed to build, and that GoSL didn't have the money to spare. It probably advised GoSL on how to navigate Chinese bureaucracies and obtain Chinese policy loans and credits. It advanced its self-profiting aspiration from its noncommercial assignment as aid implementor to exploit the goodwill developed with both the host government and its home government supervisors (Zhu, 2015). Its ultimate reward was the billion-dollar contract but at the detriment to host government finances directly and to its institutional masters at home indirectly. If the debts owed by GoSL were eventually forgiven by the Chinese government, it would be the latter or its taxpayers who would ultimately foot the bill or absorb any losses.

If the "Debt Trap" criticism had any meaningful substance, therefore, it could be more accurately described as certain Chinese SOEs' "debt trap" to seduce their institutional or political masters at home and profit accordingly. Hence, the lessons drawn for Chinese policy planners and supervisors are that: although SOEs can be the preferred implementors or execution agent of government initiatives like the BRI, the conflicting dynamics between their commercial and noncommercial roles and the entwined interests of their multiple stakeholders have to be managed in order to take advantage of their commercial capabilities and simultaneously mitigate their detrimental inertia.

The strategy prescribed by informants to cure this symptom is to go for market transactions like Sapphire (SA11).

Second, **the BRI as a capital allocation guide or steering baton should be placed in market context**. Why and how can SOEs or foreign governments induce Chinese government and its policy financial institutions into "white elephant" traps without heeding to projects' feasibility and host government's debt service capacity? One explanation is the mismatch between an outdated aid policy paradigm used by the Chinese government and the profit-seeking drive of modern SOEs and their managers, particularly when they operate in international markets where the familiar credit evaluation and enhancement tools in their home market may not work anymore or as effective as assumed (Zhu, 2015).

Under the prevailing paradigm when Abhayagiri was evaluated, policy lenders ascribed too much credit to the inter-government nature, mistaking sovereignty as superior borrowing capacity and debt service capability (Zhu, 2015). Such inter-

government lending operated outside of capital markets disciplines, was kept out of public scrutiny, and inevitably arouse speculation of its intent and legitimacy. And Abhayagiri's lackluster performance has rightfully justified such suspicion or rhetoric.

It can be argued, therefore, that it is Chinese institutions' incompetence and / or their lack of accountability to manage and police the country's aid distributions that have contributed to the poor performance of their financed projects or recipient governments' debt unsustainability. Stated another way, Chinese institutional weaknesses (e.g., limited regulatory capacity, limited commitment and accountability) have compounded the negative effects of recipient weak institutions. They both are responsible for the unpleasant outcomes.

The right cure again is to pursue market-based transactions and lending (AB11) and let market, instead of politicians and incapable bureaucrats, determine whether a project to be pursued or how to get it financed and executed (GR11).

Implications to BRI investments

It is probably worth revisiting the contrasting analysis of Sapphire and Abhayagiri to conclude this discussion. While Abhayagiri has gained international notoriety and became a political topic in Sri Lanka's 2015 election, why and how has Sapphire been immune from such attacks? "Sapphire was a market deal and caused the least controversy" (SA11).

It could be inferred, therefore, that market-based investing is the most efficient strategy for host government to fill its institutional void (e.g., government staff's incompetence, SOEs' inefficiency, public's discontent), for Chinese state to address similar institutional weaknesses and align the interests of SOEs and their stakeholders, for BRI (planners) to guide infrastructure investment through market capital allocation process, and for all to avoid the virulent geopolitical fanfare of "Debt Traps" or Chinese domestic disavowal of parceling out dump money overseas (Hornby and Hancock, 2018). Lessons from these cases are that "commercial logic and feasibility is the most effective to preempt political troubles" (SA11/AB11).

RussellPort managers as implementors of the BRI

As a central government owned SOE, Russell has an obligation to implement policy initiatives, whether it is called the BRI or something else. Since the BRI is an all-inclusive program, RussellPort will likely benefit from it as well. The preceding discussions highlight how RussellPort, a key implementor of the MSR (see Section 5.3.3 and Table 6.3), has incorporated the policy initiative into its overseas growth strategy and specifically how it has got involved with Abhayagiri.

How have RussellPort managers positioned themselves in front of host audiences and managed the relationship between their own business goals and Chinese policy initiatives? RussellPort came to Sri Lanka for business reasons (i.e., Sapphire) as a typical commercial concern. “We emphasize on commercial cooperation and try to avoid mentioning the BRI.” “We deemphasize our SOE background.” “We are here to make money and create mutual benefits” (SA11/AB11).

RussellPort’s on-ground managers are aware of both the potential benefits and backlash that the BRI might cause them. Their strategy is to deemphasize the government and policy dimensions of the BRI and instead highlight its business firm identity and for-profit objectives. This is contrary to the prolific propaganda that its domestic SOE brethren or government supervisors have ascribed to the BRI program as well as their projects in Sri Lanka. “You cannot extend your national strategy to their [host] doorsteps” (SA11/AB11).

These answers and strategies from the B&R field to the above questions could be revealing and possibly serve as guides for other similar investments and in similar situations. (This addresses the third question of this research, see Section 1.5.)

7.1.5.4 The BRI in the eyes of host audience

One of the objectives of this research is to learn and understand host perspectives on the BRI (see Section 1.4).

Host informants generally have limited knowledge of the BRI and at best have only heard of it. They view both projects as Chinese investments which, depending on the informant’s job capacity, mean FDIs to the FDI promoting agency (BOI), transfer of management expertise and technologies to the government-designated partner and industry regulator (SLPA), and jobs, employment and training opportunities for the rank and file employees (see Table 7.9). The fact that these foreign investments have created opportunities for locals matters the most, regardless of them being called the BRI or something else.

From an industry point of view, these and other Chinese investments mentioned by the informants have gone mostly into infrastructure and manufacturing (see Table 7.8; SA32/AB32). Investments in these sectors are encouraged by GoSL and viewed as improving the fundamentals of the country’s economy and the wellbeing of the general public. Consequently, they are highly regarded by stakeholders of all backgrounds (see Table 7.9) despite some politically motivated noises (see Section 7.1.5.1) (SA32/AB32). The dramatic, albeit pragmatic, reversal of Sirisena Administration’s attitude towards Chinese investments, in general, and Abhayagiri, in particular, serve as a powerful endorsement of the positive impact that these Chinese FDIs have had to the host constituencies.

Thus, programs or policies that associate with these investments naturally gain favorable reviews (see media citations in this Section 7.1). This is particularly true in a country where in its recent history, only China has responded to its calls and provided tangible help (see Table 7.8) in ending the internal conflicts and assisting in economic recovery.

In this regard, it also indicates that local stakeholders have attached great hope to the BRI and envisioned positive prospects for their future. It is therefore not difficult to understand why most developing countries have embraced the Chinese initiative. (Similar stories will be told in other cases to be discussed in the rest of this chapter.)

Table 7.9 Sri Lanka Local Stakeholder Perspectives on the BRI

Informant and Roles	Perspectives on BRI
Host partner and regulator (SLPA)	"People see massive opportunities from Chinese OBOR investments." "People are watching and waiting to see how it is going to benefit the region and the people." "Already see it an opportunity and achieve a win-win situation" (SA31/AB31).
Host FDI promoter and regulator (BOI)	Sapphire is a case of profitable BRI investment (SA32). "We see this as an opportunity … increase our export business through this initiative" "… job training or employment and education" (SA42/AB42).
RussellPort's local managers	"Until we [RussellPort] came to this country, there were no investments from China, only loans to government and go to the contractors like China Harbor. We were the first company who put money in this country as an investment" (SA21). "This project [Sapphire] had nothing to do with the BRI … because GoSL has endorsed the BRI officially, we stand to benefit by default. If the BRI is successful, then Colombo is in a very good location to benefit from" (SA22).

Source: Interviews with informants.

7.1.6 Section summary

This section of case narratives has intended to provide a comprehensive but vivid storyline or thick description of RussellPort's two investments in Sri Lanka and set the stage for further analyses and interpretation.

These two cases are representative of B&R investments for their success (Sapphire) or notoriety (Abhayagiri). Several implications and conclusions have been drawn along the way as a natural progression of case descriptions. Hopefully, they will help diffuse any misunderstandings.

Sri Lanka is a typical post-colonial country and has struggled all along to find its own model of economic growth. Chinese investments represent a significant source of FDIs, and the BRI is embraced as hope for salvation by local stakeholders. Its experience, both positive and negative, with Chinese B&R investments should be revealing and beneficial to other similar countries and governments.

The implications drawn from the contrasting analysis between Sapphire and Abhayagiri illustrate the detrimental effect of government or politically motivated projects done outside of market. It also demonstrates how market-based private investment could help achieve government development agendas. These experience or lessons deserve to be heeded by both the host government and the BRI planners.

7.2 Djibouti and Russell's Khat and Guinni Koma investments

Djibouti is small by all measures (see Section 6.4 and Table 6.4), but has gained relevance to China both historically (e.g., a source of myrrh imported by Chinese for medical use and visits by Zheng He's fleet to the region, see Section 6.1) and in recent history when the PRC courted African countries to expand diplomatic and economic ties. And now under the BRI when it needs to connect the dots along the targeted Maritime Silk Road routes (Yu, 2016; Duruskan and Altay, 2019).

Russell has made several investments in Djibouti, notably, Khat (KH) and Guinni Koma (GK). The former is a port investment, and the latter is Russell's maiden attempt to replicate its PPC or Skekou Model in a foreign market (Ji and Li, 2019). Another significant Chinese investment is the Addis Ababa-Djibouti Railway (AADR) financed by Chinese policy banks and operated by a joint venture comprising of Chinese, Djiboutian, and Ethiopian entities. The rail line commenced operations in 2016 and serves as a critical linkage between the port, free zones, and other logistic facilities in Djibouti and the African hinterland of, currently primarily, Ethiopia. These infrastructure buildouts pin high hopes of these governments and their people to significantly boost their economic growth and reduce poverty (Caijing, 2016).

This section will tell the stories about Djibouti as a B&R destination, or a country trapped by Chinese debt according to some storylines (Pence, 2018), or even a case of Chinese neocolonialism (Duruskan and Altay, 2019; EFSAS, 2019). It will also tour Russell's two investments as typical B&R achievements as claimed by Russell and Chinese official lines (NDRC, 2017). Simple implications will be drawn at the end.

7.2.1 Djibouti country profile

Djibouti's geography

Fig. 7.8 Djibouti's Geographic Location
Source: https://www.bbc.com/news/world-africa-13231761

Djibouti borders Eritrea, Ethiopia, and Somalia on land and faces Yemen on the Arab Peninsula across the Bab al-Mandeb Strait, which connects the Red Sea and the Gulf of Aden (see Fig. 7.8). Together with its African neighbors, it forms the so-called Horn of Africa region. It sits on the crossroad of the Indian Ocean-Red Sea shipping corridor and the East Africa-Arab Peninsula intersecting springboard (Dahir, 2015; CIA, 2019a). Since the opening of the Suez Canal in 1869, this strategic location has become the gatekeeper of a key connecting section of the Indian Ocean to the Mediterranean and North Atlantic maritime transport lifeline and, according to some accounts, witnesses over 30% of the world's marine traffic (Bereketeab, 2016).

Djibouti's recent history

Djibouti became an independent state in Jun 1977, ending an almost century long colonial rule by the French (Dahir, 2015). Since then, the country was ruled by one party and one president until 1999 when the current president Ismail Omar Guelleh was elected in a multi-party election. President Guelleh has been serving his fourth term since 2016 after constitutional term limit was amended in 2010 to accommodate his reelections (Bereketeab, 2016).

Legal and social traditions

Djibouti's legal system is a mix of French Napoleon Code at the time of its independence, Islamic religious law in matters of family and successions, and customary law in civil (e.g., conflict resolution and victim compensations) and clan matters (Dahir, 2015; CIA, 2019a).

The Djiboutian Constitution adopted in 1992 ensures separation of powers among legislative, judicial, and executive branches of the government (Dahir, 2015), but the

President has huge legislative power through the issuance of PDs (Brass, 2008; KH21/GK21), as to be seen in the rest of this section.

Djibouti is formed of primarily two ethnic clans, namely, Issa and Afar, which account for approximately 60% and 35%, respectively, of its population. President Guelleh and his predecessor, also his uncle, are from the Issa clan (Bereketeab, 2016).

Djibouti was among the first African region to adopt Islam, which is now the national religion. About 94% of its population practices Sunni Muslim (CIA, 2019a).

These institutional features qualify Djibouti's governance as "The Rule of the Clan" or "clannism" (Weiner, 2011), in which individuals tend to rely on kinship or the clan that they belong to advance their goals and interests. This is viewed as a form of institutional weakness where traditions and kinship affiliation step in to fill the institutional void. One such example is that employers are obliged to endorse or guarantee their employees' mortgages (State Department, 2018).

Djibouti's economy

Djibouti has few natural resources, over 90% of its 23,200km^2 territory is barren desert. Most of its inhabitants live in the capital city and a few towns, while the rest scatter around the country herding cattle. There is little agriculture and industries. It imports most basic living materials, including most foods and fresh water. SOEs monopolize all infrastructure, communications, financial, and other essential services. Illiteracy, unemployment, and poverty rates are extremely high and skilled labor is scarce. Its currency is pegged to the US dollar at a fixed rate. It relies heavily on FDIs to invest in infrastructures and maintain economic growth (State Department, 2018; CIA, 2019a).

Recognizing its resource endowment characters, the government has aggressively attracted FDI and foreign debt into infrastructure buildouts. This strategy has been implemented in roughly two stages, each for over a decade.

Stage One: Dubai Inc-funded buildout

This stage is marked with mostly Dubai Inc (i.e., Dubai companies) funded projects, such as the $400mm Dohaleh Container Terminal (DCT), $150mm Dohaleh Oil Terminal (DOT), $300mm Kempinski Djibouti, the first 5-star hotel in the country, renovation and management of Djibouti's old port, airport, and the Old Free Zone, and connecting road and logistic facilities (see Table 7.10). These investments, totaling over $1.5bn, occurred mostly in the first 10 years of the new millennium, or since Mr. Guelleh took power in 1999. They represent his major efforts to seek foreign help, revitalize the economy, and pull his country out of poverty (Chorin, 2010; High Court, 2016).

Table 7.10 Selected Dubai Inc Infrastructure Projects

Project	Services Begin	Notes
Renovation of Djibouti's old port	2002	20-year concession to DPW signed in 2000 but ended in 2011
Management of the Djibouti airport	2002	20-year concession to DPW
Djibouti's Old Free Zone	2004	Managed by Dubai's Jebel Ali Free Zone Authority
Dohaleh Oil Terminal (DOT)	2006	Invested and operated by DPW and Emirati National Oil Co.
Kempinski Hotel	2006	Invested by Nakheel, a DPW affiliate
Dohaleh Container Terminal (DCT)	2008	Completed at end of 2008 Design capacity of 1.5mm TEUs

Source: Adapted from Figure 3 in Chorin (2010) and High Court (2016).

Stage Two: China Inc-led investments

This stage is led by China Inc (i.e., Chinese companies) and has been ongoing since about 2010. Notable projects include: (1) the $4bn, 752km AADR, the first one outside of China since the Tazara Railway nearly four decades earlier (Caijing, 2016); (2) Russell's Khat investment, including the $580mm Dohaleh Multipurpose Terminal (DMP) completed in 2017 and Guinni Koma; and (3) pipelines importing drinking water from Ethiopia (see Fig. 7.9; IMF, 2017; State Department, 2018). These projects are largely financed by Chinese policy loans, contributing to the rapid rise in Djibouti's foreign debt to GDP ratio of about 85% at the end of 2016, as alarmed by IMF (2017). This has constituted enough a "smoking gun" of a debt trapped country (Pence, 2018; Hurley, Morris, and Portelance, 2019) or Chinese neocolonialism (Duruskan and Altay, 2019; EFSAS, 2019).

Djibouti's strategy, as evidenced by investments led by both Dubai Inc and China Inc, has been to build pivotal anchors like the port and airport, and then radiate the East African region. Its goal is to make Djibouti a transit and transshipment hub and exploit its geolocational advantage. The AADR, for example, actively promoted by both the Djiboutian and Ethiopian governments, is a critical link for Djibouti to utilize its port and free zone facilities by accessing the huge market of Ethiopia's nearly 100mm inhabitants, and for the latter to have a seaport exit satisfying over 90% of its import and export needs (CIA, 2019a).

As a result, this infrastructure-driven growth model has contributed positively to Djibouti's relatively high growth rates of roughly 5-7% since 2009 and improved its access to international capital markets and aid money as well (Chorin, 2010; IMF, 2017; GHIH, 2018). Arguably, the Djiboutian government has nurtured an economy around its unique strength as a regional shipping and transshipment hub built upon

debt finances and supplemented by its strategy to host military bases for the US, France, NATO, Japan, and recently China, and use of foreign aid (Brass, 2008; Duruskan and Altay, 2019). Port and logistic service revenues and rent from military bases make up nearly 80% of its GDP in recent years (Bereketeab, 2016; Styan, 2016; CIA, 2019a) and is thereby a true service economy.

Further, ongoing internal conflicts in Yemen and Somalia and confrontations between Ethiopia and Eritrea have driven additional port services and transshipment business to the politically stable Djibouti (Chorin, 2010; KH11). This has helped uplifting Djibouti's aspiration from "Dubai of Africa" (Chorin, 2010), to become the "Singapore of the Horn of Africa," a full-service regional trade entrepot and logistics hub (Gresh, 2017).

Russell's two investments selected for this case study represent among the key building blocks to realize that Djiboutian vision.

Key government institution – Djibouti Ports & Free Zone Authority (DPFZA)

Ports and related logistics services deliver over 70% of Djibouti's GDP (CIA, 2019a) and hence are an economic lifeline of the nation. As such, DPFZA, a government body under direct authority of the President, was established by a PD in 2002 and has been mandated to regulate and implement all transport and free zone related policies and rules, own and operate all such infrastructures (see Fig. 7.9). It also acts as the sole interface between investors and all other governmental agencies (High Court, 2016; GHIH, 2018). It consolidates political and policy, SOE supervisory and operating, FDI promotion and investor service functions into one entity.

DPFZA's Core Assets:
(From top left corner to lower right corner)

1. Old port/downtown
2. Old Free Zone
3. DCT
4. Planned new container terminal
5. DOT
6. DMP
7. New international free zone (or GK)

Fig. 7.9 DPFZA-Owned Core Infrastructure Assets
Source: DPFZA.

To attract Dubai capital, it formed a JV through its port holding company (Khat) with DPW for the investment, construction, and operation of DCT (Chorin, 2010). To facilitate Chinese investments, it invited RussellPort to become a shareholder in Khat

and undertake the DMP project. It cofounded a greenfield free trade zone (or Guinni Koma) based on proposals by consultants and Russell-led consortium (see Fig. 7.10 and Table 7.12). As a result, DPFZA is Russell's shareholder and investor partner, government regulator and gatekeeper of the two projects.

7.2.2 RussellPort's investment in Khat

7.2.2.1 Key milestones of Khat investment

In early 2012, RussellPort was introduced by one of the contractors of the AADR project to the Djiboutian government. Subsequently, it was invited to submit a proposal for the contemplated renovation of Djibouti's old port. The government's goal, as proposed by other bidders, was to upgrade the port's handling capacity by 30% at an estimated cost of $600mm and reduce congestions and delays in the terminals. The proposed renovation was also intended to match the railway capacity to be created upon completion of AADR and help improve the railway's feasibility or bankability from lenders' perspective (KH12; KH13). After studying the port and land traffic conditions and drawing on its experience and expertise operating the PPC Model (see Box 6.1), RussellPort proposed instead to build a new terminal at about $580mm, move the port operations out of city center, and redevelop the old port site into a business center.

This design idea preserves and expands the historic downtown area to become a commercial, residential, civic, cultural, and leisure center or CBD and relocate port, logistics, and heavy traffic commercial activities to a new location with additional space for future growth. This philosophical change appealed to President Guelleh's heart. As a result, RussellPort was chosen to conduct exclusive negotiations, which progressed on a fast track and concluded on Dec 29, 2012 with the signing of an investment agreement (see Table 7.11).

Table 7.11 Key Milestones of Khat Investment

Time	Event
2012/01	RussellPort is introduced by an AADR contractor to the proposed renovation of Djibouti's old port. RussellPort submits a proposal to build a new port and redevelop the old site to become a CBD. The proposal is highly regarded by President Guelleh.
2012/07	President Guelleh visits Shenzhen and RussellPort's home base in Shekou during his official trip to China. DPFZA and RussellPort sign a framework agreement.
2012/12	RussellPort signs agreement to acquire an equity interest in Khat. Russell assists Djibouti in securing working capital loans from China.
2013/02	RussellPort completes acquisition of 23.5% equity (capped at 99 years) in Khat for $185mm.

2014/05	RussellPort, Khat, and DPFZA form a newco to manage DMP.
2014/08	Construction of DMP begins.
2017/04	DMP begins trial operation and receives its first vessel.
2017/05	DMP hosts official opening of business.

Source: DPFZA, RussellPort, and interviews with informants,

In the course of courting and assessing at each other, President Guelleh visited Shenzhen, and was impressed with Russell's strengths and capabilities as well as Shekou's immense success. His own eyewitness played a critical role in his decision to engage RussellPort, essentially entrusting Russell and China with his vision of leading his country to become the Singapore of the Horn of Africa (KH12). Similarly, during the Stage One infrastructure buildouts (see Section 7.2.1), he personally visited Dubai, securing the Sultan's personal commitment and evaluating the qualifications of Dubai Inc members (Chorin, 2010).

In addition to showcasing Russell's past success, during the negotiation period, Russell also assisted the Djiboutian government in successfully securing working capital loans from Chinese banks. The contractor introduced by Russell waived, at Russell's credit, the conventional performance deposit of $100mm, a huge sum of cash savings to Khat and the tiny Djiboutian government budget. Later, during the construction period, because of delays in the Chinese policy loan approval process, Russell paid out of its own pocket on behalf of Khat for the progressive payments to contractors (KH12).

These out-of-the-norm assistances by Russell not only ensured smooth progression of the construction work at DMP but also bolstered its credibility and goodwill with the Djiboutian government, paving the way for their subsequent cordial cooperation and additional joint investments.

7.2.2.2 Ownership structure of Khat and its core assets

RussellPort's investment in Khat includes an outright acquisition of 23.5% shares of the port holdco (the maximum % permitted to maintain Djiboutian 51% majority in DCT (KH13)), commitment to jointly developing a new multipurpose terminal or DMP, and management of the old port (since DPW's management right was ended in mid-2011 (High Court, 2016)). The resulting ownership structure and core assets are depicted below (see Fig. 7.10).

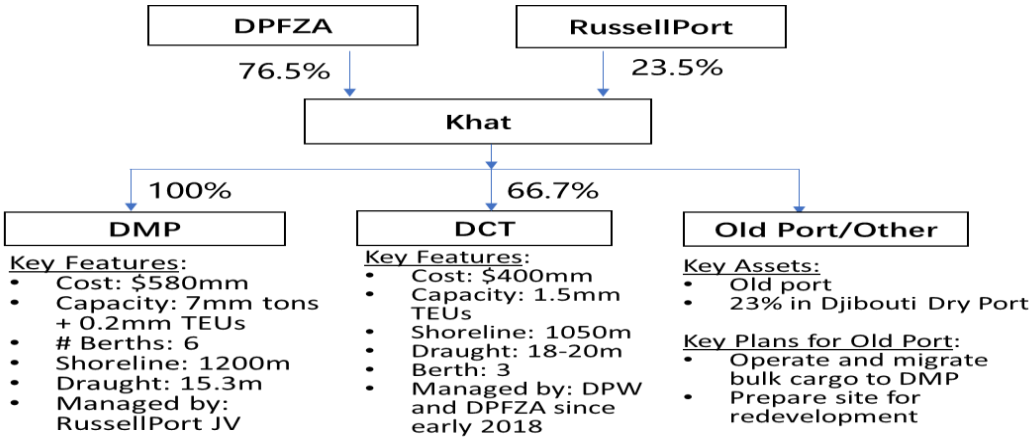

Fig. 7.10 Khat Ownership Structure and Asset Profile

Source: RussellPort, DPFZA, Chorin (2010), and interviews with informants.

Djibouti's old port was a multipurpose port capable of handling both containers and dry bulk cargo, but it was inefficient and congested. It went through a round of renovation and expansion by DPW during the Stage One program (Chorin, 2010). Given that Djibouti's ports act more like a gateway port for the Ethiopian economy, it has handled whatever the Ethiopians needed, such as the import of grains, fertilizers, and building materials as well as export of agricultural and manufactured goods. As the Ethiopian economy grew rapidly over the course of the previous decade, the old port became bottlenecked, constraining the flow of transit goods and its own growth opportunities as well (KH11). With the upcoming of AADR, alternative solutions became urgent (KH13).

DCT is jointly developed and owned, but solely managed by DPW. Completed in Dec 2008, it has gradually taken over the container business from the old port. It grew TEU volumes from 356 thousand in 2008 to 928 thousand in 2017 (GHIH, 2018). It has successfully locked in Ethiopian traffic and diversions from Yemen and elsewhere, solidifying Djibouti's transit hub status. It has been the main source of revenue and profit for Khat (RussellPort report). However, due to its small storage and warehousing facilities, its growth has peaked at the current level of about one million TEUs (KH13). As a result of dispute between the Djiboutian government and DPW, DPFZA has taken over management of DCT since early 2018 and has essentially nationalized the asset (State Department, 2018; FactWire, 2019).

DMP was designed and constructed by RussellPort and financed by a combination of EXIM Bank loans (on-loaned to Khat through the Djiboutian Ministry of Finance) and Khat internal funds (or proceeds from the sale of 23.5% share to RussellPort, see Table 7.11). It is located 12 miles west of the old port (see Fig. 7.9). The terminal commenced operations in May 2017 and has been managed by a JV consisting of RussellPort, Khat, and DPFZA. Ancillary facilities have been added to accommodate the ships and cargos migrated from the old port and increasing demand from Ethiopia.

DMP represents a significant step for Djibouti to upgrade its port facilities and capacities to enhance its transit hub status.
`

The old port remains operational and will be closed pending resolution on administrative matters. Russell's team has assisted the government in crafting a redevelopment plan of the site. Additional investments are being contemplated in order to extend the AADR line for a few more kilometers from its current station into the storage yard of DCT, DMP, and the new free zone or GK (KH11).

7.2.2.3 Djiboutian government's dispute with DP World

This analysis would be incomplete if it didn't mention the ongoing and publicized dispute between DPW and the Djiboutian government over DCT. It is however beyond the scope of this research to introduce a (political) controversy that is still unfolding, as noted by judges and arbitrators (High Court, 2016, 2018; LCIA, 2017).

The dispute arose from more than a decade of business interactions between the Djiboutian government and Dubai Inc companies including DPW (see Table 7.9). The drama centers around a key figure, Mr. Abdourahman Boreh, but what's actually driving this controversy might differ from what's being argued in court or covered by the media.

The complex stories can be reconstructed based on court judgements (High Court, 2016, 2018) as follows. Right after President Guelleh took office in May 1999, to jumpstart his country's economy, he dispatched Mr. Boreh, his close associate and a prominent Djiboutian businessman, to Dubai to seek investments to revitalize Djibouti's port facilities. Mr. Boreh had extensive business ties in Dubai and owned companies in Djibouti in cigarette distribution, construction, and investment holdings. He acted as a middleman and advisor to President Guelleh. He was appointed through PDs to be the Chairman of DPFZA and its predecessor. He was also a consultant for DPW in Djibouti and received compensation for his work.

Conceived prior to the Stage One investments was Mr. Boreh's brainchild, the Djibouti Dry Port (DDP). It was located outside of the old port and provided container storage and warehousing facilities to mostly Ethiopian merchants. Mr. Boreh and other investors funded most of the construction costs of DDP, while the government provided land and in return received a minority equity in the project, making the venture the first PPP in the country. DDP was modeled after Dubai's Jebel Ali Free Zone and obtained free zone treatment through a PD even before Djibouti passed its Free Zone Law in 2004. The DDP business was a success and became a prelude to the formal launch of the Old Free Zone in 2004. Djibouti's ownership has been held by Khat (see Fig. 7.10).

As a result of Mr. Boreh's active promotion, coordination, and advice to both sides, Dubai companies invested in DOT and oil storage facilities, the Djiboutian government established and engaged a DPW entity to manage the Old Free Zone, DPW took over management of Djibouti's old port and invested in and managed DCT, the Emirates government donated road and public housing facilities, and so on. Essentially, the Stage One infrastructure buildouts were largely attributed to his ideas and efforts.

In promoting these FDIs to his home country, Mr. Boreh's companies co-invested with, and held investment for, the Djiboutian government, participated in the construction work of DCT, renovated the Presidential Palace (without being paid), and relocated residents and tombs on the DCT site at his own cost. At DPW's request, he was appointed Chairman of DCT. Entrusted by President Guelleh through PDs, he represented the government and DPFZA in negotiations and signing of agreements relating to those projects. This helped to cut corners of Djiboutian ministerial bureaucracy and speed up the investment and approval processes. His roles and co-investments also helped to project a positive image of his country and government to Dubai investors and DCT lenders.

All investments promoted by him including the dry port, the Old Free Zone, the oil terminal, and DCT have been successful. For example, DCT generated annual revenues of $160mm and a net profit of $70mm for the years leading up to the litigation in 2014. Djibouti or Khat's share of investment in DCT was paid back in four years through dividends.

However, in late 2008, right before DCT was completed, his construction crews were stopped by Djiboutian police and his other companies were seized by the Djiboutian tax authority for tax evasion. In 2012, the Djiboutian government started legal action in London's High Court against Mr. Boreh on counts of dishonesty and conflict of interest during his work with DCT. In 2014, the Djiboutian government sought arbitration to rescind all investment and management agreements with DPW. In its judgement rendered on Mar 2, 2016, the High Court rejected all claims made by the Djiboutian government against Mr. Boreh. In its Partial Final Award issued on Feb 20, 2017, London Court of International Arbitration (LCIA) Tribunal dismissed all claims made by the Djiboutian government and affirmed that all agreements with DPW were valid and binding.

In Nov 2017, Djiboutian Parliament passed a law authorizing its government to terminate any contracts that are deemed threatening its sovereignty (State Department, 2018). On Feb 22, 2018, Guelleh issued PDs terminating DPW's management rights of DCT and transferred all shares and management rights in DCT JV to DPFZA (GD, 2018), in effect nationalizing DPW's assets.

DPW had sought, and won on Aug 31, 2018, a court injunction restraining the Djiboutian government from seizing DCT assets and reneging its management and board rights. It also sued for damages from the Djiboutian government and won in Apr 2019 a $530mm award (The Maritime Executive, 2019). As a result of its share ownership in Khat, which owns 66.67% of DCT, RussellPort has been sued by DPW for allegedly inducing the Djiboutian government to breach its DCT agreements. DPW has also accused RussellPort of infringing its interest in DCT and exclusivity in managing Djibouti's ports and free zones. The suit was filed in Hong Kong's High Court in Feb 2019 and is pending further action (FactWire, 2019).

In his defense, Mr. Boreh alleged the Djiboutian government of being politically motivated, because he expressed to the then Prime Minister in 2008 his objection to the idea of amending the country's constitutional term limit to allow a third term for Mr. Guelleh in 2011.

The Djiboutian government has long voiced its dissatisfaction with DPW and complained about its conflict of interest, such as restraining additional investments in Djibouti's port facilities (e.g., DCT's storage facilities) and TEU volume growth in Djibouti by manipulating traffic among DPW invested ports in the region (KH32). DPW has denied all such allegations.

As a result of Djibouti's nationalization of DCT, Khat has lost a major revenue and profit contributor. The Djiboutian government has infringed on RussellPort's property rights in at least two aspects: one is the uncertain prospect of the afore-mentioned litigation and potential loss of 15.67% (i.e., 66.67% * 23.5%) economic interest in DCT. The other is RussellPort's shareholder rights in Khat, which has been used by the Djiboutian government as a claimant in suing Mr. Boreh and DPW. The judgement rendered by the High Court (2018), for example, is against both the Djiboutian government and Khat with unknown economic and financial consequences.

7.2.3 Russell's investment in Guinni Koma

As part of its infrastructure-driven growth model, Djibouti set up its first (Old) Free Zone in 2004 near the old port in addition to renovating the port (GHIH, 2018). This small zone of 0.17km^2, managed by a DPW affiliate, offers warehousing, offices, and light industrial units (Chorin, 2010). By the time of RussellPort's investment in Khat, the Old Free Zone's capacity was already fully utilized. Thus, it is logical for the Djiboutian government to contemplate a new free zone and synchronize with port capacity expansions (i.e., DMP) and in turn further solidify and strengthen its transit and transshipment hub status. The President's own eyewitness of the Shekou Model and RussellPort's initial proposal in 2012 might have contributed to the culmination of a larger and better international free trade zone or Guinni Koma (see Table 7.12).

7.2.3.1 Key milestones of Guinni Koma investment

Table 7.12 Key Milestones of Guinni Koma Investment

Time	Event
2012	Djibouti proposes to Russell during negotiation of Khat investment to build a new free zone. Russell was preoccupied with Khat and declined.
2014/12	Shekou becomes a part of the Guangdong Pilot Free Zone. Inspired by the news, Russell proposes to DPFZA Chairman for a new free zone. After consulting with the President, the Chairman confirms "OK."
2015/03	Russell and DPFZA sign an MoU for the establishment of GK.
2015/04	Russell working team is joined by Chinese partners.
2015/04-early 2016	A Chinese-UN joint research team led by Prof Justin LIN of Peking University is engaged to perform feasibility studies and recommend development models for the proposed new free zone. A UK consulting firm is hired to study and advise on master plans and industry focus for the new free zone. President Guelleh hears both presentations himself.
2015/10	Russell CEO visits Djibouti.
2015/11	Russell Board approves to proceed with the proposed transaction.
2016/07	Russell consortium and DPFZA sign key terms agreement in Beijing.
2016/11	Russell consortium and DPFZA sign GK investment agreement at Djiboutian Presidential Palace.
2017/01	The parties sign shareholders agreement. Construction of GK commences.
2017/07	Parties complete negotiations and sign operating agreement and land leases agreement.
2018/07	GK opens for business and receives tenants.

Source: DPFZA and interviews with informants.

The sequence of events in Table 7.12 seems to suggest that while the Djiboutian government has learned how to implement its growth strategy (i.e., cascading between port upgrade to free zone establishment to port expansion to new free zone), Russell has quickly caught up with this strategy once its port investment is in place. This is likely because Djibouti's strategy mirrors Russell's early experience in Shekou and overlaps to some extent with Russell's push to replicate its PPC Model in select B&R countries and to demonstrate its unique contribution to the B&R cause (see Section 6.3; NDRC, 2017; Ji and Li, 2019).

7.2.3.2 Ownership structure of GK investment

As discussed in Section 7.2.1, core to Djibouti's infrastructure-driven, service economic model is its ability to charge rents on goods and people traversing through its facilities. Its such ability has been constrained by its lack of capital to fund these

capital-intensive buildouts, and management expertise and skilled labor to do the job. Russell has got both.

To leverage each other's strengths and balance their contributions and interests, the parties have created the following ownership and management structure for the GK venture (see Fig. 7.11).

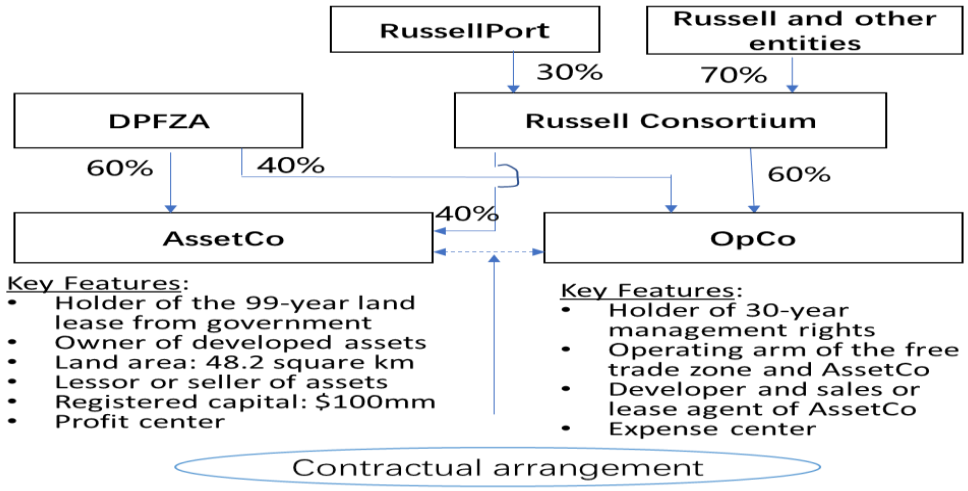

Fig. 7.11 Ownership and Management Structure of Guinni Koma
Source: RussellPort announcements and interviews with informants.

The two corporate vehicles, AssetCo and OpCo, split the functions of one typical company into two separate groups and interact through several inter-company contracts stipulating each other's roles and responsibilities. Specifically:

AssetCo: is asset heavy. It owns all hard assets and liabilities incurred to finance the assets, receives all revenues from sale or lease of facilities, has minimal staff and hence reimburses operating expenses incurred by OpCo. Its 60/40 ownership split between Djibouti and Russell sides allows the former to retain majority of the upside but leaves the latter enough incentives to operate the partnership.

OpCo: is asset light or has no real assets except minimal office equipment, receives no revenue, employs staff required to manage and operate the assets, accumulates operating expenses and then gets reimbursed from AssetCo. It is the employer and operator of the combined business activities. Russell is given majority ownership and management control to afford it with the maximum freedom in operating the free zone. It receives its incentives and reward from the 40% equity share in AssetCo. Legally, OpCo is the agent of AssetCo, which bears all profits or losses and liabilities.

7.2.3.3 Key benefits within Guinni Koma

Free zones or industrial parks or SEZs in China or elsewhere are enclaves within a sovereign nation's border where a different set of rules (mostly tax related) or practices (e.g., streamlined administrative procedures) prevail. These arrangements

are designed to reduce (monetary) costs or burdens of investing and doing business and improve returns to FDIs. Djibouti's free zones, for example, offer tax reductions and simplified governmental procedures as commonly seen elsewhere.

Russell recognized that high taxes and slow and outdated administrative practices are prohibitive hurdles against attracting FDIs and operating a successful free trade zone in Djibouti, it resorted to reduce these hurdles in its negotiations with the Djiboutian government. The resulting package of preferential policies summarized below (see Table 7.13) was then decreed by the President, giving it the highest level of legal protection available in the country (as opposed to a Parliamentary vote in Sri Lanka).

Financial incentives

Djibouti is notorious for having high taxes, and the IMF (2017) has urged its government to cut taxes and improve investment climate. Russell's team has advised the same and negotiated a package of tax related benefits for investors to reside in the free zone (see Table 7.13).

Table 7.13 Key Financial Benefits within Guinni Koma

Key Benefit Item	Policies outside of GK	Benefits within GK
Corporate income tax	25%	0%
Dividend tax	5%	0%
Personal income tax	18-30%	0% for foreign employees
Social security tax paid by employers	15.7%	10.2%
Work permit fees	$1124/year/person	$150/year/person
Maximum % foreign workers allowed	30%	70% for the first 5 years 30% thereafter
Value added tax	10%	0%
Property tax at guide price	25%	0%

Source: DPFZA.

It is worth pointing out that, in an economy of nearly no industries, no skilled labor, and extremely high illiteracy, a foreign worker's annual permit fee can exceed half of the per capita GDP of roughly $2,000. It has also imposed a minimum wage of $200 per month for even a security guard (while such a job cost about a third in Ethiopia) (GK11). It is hard to imagine how FDIs and transfers of technologies and knowhow could take root in such a hostile social and economic institutional environment.

The striking contrast in tax rates between the inside and outside of the free zone (see Table 7.13) demonstrates the magnitude of monetary cost (or potential savings) of investing and doing business in the country and hence also explains why FDIs tend to stay away from Djibouti or similar countries (see Section 2.2.1), let alone investments

in capital intensive and long life-cycle infrastructures. Russell's strategy addresses the core issue of government imposed high transaction costs (Zhou, 2017).

Non-financial incentives

In addition to the monetary incentives discussed above, a critical component of the incentive package is to streamline government procedures to improve efficiency. This is accomplished by OpCo (see Fig. 7.11) by offering one-stop shop of services to investors and companies looking to (re)locate to the free zone. These services include formation and registering of companies, custom clearing and reporting, visa and employment matters, processing of tax and benefits applications, purchase or lease of facilities, and so on. OpCo acts as the single contact point with investors and frees them from navigating government bureaucracies on their own. It also outsources administrative functions from DPFZA and shields investors from, for instance, potential rent-seeking as well. These and other services that may add on gradually bypass the outdated and inefficient bureaucracies, another form of transaction costs, and thus improve efficiency.

In sum, both the financial and non-financial incentives are designed to reduce the prohibitively high transaction costs and accrue more returns to investors.

7.2.3.4 Guinni Koma business plan and progress

The Djiboutian government has assigned 48.2km^2 for this 99-year mega project (and the long-term land lease is held by the AssetCo). Based on consultants' advice and feasibility research, Phase I development targets 6km^2 and is expected to take five to six years to complete. Industries to be attracted include bonded warehousing and trade facilitation, light manufacturing and assembly, port-related transport services, regional business headquarters, trade-related financial services, and so on. The overarching rationale is to attract industries of low electricity and water consumption, monetize Djibouti's investments in transport infrastructures, and take advantage of a stable currency pegged to the US$ and no exchange control.

A pilot or start-up zone of 2.4km^2 has been earmarked for initial development. Construction started in early 2017 to build road and underground facilities, an office building, a hotel, custom house, and other business service functions. Initial business targets include warehousing and industrial assembly. Among the initial programs are four warehouse facilities of 170,000m^2 including GK's own 37,000m^2, RussellPort's bonded warehouse, and an assembly factory by a Chinese manufacturing firm, a Russell subsidiary, built on land of long-term leases.

GK officially opened for business on Jul 4, 2018. It has been receiving tenants and investors into its warehouse facilities. By the end of Sep 2019, 65 firms had signed leases and registered companies in the Free Zone, with another seven applications

pending approval. 90% of them were customers moving from the Old Free Zone. By the end of 2019, a total of 78 resident firms had moved into GK. In sum, GK has progressed in line with expectations (KH11; RussellPort, 2020).

In Financial Times' fDi Magazine's Global Free Zones of the Year 2019 selection, GK won a Top 10 Award out of 85 global entries, a rare achievement for a newcomer. It is highly commended for its wide range of initiatives and incentives including 0% tariffs and efficient one-stop shop services, and rapid take-up of facilities by over 50 firms in one year (FDI, 2019).

7.2.4 Evaluation of performance results

7.2.4.1 Evaluation and analysis of Khat investment

Financial returns to RussellPort

As of 2017, RussellPort had received cumulatively from Khat about $70mm in dividends and management fees (High Court, 2016), equivalent to an investment cost recovery of 37.8% ($70mm/$185mm), or approximately 6.4% per annum in dividend yield. This is an excellent return given that it still has over 90 years to go in its 99-year term (however, as a result of DCT's nationalization, no dividend was declared by Khat in 2019. Assuming the DPW-Djibouti dispute will be fairly resolved and neutral to RussellPort, and RussellPort's assets are not nationalized down the road). Also compared to a conventional BOT project that generates no immediate cash returns to investors, this investment in an existing profitable business that pays a relatively high cash dividend accelerates cost recovery and lowers risks. Therefore, it is a superior deal from a financial perspective.

In addition, the historical dividend payouts are mostly contributed from DCT and the old port. As DMP's capacity gradually emancipates going forward, it is expected to become another meaningful revenue and profit driver subject to (re)payment of principal and interest of the $405mm loans (see Table 7.15). In the long-run, it should contribute positively to Khat shareholder returns (again assuming no asset-seizure by the Djiboutian government).

Furthermore, Khat is the owner of the old port site in city center. RussellPort should benefit from any land value appreciation upon successful redevelopment, a potential incremental stream of returns.

RussellPort contributions

RussellPort's investment gains discussed above are not simply a result of smart financial investment that has earned a yield on capital deployed. Rather, they are hard earned in several ways including the following.

A. Transfer of management knowhow

DPW's management concession of the old port ended in 2011 (High Court, 2016). In investing in Khat, it has been agreed that key management roles (e.g., Deputy CEO, COO, Marketing, Finance) will be filled by RussellPort secondees. Since DCT was under DPW exclusive management, RussellPort's management roles focus on the old port and design, construction, and later operation of DMP, the most modern and technologically advanced port project in East Africa. Djibouti's local management would not be capable of undertaking such a project (KH11; KH13).

One of the critical ideological changes to the Djibouti partner is to train and build its own management and operating team. Djibouti, and DPW at least in Djibouti, have relied on external specialized firms (e.g., management of DCT was outsourced by DPW to a third party) to operate and manage their ports. RussellPort itself is a port manager and operator. It has built a high caliber professional team and developed relevant technologies and management processes as well. Managing ports and applying its knowhow are ways RussellPort adds value. It has taken pains to convince its host partners of the self-operating model which has resulted in the establishment of a JV to manage the DMP terminal (KH11; KH13).

To accomplish this goal, Russell donated a training center and gathered education funds from the Chinese government to train a variety of skilled labors (KH12). Russell also trained local employees in classrooms and on the job in Djibouti and Shenzhen, had Chinese technician coach them, and issued certificates to graduates. As a result, some local employees have been able to move up to senior and technical positions at DMP (e.g., crane drivers), gradually replacing Chinese secondees (KH11; author's own eyewitness).

B. Credit support

Obviously, without RussellPort's participation and endorsement, it would be less likely for the Djibouti Inc to obtain Chinese policy loans for the DMP project (see Table 7.15) or receive contractor's waver of construction deposit (KH12). These funding assistances are critical to Djibouti Inc's infrastructure investment strategy and a country contingent on foreign credit and FDI supply to sustain its economy.

The preceding analysis of RussellPort's financial returns is conditioned on the fact that these policy loans will be repaid in full. Therefore, Khat investment results have to be judged by taking into consideration China Inc as a whole. That means that the policy loans will be repaid, not waved or reneged. Otherwise, it will become an SOE's trap profiting from its home government (see Abhayagiri case in Section 7.1.5.3).

7.2.4.2 Evaluation and analysis of Guinni Koma investment

Djibouti's new free trade zone or GK, claiming to be the largest in Africa, commenced business in Jul 2018. GK's own warehousing facilities have been rented out quickly, validating its market foresight (see Section 7.2.3.4).

Russell's contributions include: (1) funding its 40% share of equity capital in AssetCo or $40mm; (2) performing operating responsibilities of the OpCo including attracting tenants and investors; and (3) obtaining Chinese preferential financings to fund capital expenditures. In addition, RussellPort loaned money to DPFZA so that the latter could fulfill its 60% capital commitment to the AssetCo (RussellPort announcement) while waiting for Chinese policy loan approvals. Additional capital needs to be sourced to fund ongoing investment in infrastructures if customer demands remain strong.

It is premature to conclude on the performance of the project. According to the Deputy CEO of Khat appointed by the Djiboutian government, "It was done quickly." "Training and preparation is key. Local need is met. Local need is jobs." "Chinese companies adapt well and kept hiring" (KH32). Training and jobs were the most frequently talked-about terms by local officials and managers (KH31/GK31). Thus, it is safe to conclude that regardless of potential outcomes to Chinese investors and lenders, the host people are immediate beneficiaries of these massive FDIs.

Judged on a global and industry scale, winning fDi's award has rendered a strong endorsement and validation of the strategies and efforts implemented to date by Russell and its host partner (see Section 7.2.3.4). For a tiny country of obscurity on international stage, this award has accreted huge honor and pride to the government economic planners and the entire nation as well.

7.2.5 Djiboutian perspectives

Russell has brought into Djibouti capital and management knowhow, trained its citizens, and created jobs to the local community. Russell's investment results cannot be evaluated in isolation of China Inc's overall performance, which is still unfolding and is too early to jump to any conclusion. What can be said is that Russell has risked its capital and earned its way into this nascent market known for high political risks and weak social and economic institutions. The past can be documented, explained, and analyzed as above, but the future cannot be predicted (Robson and McCartan, 2016).

From Djiboutian (government or citizen) perspective, in addition to workforce training and job creation, Russell is a "keen partner to grow." Their partnership has been "very productive," as manifested by the realization of DMP and GK. This "win-win partnership" has been built upon a shared understanding that "each is interested in what the other is to offer" (KH32). These comments by a senior government official best sums up how the locals view these Chinese investments and Russell, and how the Chinese have appealed to their hosts.

7.2.5.1 Evaluation of Djibouti's infrastructure-driven growth strategy

As discussed in Section 7.2.1, President Guelleh has embarked on a growth strategy of building core port and logistics infrastructure using FDI and serving its landlocked neighbor in the African hinterland. This strategy accords with successful experiences in China (KH11) and academic theories stating that adequate infrastructure investments in port facilities and port hinterland connectivity are a prerequisite to capitalize on port's geolocational advantage (Merk and Notteboom, 2015). Guelleh's strategy has worked and delivered results (see Table 7.14).

Table 7.14 Djibouti GDP Growth Patterns

Period End	1989	1999	2009	2018
Djibouti GDP ($mm)	409.2	536.1	1,049.1	1,966.0
GDP Expansion over Decade (times)		1.31x	1.96x	1.87x
GDP % Growth during Period		2.8%	7.0%	7.2%
GDP per Capita ($)	726	766	1,267	2,050
GDP per Capita % Growth		<1%	5.2%	5.5%

Source: GDP data from World Bank database (API_DJI_D52_en_excel_v2_434048) and author's calculation.

Table 7.14 tells a compelling success story of President Guelleh's infrastructure-based growth strategy. The country's economy has nearly quadrupled over the two decades since he came into power in 1999. The nations' poverty level has lessened, as indicated by the steady increase in GDP per capita levels during the same period. Augmented by these China Inc-built projects (e.g., AADR, DMP, GK), Djibouti's economy is forecasted to continue the momentum or slightly accelerate to 7-8% growth range in the next few years, which is more than twice the 2020-21 average growth levels of 3% in its neighboring Middle East and North African and 3.4% in the Sub-Sahara African regions, respectively (World Bank, 2019).

(It has been noted that the World Bank database (API_DJI_D52_en_excel_v2_ 1225487) has been updated through 2019 but upward revised the GDP data for 2013-2018 period. For example, 2018 GDP in current US$ was $2.0bn previously but now is $3.0bn, representing an upward adjustment of 50%. Per the new database, Djibouti's 2019 GDP stands at $3.3bn, a 10% increase over 2018. The nominal growth rate for the 2009-2019 decade is calculated at over 12% per annum. The author has chosen to stick to the previous estimates for consistency and since the new data nonetheless support the above analyses and claims.)

7.2.5.2 Evaluation of Djibouti's capital strategy

As discussed in Section 6.4, constrained by its lack of domestic capital formation and credit supplies, Djibouti has sought partnerships first with Dubai Inc and then with China Inc to shore up its creditworthiness and maximize its foreign debt borrowings.

By offering minority equity upside to investors, it has effectively leveraged FDI investors' credit to borrow money, adding a huge leverage to the equity base from a capital structure point of view, if Djibouti were viewed as a corporate or Djibouti Inc.

In addition, recognizing its own poor receptivity in international capital markets, Djibouti astutely devised effective strategies to capitalize on or borrow its partners' (i.e., DPW or RussellPort) credit. The only caveat is whether it has borrowed too much as alerted by IMF (2017) (see Section 7.2.5.3).

The results of such capital strategies are best illustrated by the DCT and DMP deals (see Table 7.15). Guinni Koma is done in the same fashion but will not be presented here since it is still evolving and lacks actual data.

Table 7. 15 Capital Structure of Djibouti's New Terminals

(US$MM)	DCT	DMP	Notes
Equity			
DP World	44.3		Based on its 1/3 ownership
RussellPort			Paid $185 for 23.5% Khat
Djibouti/Khat	88.7	182	RussellPort has 23.5% share
Subtotal (a)	133	182	
Debt			
Project Finance Debt (b)	263		Non-recourse to Djibouti
Chinese Policy Loans (c)		405	On-loaned by Djibouti
Total Capital Cost (d)	396	587	= (a) + (b) or (c)
Equity / Debt Ratio	33.6%/ 66.4%	31.0%/ 69.0%	= (a) / (d) = (b) or (c) / (d)
Djibouti GDP in Year of Project Start (e)	769 (2006)	1325 (2013)	World Bank estimates
Project Debt / GDP	34.2%	30.6%	= (b) or (c) / (e)
Project Cost / GDP	51.5%	44.3%	= (d) / (e)

Source: DCT data from Standard Chartered (2010), DMP data from RussellPort, GDP data from World Bank database.

Note: Exact cost of DCT is $396mm and DMP is $587mm, respectively, slightly different from the headline number of $400mm and 580mm, respectively, used by management and in court filings. Actual numbers will be used in the rest of this research.

It is worth highlighting that for a GDP size of only $769mm in 2006 and a greenfield project cost equivalent to 51.5% GDP (see Table 7.15), it would be impossible for Djibouti Inc to raise any debt, let alone on non-recourse terms, in the international capital markets without DPW's credit support. By the same token, without Russell's sponsorship, the DMP project would not get financed and off the ground either.

Thus, the Djiboutian government has been very successful in partnering with the best of its class and leveraging their credit and industry and operational expertise in implementing its foreign debt financed, infrastructure-driven growth model.

7.2.5.3 Djibouti's investment merit and debt sustainability

It is worth reiterating that it is not the intent of this research to jump into the debate of Djibouti's debt sustainability (see Hurley et al. (2019) for a summary discussion). This section only rounds up preceding discussions of Djibouti's growth and capital strategies and offers a few perspectives or situational evidence on Djibouti Inc's debt leverage by taking a glimpse into the DCT case.

Debt or investment payback

DCT was completed in Dec 2008 and officially inaugurated in Jan 2009. By the time of the High Court (2016) judgment, it had been operating for seven full years and already paid back investors' equity (of $133mm, see Table 7.15) through dividends. Mr. Guelleh was quoted in 2018 saying that the project finance debt (of $263mm, see Table 7.15) had been repaid in "record time" (Oxford Business Group, 2018). If Sapphire's cost recovery of eight to nine years was a record in Sri Lanka, or at least for RussellPort (see Table 7.6), DCT's is probably at least on par with that record even though the debt and investment cost seemed overwhelming on Djibouti Inc's balance sheet at the time of its conception (see Section 7.2.5.2).

Let the numbers speak further. DCT had $160mm in revenues and $70mm in profits, respectively, before the litigation in 2014, and Khat or Djibouti's share of equity (i.e., $88.7mm = $133mm*2/3) was paid back in four years in the form of dividends and management fees of $35mm per annum (High Court, 2016). DCT's TEU throughput volumes showed a steady growth during 2010-2016 and still exceeded the 2014 level in 2017-2018 period (see Fig. 7.12). It could be reasonably assumed that the above revenue and profit levels be sustained in each of the years during 2011-2018.

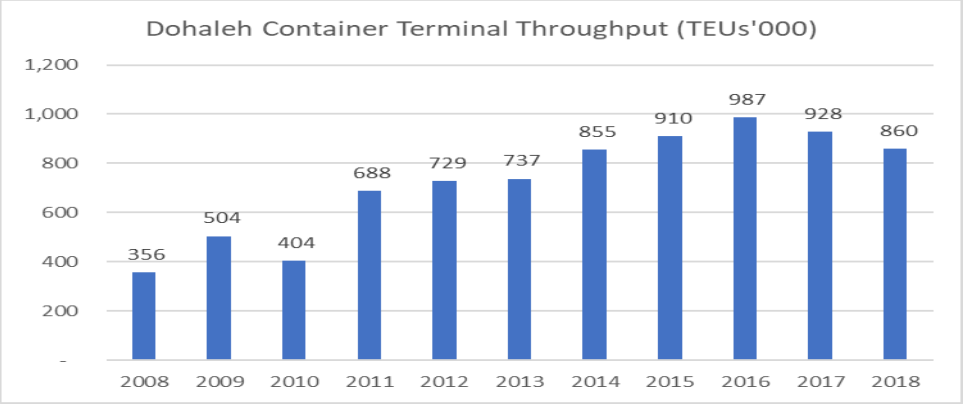

Fig. 7.12 DCT Historical TEU Throughput Volumes
Source: DPFZA and RussellPort estimates.

DPW and the loan syndicate banks purchased insurance from the World Bank insurance arm. For a total insured exposure of $427mm, including debt principle and interest swaps (MIGA, 2007), assume a payback speed of $70mm per annum (i.e., equivalent to annual profit), the payback period would be 6.1 years. The actual operating cash inflow expressed in EBITDA (i.e., earnings before interest and taxes) could be larger since heavy upfront investment in port assets would generate high depreciation. Assume EBITDA margin of 52% (i.e., midpoint of RussellPort's ports EBITDA margins between 47.1% - 57.0% during 2010-2016, per author's calculation), the cash flow available for debt repayment or dividend payout would be $83.2mm annually ($160*52%), resulting in a payback period of 5.1 years.

These analyses imply a peak debt ($263mm) to normalized EBITDA ratio of under 3.5x or gross insured exposure ($427mm) to EBITDA ratio of 5-6x, which all seemed acceptable in the international debt markets as manifested by the successful non-recourse bank financing arranged by Standard Chartered (2010).

Therefore, it could be reasonably inferred that DCT paid off its debt comfortably in 2017 as scheduled (i.e., the last year of the facility term (Standard Chartered, 2010)), in addition to the said dividend payouts. Such a payback speed is remarkable and not an exaggeration to claim a "record time." And opportunistically accessing the debt market was a smart financing strategy for Djibouti Inc.

Debt finance versus BOT model

To peel back the onion further, by comparing the return pattern of BOT versus debt finance strategy, President Guelleh's capital strategy has merit.

In a typical BOT scheme, the host government would not see any return (if it has zero equity in the underlying project, excluding normal taxes and employment) over the concession period (e.g., 30 years). In the case of DCT, the Djibouti Inc began participating in dividend payout and profit sharing at the same time and at the same speed with the private investor, while the debt repayment obligations were restricted to the project level without recourse to it. This resulted in a risk-return scenario in favor of Djibouti Inc where upside reward is not capped but downside risk is cut off.

To speculate using the DMP case, the EXIM loans were made to the Djiboutian government which on-loaned to Khat. These preferential loans typically bear fixed interest rates of 2-3% and has a term of 15-20 years, with a grace period requiring payment of interest only (EXIM Bank, 2013). There are several benefits to the Djiboutian government.

First, DCT's internal rate of return was projected by lenders to be 24.4% in 2007 constant dollars (Standard Chartered, 2010). Assume DMP's returns to be only half of

DCT's or 12%, comparing to the 2-3% financing cost, there is a safety margin of approximately 10%, justifying the borrowing at project level.

Second, if the payback period is less than a typical concession of 30 years, the host government would keep 100% the cash flows and profits for the years saved (i.e., 30 minus the number of payback years) and enjoy superior returns than a BOT model, as illustrated by the DCT case.

Third, since these port investments generate high cash flows monetizing Djibouti's unique market advantage, and the EXIM loan repayment schedule is backend loaded and spreads over a long period of time, the Djiboutian government could trap a huge sum of cash (between cash generation and upstream to government, and debt repayment) for other uses, a smart strategy of timing arbitrage and replenishment of government coffers.

Fourth, DCT's project finance debt paid unknown market rates with a term of 10 years (Standard Chartered, 2010). In contrast, DMP's loans pay 2-3% fixed rates with a longer duration. As a result, DMP's interest savings are huge, reducing the cost of port investment, assuming there is no mark-up by the Djiboutian government. Nevertheless, it constitutes real savings to the Djibouti Inc.

Fifth and the last, as a project level JV partner, DPW participates directly in DCT's profits and cash flows (barring the ongoing dispute). RussellPort, as a minority shareholder in the holdco Khat, is cut off from the project level cash flows of DMP. Such decisions as how much cash flows to upstream to Khat and how much profit to dividend out by Khat are rested in the hands of the majority shareholders or Djiboutian government from a corporate governance point of view. Khat has traditionally acted as the deep-pocket to fund government mandated projects ---- this reminds of Russell's pre-life history (see Section 6.2.1) ---- because this is the key generator of cash flows of the country. In theory, the Djiboutian government could divert all cash flows from DMP to government uses if China Inc (e.g., lenders and project operators) doesn't work in concert preventing abuses.

Without jumping too far ahead, it is fair to say that Djibouti's aggressive debt strategy (e.g., in both DCT and DMP cases) has its unique merit. The IMF's (2017) alarm, though conforming to conventional wisdom, may better be corroborated with the country's circumstances and examined in Mr. Guelleh's grand scheme.

7.2.6 Other issues of relevance

Chinese financial institutions' lending practices

Having applauded Djibouti Inc's financial engineering acumen, it is worth sparing a few words to examine the lending and aid policing practices followed by the Chinese

policy financial institutions. But it is reminded that discussing Chinese policy lending is beyond the scope of this research.

As the preceding discussions suggest, Chinese institutions lent to the Djiboutian government which on-loaned the monies to Khat or DMP project. As a result, the Chinese lenders have been cut off from the underlying assets to be built with their loans. They have taken Djiboutian government's credit as their only recourse as opposed to the underlying terminal as collateral, as was the case of DCT lenders (that was non-recourse to the Djiboutian government). From a credit quality perspective, port assets in a maritime transit hub have good disposable value in an event of default, while an international lender has limited recourse to a defaulted sovereign government, regardless of its taxing capacity, as seen repeatedly in recent history.

In addition, DCT purchased insurance for the project finance loans (it is unclear whether the $427mm insured amount (MIGA, 2007) included DPW's share of equity contribution), adding another layer of protection to lenders and relieving DPW of potential (moral) obligations under the loan agreement. The Chinese lenders could have followed the DCT precedent to lend on non-recourse basis but take security in DMP asset, purchase insurance from MIGA, and still have Djiboutian government (moral) commitment, since it has signed up to cooperate with China under the BRI. (DMP was done at a time when Djibouti's economy was in a much better shape than when DCT was pursued. See Sections 7.5.2.1 and 7.2.5.2.) On top of all these, DMP was to be built, owned, and operated by Russell-dominated investor-operator JV, which adds another layer of credit enhancement to the loans. (They could even take Russell partly responsible for the loan safety.)

Why have these Chinese lenders ignored such successful precedent and additional credit enhancement options and tools available to them, and pursued what they have? Without any inside answer, one possible explanation or speculation is that they have followed then accepted practices or guidelines, which may reflect or detach from borrowers' (corporate or sovereign) real circumstances. Another possible explanation is that these lenders or their internal guidebook may have (mis)taken sovereignty as superior credit quality than corporate or project level credit, which may or may not be true. (In 1997, S&P upgraded over a dozen of Latin America corporate ratings above their sovereign credit ceiling (Bender, 1997; Mathieson, 1997).) Nevertheless, these loans and lending practices reflect the level of professional competence and institutional capabilities of those institutions.

On Chinese conspiracy

The Chinese "Debt Trap," "neocolonialism" or other geopolitically inspired rhetoric assumes a conspiracy conceived by the Chinese government. As Russell's Khat and Guinni Koma investment histories have vividly told, they were rather accidental or opportunistic than well planned ahead even at the firm level, let alone elevating to the

high state hierarchy. “Back in 2012, we only thought about investing in the port, a good opportunity, no idea of the subsequent investments” (KH21/GK21). The conspiracy hypothesis has no grounds.

It is true that both the Chinese state and Russell have claimed these projects to be iconic in the BRI narrative, but again as the timelines leading to these investments illustrate, conceptions of these deals by the host government came into being more than a year ahead of the publishing of the BRI in late 2013. They were commercially pursued rather than policy driven, even acknowledging that Russell’s motivation as an SOE answering the call of BRI may have accelerated its pursuit of GK. These background evidence endorses again the argument that the BRI is a *posteriori* aggregating label as opposed to a *priori* conspiracy.

On victim of Chinese neocolonialism

Western colonialism committed historically extensive atrocities (e.g., slavery (trade), ethnic violence; see Sri Lanka experience in Section 7.1.1.1) and economic exploitations (e.g., extraction of natural resources). That has left lasting wounds for many Africans or countries. Chinese companies’ activities in Africa since the “going out” time and now in the BRI era have been stamped as neocolonialism, implying déjà vu of what Westerners did in the past (Duruskan and Altay, 2019; EFSAS, 2019).

Has that been the case for Djibouti? As discussed in Sections 7.2.5.1 and 7.2.5.2, the Djiboutian government has been very successful in attracting FDIs and partners to implement its infrastructure-based strategy and grow its economy, whose stellar performance has been rare in Africa (World Bank, 2019). Both Dubai Inc and China Inc have created jobs, trained its citizens, built roads and water facilities, and tended public housing and social programs. They have produced tangible benefits to the host people, significantly alleviating their poverty levels. Old colonialism in Africa or “gunpowder capitalism” (Osterhammel and Petersson, 2005) didn’t leave such a legacy.

It is said that after the signing ceremony of RussellPort’s investment in Khat, President Guelleh rebutted the US Ambassador’s questions on why he was selling the port asset to Chinese, by saying, “We have given you white folks over 100 years but are still very poor. By dealing with the Chinese, we have gained real and tangible benefits ---- the money of selling the port shares should arrive soon” (KH12). This is probably the best answer, albeit a bit nationalistic, from the host or African perspective to the Chinese neocolonialism incrimination.

As discussed in Section 7.2.1, Djibouti’s infrastructure buildout strategy was led by Dubai Inc in the first decade of the new century. Dubai Inc essentially monopolized the management of the country’s core infrastructure assets and investment of new ones (KH32; DPW 2011 annual report). To Dubai Inc’s credit, its management and

investments have produced excellent results, generating growth in port traffic, revenues and profits, and employment opportunities for the poor nation and enabling it to borrow in the international debt markets (Chorin, 2010; Standard Chartered, 2010). Though China Inc has been investing and lending more to Djibouti Inc than Dubai Inc, it has been given far less influence over the operation and management of, and involved in fewer of, the key revenue-generating assets. Ironically, it is China Inc, not Dubai Inc, that has been labeled as neocolonialism. The logic is flawed and biased.

Growth options for Djibouti

As Collier (2007) points out, poor African countries lack internal driving engines (e.g., capital formation, human and technological resources) to spur economic growth, but foreign aid's effect has peaked. International agencies' prescriptions don't work as well as expected and hence are largely ignored. The international community is urged to be more creative in helping these nations, but not much has responded to his appeal.

In contrast, Mr. Guelleh's debt financed infrastructure strategy has put his country on a steady growth track for two decades and produced tangible benefits for his people. His strategy has merit and the results speak to that. (Mr. Guelleh and his ruling class have been criticized of pocketing most gains from economic growth and left the general public still in extreme poverty (Brass, 2008; Bereketeab, 2016).)

Since the mid-1990s, before Dubai Inc's arrival, the Djiboutian government had requested the oil companies (i.e., Total, Mobil, and Shell) to move their oil tank farms from the old port to a new location of free land to stop oil leakage and preempt environmental disaster on the one hand, and expand capacity to meet growing demands on the other. This seemingly win-win proposal was rejected. The oil companies sold out their facilities and left (High Court, 2016). Djibouti's first major self-help initiative in recent history was choked and was not realized until 2006 when DOT was inaugurated with the help of Dubai Inc (see Table 7.10).

Next to the site of the new free trade zone is a small area called the Turkish Zone, which was allotted by the Djiboutian government to Turkish developers before the GK idea came up. That investment contract was to lapse in Oct 2018 and the area remained vacant (KH11). "They are lacking plans for Africa," concluded the Marketing Manager of DPFZA, reflecting on his trip to Turkey to follow up on the project (GK42). In contrast, from conception to receiving customers, GK took about two years and a half. "It was done quickly" (KH32).

Mr. Guelleh was quoted saying, "We need everyone to help us develop. We are prepared to cooperate with those interested in us" (Chorin, 2010, p. 32). Putting his appeal in the context of gloom and despair shown from Collier's (2007) outcry, it is

fair to say that both Dubai Inc and China Inc represent high hopes for those poor souls since there is nothing else in sight. In contrast, the "neocolonialism" or "Debt Trap" rhetoric merely works to deter FDIs and consequently sabotage their self-developed, indigenous growth formula and doom their only way out of poverty.

In sum, it is the Chinese people who should worry about whether their government and the government entrusted policy institutions parcel out those loans and aid wisely, and whether their savings will remain in the bank when they need them.

7.3 Belarus and Russell's Goulash Radzwill investment

Belarus is formerly a Soviet republic and declared its independence in Aug 1991. Mr. Aleksandr Lukashenko has been its first and only president since the nation's first election in 1994. He has been in power continuously for a quarter of a century after the constitutional term limit was phased out following a 2004 referendum (CIA, 2019b). Thus, President Lukashenko's reign has been dubbed as a "personal dictatorship" (Balmaceda, Clem, and Tarlow, 2002) or "adaptive authoritarianism" (Frear, 2019). That means that while preserving the Soviet style command economic systems and exerting tight control over political life, the state nonetheless has relaxed controls over the economy to allow for a small but active private sector to thrive and its citizens to have a certain degree of freedom and active civic life.

In an attempt to attract Chinese investments and knowhow, Belarus proposed to and has teamed up with China to develop among the largest industrial parks or SEZs on the planet. Given its reputation of developing SIP, China's first industrial park, Russell was handpicked by the Chinese government to invest a minority equity in, but lead the management and operation of, the Sino-Belarusian joint industrial park (hereinafter referred to as Goulash Radzwill or GR).

This section will report the story of Belarus as a key section of the SREB and GR as a representative case of B&R investments selected for this research.

7.3.1 Brief profile of Belarus

Belarusian geography

Belarus is geographically sandwiched between Russia on its east and Poland or the EU on its west and, though landlocked, is reachable to the Baltic seaport in Klaipeda, Latvia in its northwest and the Black Sea to the south through Ukraine. Key East-West or Russia-EU traffic corridors pass through its territory, making the country a strategic transit passage (GR32). The NELB (see Fig. 7.13), for instance, one of the six economic corridors outlined under the SREB and essentially a China-EU direct rail link (see Box 1.1), stops at Brest, a city in its southwestern part and near the Polish

border and a key railway interexchange, for gauge change before continuing onto Poland or the EU. This geolocational advantage makes it a critical participant of the BRI program.

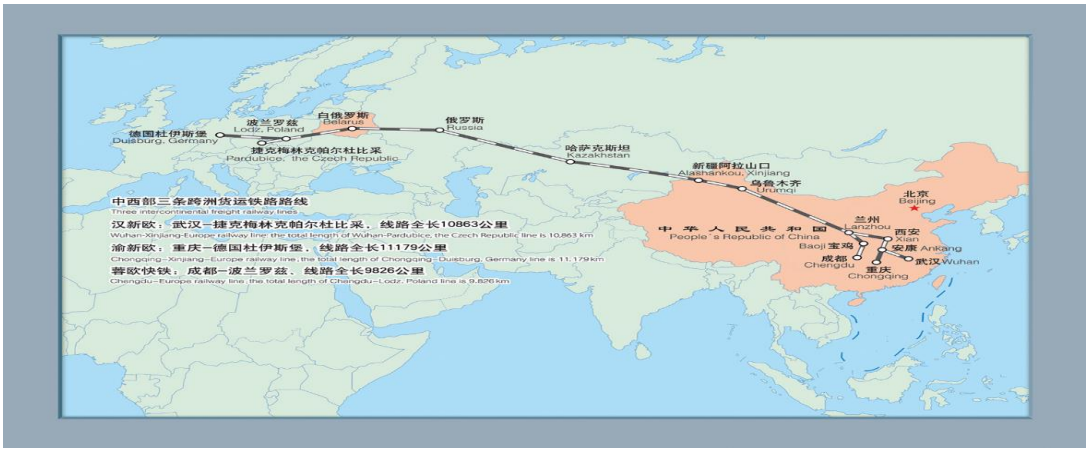

Fig. 7.13 Belarusian Geolocation and the New Eurasia Land Bridge
Source: Russell presentation.

Belarusian economy

Belarus has perpetuated a Soviet-type command economy without much change (GR11). Unlike Russia and other Central and East European transition economies, which have undergone extensive privatizations and are more liberalized, Belarus has preserved Soviet-era SOEs, which remain the dominant force in its economy, controlling about 80% of manufacturing industries and accounting for over 70% of GDP (CIA, 2019b; State Department, 2019). The private sector is limited mostly to retail and services trades and receives harsh regulations and unequal treatment (e.g., limited access to credit) by the state (Bornukova, 2016).

There have also been limited reforms in the financial sector. The government has maintained tight control over credit allocation or channeled most bank credits into state programs. Foreign share of bank charter capital constitutes less than 20% (Umantsiv and Ishchenko, 2017). During 2009-2015, Belarus experienced three episodes of currency crisis due to internal structural imbalances and external shocks causing its currency to lose, for example, one third of its value overnight in 2009 (Bornukova, 2016), 200% in 2011 (Dobrinsky, 2016), and 36% in 2015 (Kolkin, 2018), respectively. These currency shocks in turn caused severe economic contractions (see Fig. 7.17), threatening its political stability and forcing the government to seek new impetus or policy alternatives to boost growth (Dobrinsky, 2016).

Privatization and financial liberalization are two key measures of transition progress. Belarus has underperformed among its peer group (e.g., former Soviet republics and East and Central European countries) by a huge margin in transition reforms, qualifying it a “transition outlier” (Dobrinsky, 2016, p. 3).

Belarusian economic growth initiatives

While preserving Soviet-era economic and financial institutions on the one hand, and recognizing the constraints of its small domestic market and lack of adequate domestic capital formation on the other (see Section 6.4), Belarus has made it a priority to attract FDIs with a bias towards export-oriented, high-tech industries and manufacturing. This is intended to capitalize on its structural advantages as a strategic transit passthrough and its proximity to the EU (Vasylchenko, 2019), its highly educated labor force, and access to a common market of over 180mm people within EAEU (State Department, 2019).

Key to this initiative was the establishment of free economic zones (FEZs) throughout the country. The first was set up in 1996 in Brest. By 2002, each of its six districts had an FEZ (Belarus, 2019). These zones offer the usual tax incentives and simplified administrative procedures to attract mostly manufacturing firms that produce for the export market or for import substitutions. The largest in Minsk, for example, has claimed to have attracted FDIs from 21 countries and over $2bn, and exported to 79 countries and over $10bn in value since its formation in 1998 (Minsk FEZ, 2019).

In 2005, Belarus opened a High-Tech Park or HTP, essentially a virtual program around the country, to promote software and IT industries serving primarily the export market. It claims that over 560 companies reside in the virtual park, serving clients in 67 countries (Minsk FEZ, 2019) and generating over $1.0bn in revenues annually (GR11).

These beneficial experiments with FEZs and HTP, coupled with the devastating financial and economic crises in 2009, might have prompted Belarus in 2010 to propose to China to create among the geographically largest and most attractive, in terms of the amount, variety, and magnitude of incentives offered, industrial park (or GR) in the country (GR11; Belarus, 2019; see Section 7.3.4).

These FDI induced businesses existing in enclaves of special legal regimes are add-on contributions to the core or traditional SOE dominated but stagnant domestic economy. By attracting FDIs, technologies, and knowhow, these resident firms are expected to help earn foreign exchange revenues, generate employment, and grow new industries (Belarus, 2017). More importantly, they will help rejuvenate its legacy industries inherited from the Soviet-era division of labor with an emphasis on heavy industries and technology engineering (Bassuener, 2013). These measures are expected ultimately to diversify its economy away from overreliance on Russia (see Section 7.3.6.2).

Belarusian legal environment pertinent to FEZs and SEZs

Belarus adopted its current constitution in 1994 and passed amendments in 1996 that confer exceptional powers to the President, including legislative authority through the issuance of PDs and Edicts (Khodosevich, 2002), which carry more legal force than acts enacted by the legislature (State Department, 2019) but only less than the constitution (GR11).

Belarusian laws tend to be legal frameworks. PDs serve as implementation rules and supplements to be revised and updated as needed (GR24; GR32). For example, following the promulgation of FEZ Law in 1998, separate PDs were issued for each zone and HTP to specify geographic locations and boundaries; terms, extension or liquidation, and administration of zones; permitted industries; procedures and qualifications to become a resident firm; and pertinent tax incentives (Belarus, 1998; 2019).

The same is true for GR. The creation and initial package of preferential policies were promulgated on Jun 5, 2012 by PD#253. It also sets, among others, the size of the park to be 80.5km^2 and the effective term of the incentives to be 50 years till Jun 5, 2062. Subsequently, PD#326 issued on Jun 30, 2014 expanded the boundaries of the park to become 91.5km^2 and approved additional incentives as well.

As issues and additional needs arose in the course of implementing the grand plan, a taskforce, or Joint Research Team, which comprised of Belarusian and Chinese industry experts and economists, was created to carry out research and make recommendations to both governments. The Belarusian government took its proposals into consideration and overhauled the policies governing the operation and management of the park, resulting in the promulgation of PD#166 on May 12, 2017. This new special legal regime covers an extensive range of subjects, including investor rights, new permitted industries, tax and other benefits, and administrative procedures (GR24; Belarus, 2017; also see Tables 7.16 and 7.17).

It is therefore reasonable to assume that as the park's internal and external environment evolves, PD#166 could be further revised, updated, or supplemented to adapt to the ever-changing market dynamics and policy intent of the two governments, as well as investors' demands and complaints.

7.3.2 Key milestones of GR development progress

The idea of creating a joint industrial park was first raised by President Lukashenko to his visiting guest, then Chinese Vice President Xi Jinping in Mar 2010. The consensus reached between the two leaders was officialized by the signing of a bilateral agreement in Sep 2011 (Belarus-China, 2011). When revisiting Belarus and touring the site of GR in May 2015, Mr. Xi proposed to fashion the park an iconic project of the SREB. President Lukashenko echoed to that sentiment and agreed to use the project as a "Great Stone" or foundation to solidify China-Belarusian friendly

cooperation. Apparently, GR is the brainchild of the two political leaders and has the highest-level of attention and support from both governments.

The initial promoters and shareholders of the project had no experience in operating an industrial park. Russell was brought in early 2015 to expedite the construction, marketing, and overall development of the park. Although Russell was only a 20% shareholder in the DevelopCo, a joint venture between Chinese and Belarusian parties at the time, it was charged with the overall management and operating responsibilities of the bilateral program (GR11).

With Russell's leadership, progress has been made on all fronts, including infrastructure building, recruitment of resident firms, securing financings, and further improvement of the host regulatory and administrative environment (see Table 7.16).

Table 7.16 Chronicle of Developments at Goulash Radzwill

Time	Event
2010/03	President Lukashenko proposes the GR idea with visiting Vice President Xi. They reach a consensus.
2010/04	China CAMC Engineering Co (CAMCE) is contracted to build a pulp factory in Belarus. Belarus proposes to CAMCE to build an industrial park (Luo, 2019).
2010/09	Belarusian Ministry of Economy proposes to CAMCE a draft agreement on the building of the joint industrial park (GR) (Luo, 2019).
2010/10	During President Lukashenko's visit to China, a framework agreement is signed to establish GR and adopt a special legal regime (Luo, 2019).
2010/10-2011/1Q	Site selection, feasibility study, master plan development, and other preparatory work is carried out (Luo, 2019).
2011/04	CAMCE and Belarusian teams visit China-Singapore (JV) Suzhou Industrial Park and decide to replicate this model (Luo, 2019).
2011/04-2011/09	Both sides work to elevate the project to become an inter-government cooperation program (Luo, 2019).
2011/09	The two governments sign the agreement to form China-Belarus Industrial Park or GR (Belarus-China, 2011).
2011/08-2012/06	CAMCE works with the Belarusian Ministry of Economy and Embassy in China to draft a PD (Luo, 2019).
2012/06	PD#253 is issued to officiate the creation of GR, define its boundaries, and promulgate special laws and tax benefits for a period of 50 years.
2012/06 onward	CAMCE proposes to Park Administration (Park Admin) the importance of creating a "one-stop" services function to serve incoming residents. Park Admin believes its role to be a "window" of contact (Luo, 2019).
2012/08	GR DevelopCo is formed by CAMCE and Minsk state with a registered capital of $10mm, with CAMCE contributing 60% (Luo, 2019).
2012/10	DevelopCo and EXIM Bank sign $1.5bn framework financing agreement (Luo, 2019).

2013/01	DevelopCo and CDB sign $1.5bn framework financing agreement (Luo, 2019).
2013/06	Master Development Plan (or Master Plan) proposed by a joint working team is approved by Belarusian government.
2013/10	Harbin Investment Group becomes a new shareholder. DevelopCo's registered capital increases to $13.33mm (Luo, 2019).
2014/03	Phase I development plan is approved by Belarusian district government. It specifies an area covering 8.5km^2.
2014/06	A foundation laying ceremony for GR and Russell Exhibition Center is held. Construction work begins, so does marketing of GR.
	PD#326 is issued to define approved industries and promulgate additional preferential policies.
2014/10	Vice minister level Inter-government Coordination Committee (IGCC) is formed to coordinate home country and inter-government activities.
2014/12	CAMCE's parent injects $28mm and becomes a 40% shareholder in DevelopCo, whose registered capital increases to $70mm (Luo, 2019)
2015/05	During his visit, President Xi proposes to Belarus to make GR a symbol of the BRI mission and bilateral cooperation. Russell invests 20% equity in DevelopCo and commits a logistic park. Seven companies including Russell become the first batch of residents.
2015/12	Construction of Russell's (as a resident firm) logistics park begins
2016/06	The Joint Research Team is formed to develop proposals for a new PD.
2017/05	PD#166 is issued as the new special legal regime for GR.
2018/10	In-park Customs House opens for business. One Stop Service Station operated by Park Admin opens for business.
2019/01	GR is declared by PD#490 the first Regional (EAEU) SEZ in Belarus.
2019/12	DevelopCo announces signing up of a total of 60 resident firms to date and over $1.1bn in investment commitments.

Source: Luo (2019), GR news releases, Belarusian PDs of various dates, Russell presentations and documents, interviews and subsequent follow-ups with informants.

7.3.3 GR governance and management structure

GR is an intergovernmental program and has adopted a three-level governance and management structure as constructed below (see Fig. 7.14)

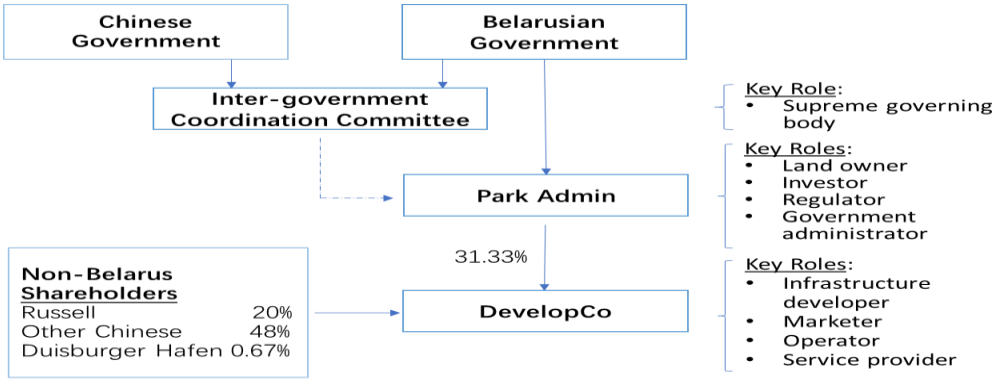

Fig. 7.14 Goulash Radzwill Governance and Management Structure
Source: Belarusian PD#166 and Russell documents.

The GR governance structure (see Fig. 7.14) is stipulated in the inter-government agreement (Belarus-China, 2011) and legislated by Belarusian PDs, which serve as special legal regimes for the park (Belarus, 2017).

Inter-government Coordination Committee (IGCC): consists of members from both governments and is co-led by China's MOFCOM and the Belarusian Ministry of Economy. It is the highest-ranked governing body establishing overall strategies for the industrial park and its operations and settling issues not resolvable at the other two levels. It meets when needed.

Park Administration (Park Admin): is a Belarusian ministerial agency created by law for the sole purpose of overseeing the park. It is the landlord owning the park's land and contract seller of the plots that resident firms purchase. It represents the Belarusian government as an equity investor in DevelopCo. It is the regulator of the park and the single point contact of all governmental administrative activities. It represents its government in promoting the park, interpreting policies, and determining incentives. It claims to be a "one stop" service provider by consolidating all regulatory and administrative functions under one roof. Its head is appointed by the President. Its headcounts and operating budgets are determined by the Council of Ministers (or state council). It is a regulator, but not independent since its multiple roles are inherently conflicted. In sum, it is a state institution charged with the sole responsibility of implementing and enforcing the special legal regime for the largest SEZ in Belarus (Belarus, 2017; GR24; GR31).

DevelopCo: is a joint venture formed initially by promoters from both sides to develop the park. It was subsequently joined by additional shareholders, including Russell in May 2015 to strengthen its execution and implementation capabilities, and Germany's Duisburger Hafen AG. It purchased in Apr 2018 a minority share from founding Belarusian entities to help diversify shareholder base and encourage EU buy-in of the program (Duisburger Hafen is the largest inland port operator in Europe where the Chongqing-Xinjiang-Brest-Duisburger (or *Yuxinou,* 渝新欧) through train

along the NELB ends (Esteban and Li, 2020; see Fig. 7.13). The Belarusian parties that contributed the initial share capital have transferred their shares to the Park Admin, which is now a direct shareholder of DevelopCo (Belarus, 2017; GR11; GR21).

DevelopCo's mandate is to construct infrastructure (e.g., road, water, electricity, sewage, telecom, office and standard factories), promote and market to targeted firms and attract them into the park, maintain and manage normal operation of the park, and serve the needs of resident or prospect firms pre and post entry into the park (Belarus, 2017). In a word, it manages the day-to-day activities of the park.

DevelopCo is a "one-stop" shop service provider helping prospect or resident firms throughout a full life cycle, from evaluating a business proposal, registering a company, applying for tax incentives, entering facilities lease or land purchase contracts, to interacting with local firms and partners, resolving issues with authorities, to getting visas for expatriates, opening bank accounts, clearing customs, even translation and legal help (GR11). In a word, its job is to make entering firms' experience as simple and easy as possible.

DevelopCo's management team consists of secondees from shareholders and local hires. Key roles such as CEO are filled by Russell appointees, while head of legal and controller are reserved for Belarusians. Overall, the operating arm is led by Russell.

In sum, DevelopCo's role is to help incoming firms getting ready for business, while Park Admin's official functions are to approve (e.g., entry, registration, tax incentives), issue (e.g., licenses, permits, certificates), and notice to customs and immigrations (e.g., visa and work permit) authorities. DevelopCo can represent its "clients" (i.e., applicants, prospect or resident firms) when dealing with the regulator, the Park Admin (GR11; GR31).

7.3.4 Profile of Goulash Radzwill

Geographic location

The grand bilateral, government-sponsored industrial park is located 25km east of the Belarusian capital city Minsk and occupies a designated area of 91.5km^2. It has since expanded by PD#166 to enclose the Minsk International Airport and become 112.5km^2 in area. The area available for industrial development remains unchanged, but the air linkage is designed to foster logistics business and people movement of the park (Belarus, 2017).

The park sits on the Moscow-Minsk-Berlin transnational highway and is accessible to the railways that connect to the NELB, which stops at Minsk, and to Latvia's

Klaipeda seaport 500km away. This combination of well-developed air, land, sea, and rail connectivity is a unique advantage of the country and GR as well (see Fig. 7.15).

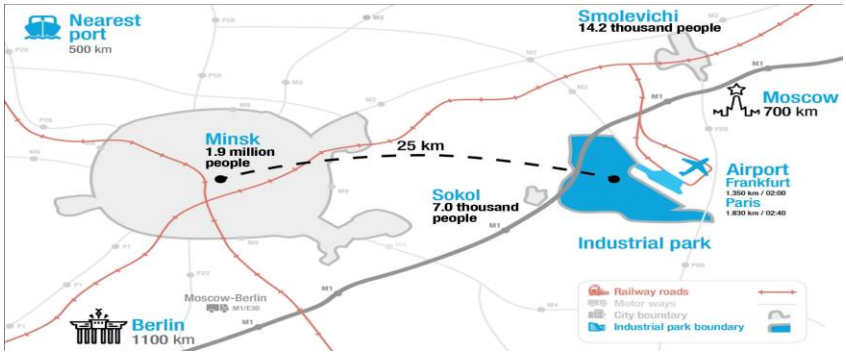

Fig. 7.15 Geographic Location of Goulash Radzwill
Source: GR presentation.

Development blueprint and progress to date

The grand park will be developed in four phases and land will be supplied accordingly. Phase I of the plan covers an area of 8.5km^2, of which a pilot zone of 3.5km^2 has been prioritized. By the end of 2019, construction of physical infrastructures (e.g., road, water, power) was completed (Xinhua, 2020). The Master Plan can be adjusted based on progress and market demands.

Target industries have expanded under PD#166 (Belarus, 2017) to include nine categories: electronics and communications, pharmaceuticals, fine chemicals, biotech, machinery, new materials, logistics, ecommerce, and big data. It is clear that GR is positioned by the government to attract primarily high-tech businesses that are less likely to grow out of its existing economic soil (GR21).

As of end of 2019, a total of 60 firms had signed up to become residents in the park (see Fig. 7.16). These firms have been scrutinized by the Park Admin to meet the approved industry guidelines and capital commitment threshold.

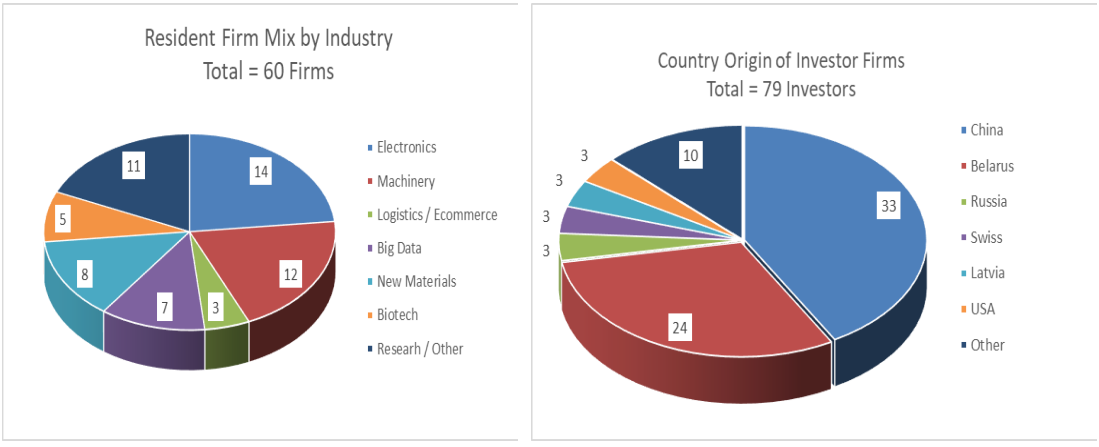

Fig. 7.16 Goulash Radzwill Resident Firm Profiles
Source: GR news releases and internal reports.

A few observations are summarized below:

First, electronics and machinery manufacturing represent over 40% of total firms ((14+12)/60, see left picture in Fig. 7.16) reflecting the traditional strengths of both Chinese and Belarusian industries. One such example is Weichai-MAZ, a JV between China's leading diesel engine manufacturer Weichai Power and Belarusian SOE MAZ, which has been the designated producer of trucks, buses, tractors, and heavy equipment since the Soviet era. Factory construction broke ground in Apr 2018 and trial production of diesel engines began in Nov the same year. It is one of the few resident firms that have begun mass production (Weichai, 2019; Xinhua, 2020).

Second, big data and research firms account for 30% of total residents ((7+11)/ 60, see left picture in Fig. 7.16). Among them are multinational firms such as Chinese giant Huawei that look to exploit local research capabilities and IT talent and adapt their products to the Russia-speaking customers (GR21). For example, a Chinese automatic driving technology start-up firm intends to localize its products and use Belarus as a springboard to build an early mover advantage in the Russia language dominated EAEU market (GR52).

Third, a total of 79 investors or shareholders from 14 countries are involved in these 60 resident firms (see right picture in Fig. 7.16), including 33 sole foreign invested, 17 JV, and 10 Belarusian local firms, respectively. In addition to Belarus-foreign JVs, a few JVs are foreign-to-foreign partnerships. For example, one resident firm is backed by four investors from Israel, Cypress, Canada, and Switzerland. Another unique phenomenon is that Belarusian domestic firms are not prohibited from moving into the park as long as they qualify for the high-tech criteria administered by the Park Admin. They can take advantage of the facilities, services, and incentives to either advance their R&Ds or commercialize their research inventions.

In sum, as more firms move in, the variety and mix of investors or industries should expand. As long as investors continue buying or leasing facilities or services in the park, GR's investment rationale would be reinforced.

Land ownership

One of the unique benefits offered at GR but not available to the FEZs and HTP is the permanent land ownership that land purchasers can enjoy, as long as they are a Belarusian legal entity regardless of who is the ultimate controlling owner (GR24; GR31). That means that resident investors who purchase land to build factories or warehouses can own the land beyond the 99-year term limit imposed on the land lease, transact in real estate, and profit from land value appreciation. This potentially creates an incremental stream of investment returns on top of any returns generated from, for example, their core manufacturing or logistics businesses and free of all

taxes (see Table 7.17). It can be viewed as a form of positive externalities internalized (see Section 3.4 and more in Chapter 8).

7.3.5 Preferential policies and incentives

Drawing on its own experience with the FEZs and HTP and Chinese partner's input, the Belarusian government has promulgated through several PDs extensive packages of financial and in-kind benefits for resident firms, DevelopCo, and their partners or contractors effective for 50 years ending Jun 5, 2062 (see Table 7.17).

Table 7.17 Goulash Radzwill Key Preferential Benefits

Benefit Item	Statutory Requirements	Preferential Treatments
Tax Incentives and Benefits		
Profit tax	18%	Exempt for first 10-year profitability Half of statutory rates thereafter
Profit tax on venture capital gains	NA	Exempt before Jan 1, 2027, applicable to resident venture firms
Real estate tax	1%	Exempt
Land tax	Absolute amount assessed at land value	Exempt
VAT on real estate transactions	20%	Exempt
VAT on export and domestic sales	20%	Exempt if produced within park using bonded materials
Import Duty Benefits for Park Construction		
Tax on equipment and materials	Import duty: 5%-10%; VAT: 20%	Exempt (limit to 5-year period)
Labor Related Tax Incentives and Benefits		
Persona income tax	13%	9% before Jan 1, 2027
Social security contributions	35%	Exempt on expatriates. Local staff based on national average salaries
Work permit fees	Natural person: $70 Legal person: $750	Exempt
Temp resident fee	NA	Exempt
Visa free stay	5 days	180 days
Dividend Related Taxes		
Dividend tax	12%	Exempt for 5 years of payout
Repatriation tax	NA	Exempt
Other Incentives and Benefits		
Environmental compensation	Assessable	Exempt
Mandatory foreign exchange settlement	30%	Exempt, also applicable to contractors

Industry entry barriers	Yes	Price controls, monopoly, import & export quotas not applicable to residents produced goods/services
Prices of gas and electricity	Government set prices	Supplied at cost DevelopCo can set resale prices
Government inspections	At the discretion of the relevant authority	Only approved by Park Admin
Construction and technical standards	Belarus	Belarus, China, EU

Source: PD#166 (Belarus, 2017), Russell presentations and reports, and interviews with informants. NA means not available or applicable.

These preferential benefits or tax exemptions cover in-park transactions, imported goods and services, business profits and personal income, simplified or streamlined administrative procedures targeted to reduce people movement hurdles (e.g., fees, extended stays) and restrictions (e.g., relaxation on visa requirement). These measures will either reduce financial and real costs to firms and /or improve business and government administrative efficiencies, ultimately lowering transaction costs of doing business in Belarus.

In addition, the elimination of domestic market entry barriers of resident firm produced goods and services and grant of resale price setting freedom to DevelopCo should increase revenue as well as profitability opportunities for these firms. All these measures represent a drastic departure from the prevailing regulatory and administrative regime in the country. Hence it manifests the kind of determination and sincere intent on the part of the host government, even though the ultimate outcomes will not come to fruition in decades.

7.3.6 Evaluation and analysis of performance progress

Goulash Radzwill is an intergovernmental political and business project. Russell and its fellow SOE partners have been enlisted and mandated to implement the political leaders' visions. The analyses in this section will concentrate on the business and investment dimensions of the project, as well as firm behaviors of the implementors and actors involved. Political dimensions and industrial park and SEZ economics will be addressed to the extent necessary.

7.3.6.1 Chinese participants' performance

There are several types of participants from Chinese side, including: (1) shareholders (e.g., Russell) of DevelopCo who put up their own capital and human and management resources to execute the grand plan; (2) policy lenders and other providers of financings to the project directly or indirectly through the Belarusian government; (3) Chinese investors of resident firms (e.g., Weichai Power); and (4)

Chinese government and its various institutions who contribute to the establishment, operation, and ongoing coordination and promotion of the project. Their respective returns and rewards and associated costs are different in form and substance, as explored below.

DevelopCo shareholders

DevelopCo has a paid-in capital base of $150mm as of the end of 2019, of which Russell owns 20% or $30mm. Its fellow Chinese SOE partners hold another 48% or $72mm, altogether 68% or $102mm (GR21; GR22). Capital contributions by Chinese shareholders are not significant relative to their asset sizes.

DevelopCo generates its revenues primarily from leases of office space, standard factories, land and other facilities developed by it and sales of developed land. To attract residents, it has initially set lease rates below its development cost and hence incurred losses from leasing activities (GR21; GR22). The Belarusian government charges a low price on raw land and allows DevelopCo to keep the entire difference between whatever selling prices are negotiated and the fixed land cost (GR22; GR31). Land sales have been profitable since day one, but only five or six of the first 35 resident firms have chosen to purchase land (GR21). The aggregate gains from sales of developed land are still not adequate to cover the operating costs and cash requirements during the early stage of park development when massive investments and costs are incurred upfront, and revenue and leasing receipts come in slowly and over a long period of time (GR22).

DevelopCo may be able to recognize some revenue by reselling water, electricity, gas, and other materials inputs and by providing office management, secretarial, legal or other services to residents, but these contributions will not be significant in the near term. The Chinese shareholders, therefore, are not expecting any profit within the initial 10 years of park operations (GR21).

Lenders and other financiers

As agreed between the two governments (Belarus-China, 2011), the Chinese party will be responsible for the development, marketing, and financing of the park. In addition to capital contributed by shareholders, DevelopCo has sought EXIM Bank loans (on-loaned by the Belarusian Ministry of Finance) to fund the development costs of infrastructures. These loans tend to carry a low interest rate and longer repayment term (EXIM, 2013) and seemingly match the cash flow patterns of the park business. But DevelopCo's debt capacity or asset security is limited and the amount of borrowings available is not adequate to meet its development needs. Longer term, it is uncertain whether or when the park operations will generate enough cash flows to support the debt funding required to accelerate infrastructure investment and fulfill its debt repayment obligations.

DevelopCo has also solicited donations in financing its infrastructure projects, for example, a 110KV power substation, a 154-unit dormitory building, and an R&D incubation building by MOFCOM. These investments create productive operating assets but no cost and cash outflows to GR. These costs will be bore by donors or the Chinese government.

Chinese investors and their resident firms

As shown in Fig. 7.16, 33 Chinese investors have invested in 33 resident firms including both sole Chinese and JV entities, accounting for 55% of resident firms and 42% of investors, respectively. Among these investors, some are affiliated with each other. For example, two investors who have solely seeded two residents are portfolio companies of Russell's private equity and venture capital funds. Russell has influence over their decision-making. A China-Belarusian machinery JV is invested by a subsidiary of Weichai Power, who is the JV partner of Weichai-MAZ. Therefore, it can be inferred that the real number of Chinese investors is less than 33.

Among these Chinese investors, central and provincial or local government owned SOEs (e.g., Russell and Weichai Power) represent the majority, though an exact percentage is difficult to quantify (GR21). This is where SOEs' dual institutional character manifests. It can be argued that the Chinese shareholders in DevelopCo have come to primarily fulfill a political mission (GR11; GR21), so have some resident firms established by Chinese SOEs (GR51). Others do have legitimate business goals to pursue simultaneously. For instance, Russell's three warehouses have been leased out and filled by commercial enterprises as soon as they were ready (GR21). These investors have fulfilled their political assignment, but the returns and results of their financial commitments will take decades to unfold. The rewards for their political allegiance would not be measurable in financial terms and in the context of their GR investments in Belarus.

There are a couple of Chinese private investors who have founded resident firms in the park. Three lighting products manufacturers, for example, who have traditionally produced in China and exported to the EU, will produce their products in the park for the EU market. They reap the benefits of lower import duties imposed by EU on Belarus produced goods in addition to the various cost savings in GR relative to China (e.g., cost items such as land, labor, gas and electricity, and transport) (GR11). These are the true type of residents welcomed by GR or any other industrial parks or SEZs, who create real jobs to the host citizens, earn foreign exchange and tax revenues for the host treasury, and contribute to the GDP growth of the host economy, among others. (The investors from countries other than China and Belarus can be assumed to belong to this type too, see Fig. 7.16.)

In summary, the various actors from China have different return and cost profiles. Those targeting political gains should have achieved their goals by being at GR since

they are evaluated based on a different set of criteria and their cost and returns are not completely reflected in their investment performance in GR. For the true commercial investors and residents, the various benefits available at GR are very attractive compared to what they can obtain in China or the EU, but the ultimate success of their investments will hinge on topline growths of their core businesses instead of mere cost savings. This is also a testament to the GR venture (GR11).

7.3.6.2 Belarusian participants' performance

The Belarusian government is the predominant player in the GR program and therefore this analysis will center around this host government actor.

Belarusian political gains

Belarus has pursued a neutral geopolitical and foreign policy stance between its traditional ally Russia and the EU (Bohdan and Isaev, 2016; Zogg, 2018). By maneuvering balancing tactics, it has been able to preserve its territorial integrity and national independence while extracting and bargaining for hefty subsidies from Russia and favors from the EU. For example, it relies on import of Russian oil and gas to meet its energy needs. Its petrochemical industries, a key pillar of its national economy, refine Russian import and reexport to the EU. These imports used to be at huge discounts to market prices, which are estimated to be worth several billion dollars. Russia has been reducing such discounts in recent years (Zogg, 2018). In a separate study, Russian energy subsidies during 2000-14 period were estimated to account for about 23% of Belarusian GDP in 2000 on the high end and decline to 5% in 2010 (Kruk, 2016).

Russia is also an important market for Belarusian agricultural produce and heavy machinery (Vysotskaya Guedes Vieira, 2014). For example, export to Russia accounts for 57.2% of all Belarusian export in 2017 (Hushcha and Gribov, 2018, p. 74). These subsidies and bilateral aid help propel its stagnant domestic economy and political stability as well, but also expose the country to overreliance on Russia, threatening its independence, as seen in Russia's annexation of Crimea in 2014 (Zogg, 2018).

Since 2006, Belarus has embarked on a strategy of creating alliances elsewhere. Its outreach efforts culminated in the forging of a "Comprehensive Strategic Partnership" in 2013 with China, which is a kind of Chinese appellation of high level bilateral political, military, economic, and cultural cooperation (Marin, 2017). By inserting another force like China, which seems tolerable to Russia and acceptable to the EU, it gains a counterweight to the mighty Russia and deters Russian proposals of political and military integrations and closer alignment in foreign policy (Bohdan and Isaev, 2016). That explains why it has been eager to jump onto the bandwagon and cash in on potential opportunities afforded by the BRI (Kamusella, 2018; Zogg, 2018).

It can be argued, therefore, that GR represents a policy tool used by the Belarusian geopolitical and foreign policy agenda to inject a third political force or actor into the Belarusian theater (GR11; Popescu and Secrieru, 2018). By securing Chinese top leader's personal commitment and backing of GR, President Lukashenko has gained successfully another international political tool, moving his government out of obscurity and into the regional spotlight, while strengthening the nation's independence and his regime's longevity. His politically motivated goals have been achieved to some extent.

Belarusian economic diversifications

In addition to Russian energy dependence, conditional subsidies, and dominance in import and export trades, Russia also accounts for the largest share of Belarusian FDI stock at over 60% (Dobrinsky, 2016; Yeliseyeu, 2016). Consequently, Belarusian overreliance on Russia has raised fear as well as a desire to diverge from a Russian economic "Bear Hug" (Kazharski, 2018). China's BRI and related investments offer a convenient alternative of diversification for a subdued Belarus (Coface, 2019), since, for example, the NELB already connects through Belarusian territory (see Fig. 7.13).

Because the Belarusian economy is highly correlated with that of Russia (see Fig 7.17), it is vulnerable to its internal and external shocks. For example, severe drops in international oil prices and Western sanctions against Russia for its annexation of Crimea in 2014 sent both economies into negative growth territory for the 2014-15 period. Furthermore, the depreciating or sinking Russian Ruble, which lost half of its value in 2014 (Adarov, Havlik, Hunya, and Pindyuk, 2016), also dragged the Belarusian currency into crisis, losing 36% of its value in 2015 (Kolkin, 2018).

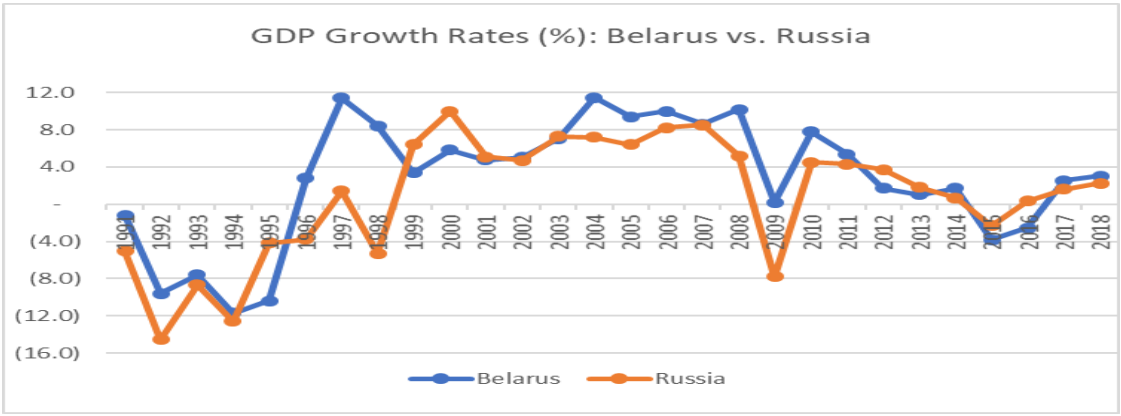

Fig. 7.17 Comparison of Belarusian and Russian GDP Growth Rates
Source: World Bank data base.

Apparently, Belarus's interest in the BRI and GR is motivated by its desire to attract Chinese FDI and leverage Chinese technologies and knowhow to modernize its Soviet -era SOEs (e.g., most of the Belarusian JV partners are SOEs) and develop new industries and enterprises outside its state-controlled segment of the economy. Its

ultimate goal is to create employment and foreign exchange revenues (Hushcha and Gribov, 2018) and reduce vulnerability due to Russian dependence.

However, skeptics question whether the Chinese investments will come in sufficient quantity and create enough new businesses and employment to bail out the Belarusian economy from stagnation and Russian dependence without it making substantial reforms in its institutional and economic structures (Marin, 2017; Kamusella, 2018). The special legal regime engineered in consultation with FDI investors (Joint Research Team, 2016; also see Chapter 8) and enacted for GR is supposed to shield resident firms from the prevailing anti-market, anti-reform forces in Belarusian political and economic environment (GR11).

The varieties and country origins of investors and residents attracted to the park to date (see Fig. 7.16) represent the expected diversifications, but whether they represent mere incremental benefits or fundamental solutions to the economic diversifications hoped for by the Belarusian leadership will not be proved until decades away. They nevertheless accrue tangible, real, and net economic gains for the immediate or short-term political horizon and the current political leadership.

Belarusian economic linkage with the EU

The EU is Belarus' second largest trade partner after Russia and accounts for one third of its foreign trade in 2018 (EU, 2019). Belarusian exports are concentrated in petrochemicals, a reexport of refined Russia oil products, and minerals (mostly potash fertilizers). Food and agricultural produces and machinery account for only a small share (Adarov et al., 2016). These commodities tend to be subject to price fluctuations in the international market and less resistant to competitive pressures, which is generally unfavorable to Belarusian exporters.

To diversify and rejuvenate its economy, Belarus has promoted and tried to capitalize on its geolocational proximity to the EU as manifested in its FEZ and HTP experience and GR investment guidelines (see Section 7.3.4). The EU has also extended olive branches (e.g., various assistance programs under EU's Eastern Partnership program (EU, 2019)) to entice Belarus into coming out of isolation and Russia's shadow. Politically, Belarusian leaders, however, have played with care the balancing tactics, fearful of agonizing Russia, resulting in Russian intervention as seen in Ukraine (Zogg, 2018). Economically, Belarusian establishment of the FEZs and HTP could be interpreted as measures to build and strengthen its economic linkage with the EU and the rest of world in general. Logically, having China and the BRI on its side could represent a giant step forward to achieve its diversification objectives (GR11).

In addition to offering transit connectivity as outlined under the SREB, therefore, Belarus has positioned itself as a potential springboard for Chinese enterprises to increase export to the EU since the EU is already China's largest trading partner

(Hushcha and Gribov, 2018). The potential of building a China Inc manufacturing base at GR near the EU boarder is not only an attractive proposition to Chinese exporters, but also to Belarusian enterprises who can tag along Chinese partners to learn and upgrade their capabilities and competitiveness and to increase their export as well (e.g., Weichai-MAZ, which claims part of its products to target for export market).

Thus, it is no surprise that Belarus insists stubbornly and emphasizes that the resident firms coming to GR must be in high-tech manufacturing and export-driven industries (GR11). Resident firms are free to choose any of the Belarusian, Chinese, or EU standards in constructions and technical designs or any currency to keep their accounting records (Belarus, 2017; GR24). These and other measures are expected to help expand the export composition, improve the SOEs' competitiveness within the Belarusian economy, and further strengthen the economic linkage with the EU. GR or China have functioned in effect as a policy driver or a third-party force to help improve the country's economic linkage with the EU.

Belarusian enterprises and citizens

In addition to the real and potential gains from a Belarusian geopolitical and policy perspective, it is worth mentioning the tangible benefits that GR brings to the local enterprises and citizens to paint a full picture of the GR (or B&R) investment impact from a host country perspective (see Section 1.4).

A. Belarusian firms and organizations

Among the 79 investors and 60 resident firms (see Fig. 7.16), 24 Belarusian entities have established 10 solely-owned residents and participated in 14 out of the 17 JV firms, accounting for 30% (i.e., 24/79) of the investors and 40% (i.e., (10+14)/60) of the resident firms, respectively. These investors and residents are freed to a great extent from the handcuffs imposed by Soviet-style controls and allow them to enjoy the various benefits offered to resident firms of foreign origin. This enables them a level playing field vis-à-vis foreign peers to compete and prosper. They can also learn from their JV partners to shorten their learning curve or leverage help from their partner to off-load their burdensome legacies (e.g., MAZ). They can take advantage of the facilities, services, and liberalized environment in the park, which are more conducive to, for example, conducting and commercializing R&Ds (the MOFCOM-donated incubation building intends to house several research units of Belarusian universities and organization) (GR11; GR21).

Obviously, these business and research organizations are beneficiaries of the tangible and institutional innovations fostered by GR, which are otherwise unavailable to them outside the park and under the country's prevailing systems. They are immediate beneficiaries of the GR as well as the BRI programs.

B. Belarusian citizenry

The Belarusian workforce is 70% employed by SOEs and government entities and their average monthly salary is close to $500 (GR21). The FEZs and HTP have offered a rare chance for international work and relatively higher pay, but they are only available to a small portion of the jobseekers, specifically technology and software engineers. For example, software professionals in HTP can earn a monthly pay ranging from $2,000 to $10,000 as a result of a limited supply of such talents (GR52).

GR presents another opportunity for local citizens to work outside of the state-controlled sector and for better pay (i.e., average monthly salary is about $700 as at mid-2018 (GR21)). The job opportunities are also diverse, ranging from manufacturing workers on factory floors, to college professors in research labs, appealing to the broadest citizenry. One of the DevelopCo employees acting as host coordinators for my research delegate is a local hire who just returned from China where she studied Chinese. A senior member of DevelopCo's Western Europe Marketing Team has also returned from abroad, having earned her PhD in Canada in studies of Chinese communist activities in Southeast Asia and taught in several countries (GR23). For the two Chinese research start-up firms interviewed for this research, each has a team of over 10 but only the head is a Chinese expatriate (GR51; GR52). As of mid-2018, the park has already employed several hundred people (GR22) and that is only the beginning.

Clearly, the massive FDIs and firms attracted to the park not only create jobs for local citizens but also help bring Belarusian talents home. These are all tangible benefits to the host people and their country.

C. Belarusian local community

Within the 91.5km^2 designated for GR development, there are 15 villages. These small rural communities mirror their country and lack growth in population and industrial and commercial activities, resulting in poor economic vitality. For example, within the Phase I development area of 8.5km^2, there is only one village of 150 inhabitants, it had no paved road. The villagers opposed the park development initially, fearful of environmental consequence (Phase I area used to be completely covered with trees, some of which need be removed) (GR21).

Belarus has enacted strict environmental protection laws and standards. GR Master Plan including permitted industries (see Section 7.3.4) has complied all relevant laws and standards, which are administered and enforced by Park Admin (GR31). DevelopCo has incorporated additional environment friendly features in their detailed design and layout of the park facilities (e.g., optimal mix of residential vs. commercial, manufacturing vs. other industries). For example, another MOFCOM

donation is used for the preservation and renovation of a river flowing through the park. A connecting reservoir is to be incorporated into the planned research campus within GR. Under the current Master Plan, all 15 villages will be preserved and become integral part of the bigger GR community (GR21).

Great visions are more convincing to government planners than the affected general public. To ease the villagers' concerns and win their trust, Russell charity foundation donated money and built 1.2km long paved roads, liberating the villagers from the hardship of traveling in muddy conditions during the region's rainy and snow-melting seasons. GR's power and water transmission facilities now supply the villagers with stable electricity and clean water. Some of these residents also work on construction and factory sites in the park (GR21). Local people who work in the park enjoy some of the labor benefits only available to expatriates (e.g., vacations, also see Table 7.17) (GR24). (As of end of 2019, six major contractors or their projects employed a local construction workforce of 3,078 people and had procured RMB457mm of local materials (Xinhua Silk Road, 2020).)

In addition, as more people come to work in the park, demand for residence nearby has become stronger, driving up local property value. Their daily consumptions generate businesses for the local merchants as well. As promised, the Belarusian district government has established commuting bus services between Minsk and the park and road connectivity from adjacent towns to the park, drawing these villagers and suburban inhabitants into the circle of Minsk cosmopolitan life, fundamentally transforming the quality and way of their living.

In sum, the Belarusian enterprises, local communities, and the people affected by the massive GR induced investment activities are direct and immediate beneficiaries of the GR program and the BRI in general.

7.3.7 Section summary

Prompted by the devastating trauma caused by the 2008 financial crisis to its economy and by its long-term geopolitical and strategic balancing agenda, the Belarusian leadership deliberately invited Chinese political and economic forces into the Belarusian society. Thus, the GR project serves largely as an implementation and policy tool of such a multipurpose program engineered by political leaders of the two governments.

The GR venture was conceptualized and materialized at least three years prior to the announcement of the BRI blueprint, even though the Chinese BRI architect and planners have branded it as a BRI icon. This reconfirms the argument that the BRI is more of a *posteriori* aggregating label or mobilizing call or policy guide than a well-orchestrated political conspiracy.

The Chinese government has attached great importance to this park, calling it the signature project under the BRI program. As a result, Chinese SOEs have flocked to fulfill their political and economic missions. Nonetheless, the two governments and the implementors (i.e., the three layers of governance) have built a competitive industrial park platform for both SOEs and private firms to conduct legitimate commercial activities and prosper.

While the Chinese actors, both SOEs and private, have yet to demonstrate success or failure of their intended business activities, their Belarusian counterparties appear to have reaped tangible gains politically, economically, and socially. It is too early to tell whether the GR project will be able to assume the role of engine driving the host geopolitical and economic, and regional transformation.

7.4 Chapter summary

This chapter has intended to accomplish the task of creating a thick description of the case stories as of the end of 2019. These stories have been articulated by triangulating among facts, arguments, theories, logics, and beliefs offered or held by informants and in archival and other sources (i.e., data and informant triangulations (Flick, 2018b)). This work is devoted to answer the "**what**" question, and intended to be an independent deliverable, of this case study project (see Sections 1.5 and 1.6).

These investments are of a long-term nature. The case stories told represent only their beginning episodes and hence more will continue. The descriptive part of this research, therefore, achieves two objectives: one is to set the stage for interpretation and implications (in this chapter) and cross-case generalizations (see Chapter 8). The other is to build the foundation for future extension of research investigation and enable evaluation of these project as they prolong.

Certain implications have been drawn along the way as a natural progression of individual case stories. It is worth recapping them to generalize more across cases.

7.4.1 Summary of findings and implications

Following the advice of case study technique literature (Rosenberg and Yates, 2007), and for easy reference, a schematic representation of a timeline of key events discussed in preceding sections is created below (see Fig. 7.18).

Key implications and conclusions drawn in preceding sections are recapped below.

7.4.1.1 The BRI as an aggregating or branding label

As Fig. 7.18 illustrates, RussellPort ventured overseas long before the BRI era. Its investments in Sapphire and Khat predated the BRI's announcement. These were all

driven by its growth strategies and profit motive. The BRI has been integrated into its global growth strategies and become an endorsement of and a boost to its overseas expansion drive, as manifested by its ongoing investment and acquisition sprees completed over the years prior to 2019 (see Tables 6.2 and 6.3).

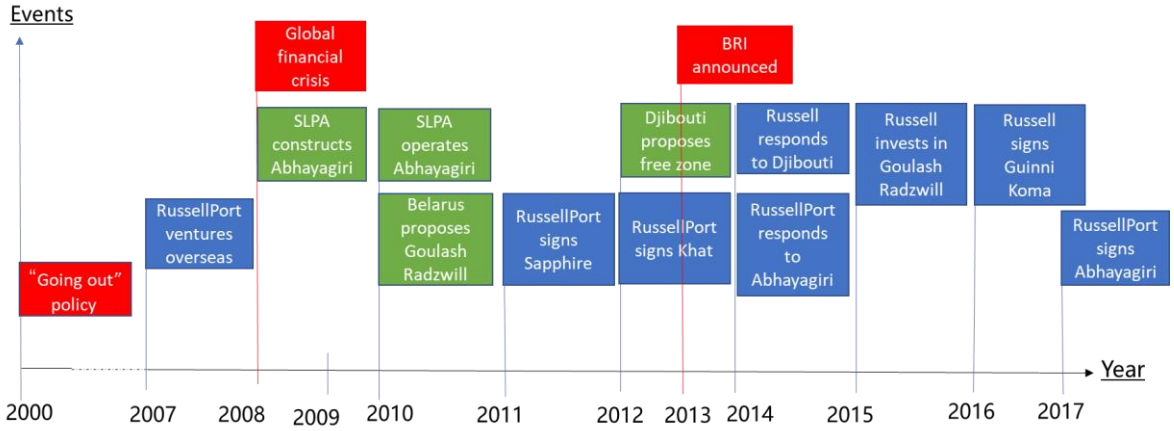

Fig. 7.18 Summary Timeline of Key Investment Events
Source: Tables 6.2, 7.4, 7.11, 7.12, and 7.16, Box 1.1, and Section 1.3.

Proposals for and/or actual work on Abhayagiri, Guinni Koma, and Goulash Radzwill were initiated by the host governments based on their respective political and economic agendas and done so before the BRI time. Russell has joined these projects in the course of their development for either its own business objectives or simply answering the BRI call, or for both. These are all officially claimed BRI projects and Russell is their key implementor.

Both the timeline sequence and initial intent of these projects suggest that they had little to do with the BRI initially. The BRI's initial policy intent seemed to be a posteriori aggregating and branding label, with more contents added underneath it as time goes by. With that, it has become an all-inclusive, all-purpose umbrella. It can be argued that it represents a Chinese storyline of, or a domestic policy guide for Chinese MNCs to participate in, modern globalization.

But from a recipient perspective, what is unique to this China-sponsored globalization initiative is that it has pulled many of those nations formally bypassed or ignored in the West-led globalization drive into the current wave of global flows of investments, industries, information, and individuals, otherwise called the four "Is" by Kenichi Ohmae (1995/1996).

For example, Sapphire has propelled the Port of Colombo to become a regional transshipment hub. Abhayagiri under RussellPort is on its way to become a regional RORO center for (used) car distribution. China Inc-funded and built infrastructures including AADR, DMP, and GK help Djibouti migrating from a port and logistics outpost of Ethiopia to a regional transit hub in Northeastern Africa. GR and China's

involvement in Belarus help pulling the country out of a Russian Bear Hug and isolation. The international recognition enjoyed by GK and GR (FDI, 2019) have presented Djibouti and Belarus to the spotlight on global stage of SEZ-led growth movement (UNCTAD, 2019).

7.4.1.2 The Debt Trap and Chinese conspiracy rhetoric

The Debt Trap and the conspiracy hypotheses about the BRI and certain Chinese investments are flawed at least on the following grounds.

First, as stated above, RussellPort's investments or proposals by others for these projects preceded the BRI era. The BRI is largely a posteriori grouping of sporadic projects and programs that had happened or were being pursued at the time of its announcement, as opposed to a priori, Chinese government masterminded conspiracy to either trap these countries for their national assets or advance its geopolitical and neocolonial ambitions.

Second, these projects were conceived by their respective host governments. Russell or its predecessors have acted either as an international bidder (e.g., SA and KH) or passive implementor of inter-government programs (e.g., AB and GR). The BRI or Chinese investors may have intentionally or coincidentally responded to their demand for capital, technologies, management knowhow, infrastructures, and low-end manufacturing, resulting in a win-win partnership. If there is a conspiracy, it is more likely a host government one to induce Chinese investment than a Chinese one to trap them.

Third, these projects are significant development programs initiated by the host governments based on their political or economic intents, even though some could be ill-conceived as a result of the limited regulatory capacity of their weak governing institutions (e.g., AB). If the Debt Trap accusation held water, it could be best described as a host government or its political leader's trap or reckless ambition, aided by Chinese SOEs' (e.g., contractor) profit motive, to take advantage of the limited regulatory capabilities and poor accountability inherent in Chinese government and financial institutions. That can be said as a Debt Trap co-conspired by the host government and Chinese SOE contractors to trap and profit from Chinese institutions and taxpayers.

Fourth, the Debt Trap rhetoric ignores key differences and diversities among aid receiving countries and their development programs (e.g., regional development in Sri Lanka, infrastructure-led growth in Djibouti, economic diversification in Belarus). Abhayagiri in Sri Lanka and DCT or Khat in Djibouti, for example, possess very different risk and return characters, even though they are all port projects. Djibouti's indigenous growth formula may have merit or at least deserve an in-depth look before

a textbook guideline is applied (IFC, 20017). The Debt Trap rhetoric is oversimplified and ignorant of the diversities among these countries and their programs.

In sum, the Debt Trap and other geopolitical rhetoric rests on thin data and is ill-inspired.

7.4.1.3 Market versus government allocation of capital resources

As a result of its top-down nature and political leader's sponsorship, the BRI has become a national capital allocation guide for the Chinese state and its SOEs. The contrasting analysis between Sapphire and Abhayagiri has highlighted again that rule of market prevails over government intervention and political ambition when it comes to capital efficiency and investment returns.

This should serve as a strong reminder to the BRI planners and promoters, host government regulators and aid managers when pursuing infrastructure projects.

In addition, following market rules and disciplines when investing in infrastructures is the most effective defense strategy in protecting investors' property rights and against political scapegoating and sabotage, as seen in the case of Sapphire.

7.4.1.4 BRI as a host government policy tool

In evaluating the performance progress of all five projects, it is consistent that these BRI investments have represented significant FDI inflows to these countries. They have funded infrastructures, which would otherwise be unlikely to be financed, and materialized key host development programs. Russell has created jobs for the local communities, trained their citizenry to become more competent for various nonfarm jobs, transferred management knowhow and technologies to host partners and their managers. It is unanimous among the host informants that their countries stand to benefit from the BRI.

The BRI's contributions to host nations are exacerbated in the following context. These are countries with small economies and lack of internal capital formation and technological and social engines for economic growth. The proliferation of West-led globalization and reduction of barriers to free movement of the four "Is" has bypassed these states of weak institutions and unattractive profit potentials. Therefore, Chinese firms like Russell and the BRI in general have become major implementation drivers of their growth agendas. This is obvious in all three nations.

In addition, the institutional changes inspired by Russell (see Chapter 8) are expected to benefit not only Russell and its fellow foreign investors, but also host firms and the general public in the years to come. This is shown by the Belarusian SOEs / firms that have redomiciled in GR and by Djiboutian and Ethiopian merchants who have

(re)located to GK. Such impact can take root in host soil and thus is fundamental to the betterment of host economic wellbeing. Its effect has yet to fully emerge and could benefit the locals in the long run. (This reminds of the legacies of the ancient Silk Roads as discussed in Section 6.1.4.)

7.4.2 Contrasting analysis of Chinese aid-funded infrastructures

It is not an intent of this research to venture into China's foreign aid subject, which has been extensively researched. It is simply to note that these projects have presented another interesting opportunity for a contrasting analysis or generalization across cases. That is, Abhayagiri, a case of Chinese aid falling into host institution's hands (before RussellPort's takeover at end of 2017), versus Guinni Koma and Goulash Radzwill, which are both funded by Chinese aid but executed by market firms (see Table 7.18).

Table 7.18 Contrasting Analyses of Chinese Aid-Funded Projects

	Abhayagiri before RussellPort	Guinni Koma	Goulash Radzwill
Project Origination and Execution			
Chinese policy loans	Yes	Yes	
Chinese sponsor	*Contractor*	*Investor and operator*	
Borrower	Host government	Host government	
Guarantee by	Host government	Host government	
On-loaned to	Host institution	Host institution / JVs	
Project management	*Host institution*	*Host JV institution with Chinese management or operational control*	
Project Performance to Date			
Construction schedule	Incomplete	On or ahead of schedule	
Increase in hiring	No	Yes	
Training of locals	Unknown	Yes	
Transfer of expertise	No	Yes	
Attracting residents/ industries	None materialized	On target	
Contributions to local community	Not much	(Direct) CSR programs and (indirect) spillover effect	
Government or Social Agenda			
Infrastructure buildout	Failed	Progress on target	
Growth driver	Failed	Progress on target	
Poverty reduction	Failed	Increasing hire and higher pay	

Source: Interviews with informants, Table 5.4, and preceding analyses in this chapter.

Key distinctions between the two types of aid-funded projects

There are at least two key distinctions between these subsets of projects, even though it is a small sample (see Section 9.3).
First, traditional aid format vs. investor-operator JV type. Abhayagiri was a GoSL-run development project financed by Chinese policy loans. Chinese lenders granted the loans to GoSL and didn't bother how the project was carried out, leaving the rest to GoSL. This is atypical of traditional aid distribution (see Section 2.3.2). In contrast, Russell and its investing partners are equity owners as well as executers of GK and GR. Russell is also charged with management and operating responsibilities to deliver results. As a result, even though they all likely advised the host governments on how to apply for Chinese policy loans, the risk profiles of the two types of loan financings look very different. In the former case, the money and task fall into host bureaucracies, but are in the hands of private firms in the latter scenario. Consequently, their performance results differ.

Second, government-run project vs. market firm behavior. Abhayagiri bore all characters of a typical government-run project, as identified in Section 2.3.1. In contrast, though GK and GR are owned by JVs established as host institutions (see Section 3.1.1), as a result of Russell's market firm nature (see Section 7.1.4.4) and management and operational control, these projects have been executed outside of host government process and by following primarily market practices, subject to host institutional and market reality constraints. (In fact, its institutional strategies all have responded to address host nonmarket obstacles.) In addition, Chinese loan money has been kept out of local government hands and loan disbursements have been supervised and enforced by Russell. Use of proceeds was ensured.

Implications of the key distinctions

The afore-mentioned changes in loan disbursement and project execution have avoided many of the pitfalls typical of aid-funded programs in weak institutional nations (see Section 2.3.2). The contrasting results have important implications as follows:

First, **sharing of risks and rewards**. Key stakeholders (e.g., contractors, various host participants) in B&R projects should all take equity ownership in order to align their interests and commitment. This will help preempt "white elephant" projects and finger-pointing against each other if intended results failed to materialize.

Second, **money and projects should be entrusted with market firms**. The divergent results, though mostly qualitative assessment of subjective nature, of these two subsets of projects should help explain that point clearly. This is probably the most effective strategy to keep infrastructure development out of the traps of weak institutions. It echoes the points implied or expressed in Section 7.1.4.3.

Third, **policy goals can best be achieved by market firms.** Abhayagiri before RussellPort's takeover failed to achieve any of the policy goals (e.g., jobs, industries, transfer of technologies and knowhow, infrastructure buildout) contemplated by GoSL. Guinni Kona has achieved many of those goals that its government and traditional aid donors have aspired but failed to do. The BRI and its money, therefore, should focus on investing in and nurturing market firms who in turn undertake infrastructure projects and administer aid money by following market disciplines. They are best positioned to help achieve the goals envisioned by policy planners and lenders. Again, the Sapphire case best illustrates the point (see Section 7.1.2).

Although the cases in this analysis are few, these implications confirm much of the conventional wisdom or established and proven practices or textbook doctrines.

The next chapter will examine how Russell has achieved these results and focus on how it has influenced the institutional evolutions in the host environment when pursuing its own business objectives.

7.4.3 A note on research methodology

This chapter of case description and interpretation has relied heavily on two key interpretive techniques: triangulation and inductive coding.

Triangulation

To justify the above generalization, advance this model of inquiry, and even postulate implications and conclusions, detailed case information (e.g., event, time, location, sequence) has been carefully gleaned, delineated, and corroborated from multiple sources. Informants' theories and justifications have been purposively excavated and sought after during onsite investigations and interviews and subsequent follow-ups, confirmations, and collaborations.

This strategy of inquiry or a comprehensive triangulation of data, informants, theories and perspectives, and even locations and settings should help elevate this research to a higher level of rigor and validity, produce additional knowledge of the subject matters, and corroborate results and findings accordingly (Flick, 2018b).

Inductive coding

This inductive analytical process has followed the guide articulated in Section 5.4.5. Key codes were developed and applied consistently throughout the process and across cases. This should help enhance rigor and reliability in the delineation of themes and implications. More to come in Section 8.6.

Chapter 8 Institutional Strategies and Discussions

Building upon the thick descriptions of the investment cases in Chapter 7 and the background provided in Chapter 6, this chapter will concentrate on the institutional strategies and actions Russell has taken when making these investments and operating these assets. Then, these strategies and their results will be evaluated by applying institutional organizational theories to assess how they relate to the propositions deduced in Chapters 2 and 3. Hopefully, certain theoretical implications can be drawn at the end of this analytical process.

8.1 RussellPort's institutional strategies in Sri Lanka

RussellPort has undertaken two major BRI projects in Sri Lanka, namely, Sapphire and Abhayagiri. As extensively discussed in Chapter 7, these investments took place at different times and in divergent political backdrops. Accordingly, RussellPort applied different sets of firm strategies during its initial investment and subsequent operations. This section intends to explore what strategies RussellPort employed, why it did so, and how these strategies have played out.

8.1.1 Key investment risks in Sri Lanka

"When you make a large investment, the utmost importance is investment safety, not making money." "The biggest risk is political risk." "A foreign investor is helpless when confronting the host government," said Russell's country manager in Sri Lanka (SA11/AB11). Thus, RussellPort's core strategy has been to manage the risk of government expropriation, given frequent turnovers in ruling parties and extreme swings in government policies in Sri Lanka. Furthermore, GoSL has a track record of nationalizing private assets (see Section 7.1.1), which makes that risk imminent.

In addition, institutional flaws such as outdated laws and administrative practices, political parties controlling unions and businesses, and predominance of SEOs and government monopolies in national economy (see Section 7.1.1) not only compound the threat to investors' property safety, but also cause efficiency losses and huge extra cost of doing business in the country. Without effectively containing these risks and impediments, RussellPort's investments would face a lot of uncertainty.

Furthermore, due to Sri Lanka's strategic geolocation, these transactions will have to withstand much harsher international geopolitical scrutiny than a regular FDI, as manifested in the "Debt Trap" and "String of Pearls" rhetoric. Failure to tackle this political fanfare could derail an investment's initial objectives regardless of undue cost of operating the underlying business.

These potential risks and RussellPort's mitigating strategies are summarized (see

Table 8.1) and discussed in detail next.

8.1.2 RussellPort's strategies involving Sapphire

Sapphire was a standard BOT concession arrangement. It was RussellPort's first BOT assignment since it ventured offshore in 2007. Naturally, it took special care in complying with host laws and regulations. This led to its direct contact with the country's port law (GoSL, 1979; also see Section 7.1.1.2).

This law was promulgated in the late 1970s when SLFP was in power, promoting nationalization, government monopolies, and SOEs operating key industries (see Section 7.1.1.1). SLPA was established by the law to own, operate, service, and regulate all ports in the country. Private participation in owning and operating port business was not mentioned by the legislation. Subsequent amendments and updates have not made clear whether private or foreign ownership and operation of port assets are legally permitted. However, there was already an SLPA-foreign JV operating a terminal within the Port of Colombo when RussellPort arrived ashore in 2010.

This ambiguity, coupled with Sri Lanka's "chaotic" democratic institutional nature, poses serious uncertainty to RussellPort's investments (SA11/AB11). Such uncertainty could become certain and real, as demonstrated in the case of Sapphire, whose first international tender was cancelled by SLPA, which is what eventually RussellPort allowed to win as a second public tender (see Section 7.1).

To deal with such potential risks, when investing in Sapphire, RussellPort chose to participate in the international tender administered by SLPA. It formed a JV with SLPA in the exact same ownership structure as the first port JV. Given its newcomer status in both the host country and international industry arena, it engaged the country's top law firms to research all relevant laws, identify potential risks and uncertainties, and sought the best advice available. It hired internationally reputable engineering consultants to advise on design and quality assurance. Later, when local media questioned Sapphire's quality and construction speed, it was the engineering firm who came out to defend RussellPort. In addition, it pursued SDP status for Sapphire investment to secure additional protection of the assets. In sum, it tried its best to ***adapt*** to the host legal environment in order to ensure security of sunk investment and smooth conduct of business (SA11).

In ongoing operations, RussellPort has emphasized all along that it is a HK listed company and its investment is for commercial purpose only. It has provided training to young recruits, reached out to the broader community through its CSR programs, been a trusted partner of SLPA and a keen advisor to and collaborator with other host regulators (see Sections 7.1.4.2 and 7.1.5.4, and Table 8.1). These strategic actions are not legally required or contractually committed but are part of the overall package of RussellPort's strategies to mitigate host political risks. They are ***Additive*** to its core

business strategies and the host regulatory confines as well.

From an NIE perspective, these strategies were designed to either enhance the safety of its property and contract rights under the BOT CA, or minimize transaction costs potentially arising from government inefficient practices and interference, and weaknesses in social institutions (e.g., unionization, employee issues).

8.1.3 RussellPort's strategies involving Abhayagiri

Abhayagiri is a port plus an industrial park. It is an equity investment as opposed to a BOT concession. Thus, in addition to the port laws and social and political institutional constraints in Sri Lanka, its equity investment and industrial park in a legislated Free Zone or Free Port create additional risks and issues to deal with.

RussellPort's Equity investment in AssetCo

"All along, we were talking about acquisition of equity in AB." "That means our [property] right is forever." "But in the last minute, GoSL wanted to cap our equity interest at 99 years, citing that Sri Lanka law prohibits foreign ownership of land beyond 99 years" (AB11). As a result, an equity investment became a 99-year lease. Essentially, RussellPort's property right is infringed upon, or specifically, the amount of income to be derived is significantly reduced. It has to accept what the law permits.

RussellPort's interest in ServiceCo

Common user facilities are reserved for the government monopoly SLPA (GoSL, 1979), which bars RussellPort from owning directly. However, acquiring a port without access to reliable port services poses huge operational risks. AssetCo is the primary client of ServiceCo, with the latter set up only to serve the former's operations. The collective wisdom of the parties and the negotiations between them has resulted in the current indirect ownership structure (see Fig. 7.3).

This creative structure or the so-called "sleight of hand" design satisfies host entry requirements for SLPA to retain (economic) majority interest while simultaneously confers RussellPort operating control of the critical services needed to operate and grow the port + industrial park businesses more efficiently. This innovation within the host legal and regulatory confines qualifies it as an ***Additive*** strategy employed by RussellPort.

Abhayagiri's business scope

Sri Lanka's Free Port law or Free Zone policies set the principles of establishing a Free Port but lack specificities as to how to make that happen and what businesses or trades are permitted within it. SLPA's unsuccessful try has left little useful reference

or precedent to follow. This presents both a legal uncertainty to deal with and a business opportunity to capitalize on. RussellPort's strategies handle both.

First, by entering a CA and seeking SDP treatment, this territorial enclave is made into law, and is effective for 99 years and with a defined land area. RussellPort's property or contract right is delimitated by law, a stronger form of protection than a CA contract (Acemoglu and Johnson, 2005).

Second, coming along with this SDP appellation is the tax and other incentives negotiated by RussellPort and available to all investors to locate in the Free Port or industrial park (see Table 7.5). Though SDP designation was available to many significant FDIs in Sri Lanka, by combining Free Port policies and SDP treatment, RussellPort had more room to bargain and negotiate for more benefits or incentives than what is normally available to an SDP project. There is an element of ***Additive*** strategy to minimize transaction costs of monetary nature.

Moreover, RussellPort has organized its own one-stop services function to identify and market to suitable firms, help them navigating BOI process, advise them on how to utilize the preferential incentives available in the park. This strategy is intended, among others, to help promote Sri Lanka as an attractive FDI destination, reduce time taken by BOI and other regulators to process investor applications, minimize investors' learning time and pitfalls in navigating host administrative procedures. Ultimately, these measures will help improve government efficiencies and capabilities and reduce transaction costs of non-monetary nature.

*Thus, these are mostly **Additive** strategies under the organizational institutionalism microscope aiming to reduce both monetary and in-kind transaction costs.*

Third, as detailed in Section 7.1.3.2, RussellPort has inherited a small in-port business park which can host a variety of industries and business models. Lack of specificities in the host Free Port law allows RussellPort flexibility to attract the most valuable industries that can generate the most seaborne traffic for the port. Its overall strategy is to apply a modified or customized PPC Model, that is, port + park without city development (see Box 6.1), because the surrounding area is largely rural, agrarian, and lack of catalyzing factors to prompt large scale urbanization.

This inherent advantage adds an industrial component onto the core transport segment. It enables RussellPort to exploit the potential of reciprocal business overflows (or positive externalities), improving chances of profitability for what would otherwise be standalone port operations. (Its business rational is identical to the Italian opera case studied in Section 3.4.2.2.)

This strategy of expanding the business scope to create and internalize positive externalities could potentially become ***Transformative*** in substance under the host

prevailing regulatory framework, though on the surface each part is only ***Additive*** within the existing regulatory confines.

Additionally, true ***Transformative*** strategies have been attempted and results are still pending. One notable example is the add-on businesses contemplated by RussellPort to provide fueling services to the bypassing ships (see Section 7.1.3.2). The bunkering facilities are half built and among the assets inherited and owned by AssetCo (see Fig. 7.4). This service can also help utilize or monetize sunk investment. However, by the port law, such services are reserved for SLPA (GoSL, 1979). If RussellPort were successful in launching this service, it would represent a significant breakthrough in industry barriers established by the host legal institutions and would therefore be a ***Transformative*** act.

Separately, industry precedent indicates that, unless there is self-supplying or onsite oil-refining facilities, a reseller model doesn't work well in this fueling business. However, oil refineries can only be operated by government monopolies (AB11). This business scope limitation or industry barrier has become a roadblock to a critical business component impacting Abhayagiri's viability.

RussellPort was long aware of this limitation. It has attempted to seek host regulatory change to allow it to enter the trade. By the end of 2019, two years had passed since its takeover of Abhayagiri, however, no change had been achieved. What it has seen ironically is that the traditionally pro-socialist SLFP is back in the government, and its policy intent remains to be seen.

Government turnover could doom pending regulatory reforms. But RussellPort has actively promoted reforms to FDI unfriendly regulations and policies in host country in order to advance its business interests. If successful, it would be truly ***Transformative*** and beneficial to more than itself.

8.1.4 Why SDP?

It is worth sparing a few words on the Sri Lanka FDI legislation to help appreciate RussellPort's strategic thinking in managing host institutional challenges. "Sri Lanka's governance is an independent legislative, judicial, and administrative structure … Its Supreme Court doesn't care what the President or the Parliament says." "We examined all those nationalization cases and found that there existed legal loopholes in their agreements." "If your agreement doesn't contain legal loopholes, nobody can touch your property, regardless of who is in government" (SA11/AB11).

Seeking SDP status is a remedial strategy to cure potential loopholes in a CA. It is a much higher level of legal protection than mere compliance with laws and regulations. This explains why RussellPort pushed both Sapphire and Abhayagiri through the Sri Lanka Parliament debate and made the CAs a law. This course of

action is consistent with the Coasean (1959) insight that delimitation of property rights is an "essential prelude" to market activities. RussellPort's action has also unknowingly conformed to the thesis that property rights institution has a first order effect on economic growth and investment and that contracting institution (e.g., a CA) is weaker than a law in protecting private investors from state expropriation (Acemoglu and Johnson, 2005).

8.1.5 Section summary

RussellPort's experience in Sri Lanka demonstrates that it has engaged all three types of institutional strategies, ***Adaptive***, ***Additive***, and ***Transformative***, in managing and operating its two investments. To contrast the strategies applied between Sapphire and Abhayagiri, it has employed primarily ***Adaptive*** and ***Additive*** strategies to pursue its pure commercial investment, while ***Transformative*** attempts on top of those actions have been made to operate the government arranged venture. As a commercial concern, all these efforts have been geared towards improving the return profiles of its investments.

At the outset, RussellPort's team identified "political risk" (essentially property right security) as the overarching uncertainty hoovering over its investments in Sri Lanka. Accordingly, its strategic plans and actions have been geared towards first how to secure and protect the safety of its assets and contract rights (e.g., seeking SDP), and then how to make money.

When it comes to making money, its strategies have worked on two fronts. One is to reduce transaction costs of both monetary and nonmonetary nature. The other is to exploit positive externalities by expanding business scope and seeking breakthrough in industry barriers in host regulatory and policy regimes.

How these institutional strategies relate or correspond to the objectives of property rights security and profitability on investments will be elaborated in Section 8.4.

8.2 Russell's institutional strategies in Djibouti

By the time RussellPort was introduced to Djibouti, it had already invested in Nigeria and Togo in Africa. Sapphire was in accelerated mode of construction. Together with its unsuccessful efforts in Vietnam, Malaysia, and elsewhere (see Section 6.3.2), it had gained plenty of experience in port investments in emerging markets and trained managers as well. As a matter of fact, key operating management team in Djibouti interviewed by this author consist of RussellPort veterans who were relocated from Togo and Sri Lanka.

Russell's major investments in Djibouti are Khat and Guinni Koma. Both are JVs with host government monopolies. Due to Djibouti's unique legal, cultural and social, and

political institutions and economic endowment, Russell has engaged strategies and plans that are somewhat different from those used in Sri Lanka or Belarus, to be seen later, to deal with the unique set of institutional conditions (see Table 8.2).

8.2.1 RussellPort's strategies involving Khat

"Political stability is very important to FDI … this is particularly critical to investments of long construction and cost recovery cycles." "In Africa, political turmoil and frequent government turnovers are normal … Djibouti has another eight to nine years of stable growth period," referring to the remaining terms of Guelleh's presidency (see Section 7.2.1) (GK11). This assessment by GK CEO, who led similar projects in Africa before joining Russell, is representative of Russell's view. In essence, his comments are about property or contract rights security.

When investing in Khat, RussellPort had to meet the Djiboutian government's desire to (1) control the JVs (i.e., KH and DCT), leaving only 23.5% equity in Khat for it; and (2) cap its equity interest to 99 years as opposed to perpetuality. In exchange and to protect security and achieve goals of its investment, RussellPort gained the right to appoint key management roles (e.g., CEO, Operations, Marketing, and Finance) and retained operational control. This has allowed it to capitalize on or monetize its operating expertise, technologies, management knowhow, capital-raising capabilities, among others of its strategic core competence.

Djibouti Inc has built its economy by positioning its geolocational advantages as a regional transit hub. RussellPort has been able to add value and generate additional gains by "exporting management knowhow" (KH11). In addition to having operational control, RussellPort has introduced, and convinced its host to adopt the self-operate model, where the port owner operates its owned ports. Khat or Djibouti Inc were accustomed to outsourcing management of its facilities to professional managers. It is satisfied with being a landlord collecting rents only. DCT was operated in the same fashion. Obviously, this is not RussellPort's operating philosophy.

Gradually, the host government was convinced of the merit of this business model and has since adopted such a philosophical change. As a result, a JV comprising of RussellPort, Khat, and DPFZA was formed to operate and manage DMP (see Section 7.2.2.2). Ironically, in 2018, the Djiboutian government nationalized DCT and DPFZA has claimed that its own team now operates the assets (KH11; see Section 7.2.2.3).

From a firm strategy typology view, RussellPort has been mostly ***Adaptive*** to host government rules and requirements. It has, however, actively negotiated and introduced operating controls and promoted ideas and practices with the goal of maximizing its value-add or minimizing impact of host outdated practices or inefficient management and operational processes. These ***Additive*** efforts potentially

have a ***Transformative*** impact on the host institutions (see Section 8.2.3).

It is worth mentioning DCT's nationalization before concluding on Khat. As said in Section 7.2.2.3, RussellPort's property rights in Khat have been infringed on in at least two respects. However, it has been publicly silent on this matter, even though it has been sued by DPW. Informants have been silent on this subject citing company policy. The Djiboutian government's claims all have been rejected by the English High Court. The incident has proved to the world that property rights protection is weak in this country and nationalization is a real risk. (Therefore, whether Russell's strategies are truly effective remains to be seen.)

8.2.2 Russell's strategies involving Guinni Koma

In addition to political instability or property rights concerns, investors typically face high taxes, low government efficiencies and outdated practices, and low returns on investments in Africa (see Section 2.3). This is true in Djibouti as well. "A common problem in Africa, including Djibouti, is that governments often resort to increase taxes, instead of lowering taxes to nurture tax base, when dealing with declining fiscal revenues" (KH11).

Russell's mitigating strategies and proactive actions can be summarized into three areas (also see Table 8.2):

1) Protect property and contract rights

Russell formed JVs with host monopoly or institution DPFZA. AssetCo honors or recognizes the host government's landlord role. It also allocates between the JV partners upside of value creation by Russell. OpCo confers management right to Russell and allows it to maximize value creation onto the landlord's property (see Section 7.2.3.2). The 60/40 share split in AssetCo negotiated between them seems to be an appropriate balance between their respective contributions to the common good. Russell's contributions of operating the project are compensated through sharing of value increase in the assets it operates. The aggregate effect is no different from investing in a single JV company.

Forming JV with host stakeholders or interested groups is a common ***Adaptive*** strategy to seek protection of investors' rights and properties by aligning interests (Henisz, 2002; Dorobantu et al., 2017). Russell is not limited to that. It has been innovative and creative in creating this ownership and governing structure and injecting various ***Additive*** elements (e.g., operational control, leverage of its credit support to gain bargaining power against its host partners) into this two-JV setup by combining other strategies as discussed next.

2) Reduce costs of investment and doing business in general

Russell negotiated a package of tax and other incentives for GK and on behalf of investors to locate there and sought government commitment to keep this package the most preferential in Djibouti. OpCo serves as a one-stop services function to outsource various regulatory work and administrative procedures, minimize government interferences, and prevent resident firms from being bogged down by outdated practices. These strategies will lead to a reduction in business costs of both monetary (e.g., taxes) and nonmonetary (e.g., savings in time) nature and in turn improve its operating profitability and investment returns on the one hand and, on other, attract more residents to the industrial park and generate more business and taxable activities for the host economy.

These imminent or potential benefits to investors and host government are not a result of complete change to Djibouti's laws or rules. Instead, they are additions in variety and magnitude of incentives under the existing Free Zone legislations or policies. These are ***Additive*** actions engineered by Russell.

3) Broaden business and investment scope

Under the preferential terms granted by the Djiboutian government, investors relocating to GK can lease or own real estate properties, thereby participating in potential appreciation in land value. This is a new business or return stream for investors in addition to their core investments in, for example, either warehousing or logistics or light manufacturing. As a result, investors could capture some of the land value appreciation arising from their business activities from the once wasteland.

AssetCo is the sole seller or lessor of land and facilities within GK. It stands to benefit from land value increase and real estate development activities. This is essentially another line of business besides facilities leases that is the core of a typical industrial park. Its revenue streams will include both rentals and capital gains from land transactions. "Djibouti doesn't have the type of real estate development concept that is seen in China or elsewhere, but signs are emerging." "It has been noticeable that more and more houses have been built along the road leading to GK" (KH11). GK has already created overflow effect locally.

Russell has promoted and indirectly participated in this second line of business under AssetCo. By enlarging AssetCo's business scope, Russell has improved its chances of achieving its financial objectives of investing in and operating GK. This ***Transformative*** act allows it to internalize much of the positive externalities or land value appreciation that its investing and operating efforts may create.

In sum, Russell has engaged all three types of institutional strategies in dealing with Djibouti's unique institutional dynamics and economic endowment. What is unique is that it has orchestrated a concerted effort by different business lines within the Russell

conglomeration to experiment the PPC Model. Each piece of its actions could be termed as ***Adaptive*** or ***Additive***, but pieced together, they expect to produce a ***Transformative*** impact on and urge to reforming the host institutional settings and its own operating results and investment returns. (After all, that is what the Shekou Model is all about, see Box 6.1.)

8.2.3 How has Russell made these strategies happen?

The preceding two subsections have identified and highlighted the key strategic actions that Russell has taken in investing and operating KH and GK, and the business objectives that these strategies have targeted to achieve (e.g., to protect contract rights, reduce transaction costs, and exploit externalities). This subsection will focus on how Russell has executed or implemented those strategies.

Russell's delivering strategies include the following:

A. Advise host government or partners on macro strategies

Instead of submitting a bid for the renovation of Djibouti's old port, RussellPort provided a comprehensive proposal of building a new terminal and relocating and renovating the old port completely. It risks losing the business opportunity. Separately, it went through extensive internal debates over whether to undertake GK. These two proposals were all customized to Djibouti's institutional and resource characters and therefore appealed to President Guelleh and his policy planners. To that end, a complete replicate of the so-called PPC model is unlikely, because it has been customized to the Djibouti circumstances (KH11; KH13/GK13).

By advising the host government and its future or potential partners, Russell essentially introduces global best practices, transfers knowledge and management knowhow, shares business insight and expertise, and thinks from host perspectives. These all position Russell as a business partner of shared interests (KH32/GK32) as opposed to a contractor or aid donor. Russell offers what the host government fails to develop internally or locally and what aid donors don't bother to deliver, which is customized solutions to indigenous needs (see Sections 2.3.1 and 2.3.2). IFC's (2017) textbook warning on Djibouti's debt burden serves as a contrast to Russell's constructive approach.

To reinforce validity and feasibility of its advice and proposals, Russell hosted visits by Guelleh and his team to its facilities in Shekou and elsewhere. Their eyewitness of Russell's track records serves as a much convincing statement than a piece of written business proposal.

Such work is more than simple marketing on the part of Russell. It addresses the core risk of limited regulatory capacity of host government and helps strengthen its

regulatory ability to lead and regulate such complex modern business activities.

B. Leverage external experts in delivering or corroborating proposals

In addition to giving advice on its own, Russell has encouraged the host government to engage third party consultants or experts to perform studies and provide proposals. Their work of an independent angle could corroborate or substantiate Russell's advice on the one hand and, on the other, shorten host team's learning curve or time taken to comprehend the issues and solutions. It also reduces potential host resistance to Russell's unilateral advice and preempts future finger pointing by its host, if things went wrong down the road.

Additionally, this strategy helps preempt potential conflict of interest as seen in Sapphire case (i.e., engineering firm attests on behalf of RussellPort) and political sensitivity (e.g., third-party sabotage or misunderstanding, the "Debt Trap" or "neocolonialism rhetoric). It is a well-thought out strategy that is more than a mere marketing gimmick.

C. Align interests by forming and operating JVs

Forming JV as a means of entry is nothing new. What is unique is that this passive adaptive approach to enhancing property right protection has embedded a proactive element of reducing the cost of doing business, improving efficiencies, or expanding business scope and exploiting positive externalities (i.e., own and deal in real estate). These in turn fundamentally transform the low return scenario of industrial park operations.

Moreover, by committing itself to own and operate the proposed businesses, or the investor-operator JV model (see Section 7.4.2), Russell is more credible in giving advice and more likely to materialize business strategies that it advocates for. By teaming up with such a host institution, Russell essentially steps into the shoes of its host partners and gets its hands dirty to solve the problems that its partners have failed to. This method targets or cures the root cause of Africa's weak institutions of poor government capacity, lack of long-term commitment to perform their obligations, poor accountability by their administrative functions and personnel, and lack of financial resources to fulfill their obligations. A competent foreign hand or operator could represent a solution to Djibouti or Africa's enduring problems.

D. Help source, or leverage its support in, financing

As discussed in Sections in 7.2.4.1 and 7.2.5.2, Djibouti Inc relies on its partners' credit and support to borrow money and fund its indigenous growth programs. Russell's such value-add or credit support is indispensable to Djibouti Inc and allows it to have a certain bargaining power and leverage when advancing its various

institutional strategies.

As a result of Djibouti's nationalization of DCT, EXIM Bank has delayed approval of additional loans to Djibouti (for GK use). CDB requires loan insurance from China Credit Insurance but the latter has refused to provide credit enhancement. A damaging effect has resulted. This should serve as a strong warning to the Djiboutian government and help strengthen Russell's position in enforcing the contracts and commitments that it has reached with the host government.

E. Take a conglomeration approach replicating the PPC Model

Russell has evolved into a huge conglomerate with multiple business lines and vast industry resources and capabilities (see Sections 6.2 and 6.3). This has equipped it with the necessary advantages to address the unique institutional and structural deficiencies in Djibouti or Africa (see Section 2.3.2). Russell's conglomeration approach to the Djiboutian challenges can be illustrated by depicting how it has replicated the PPC Model (see Fig. 8.1).

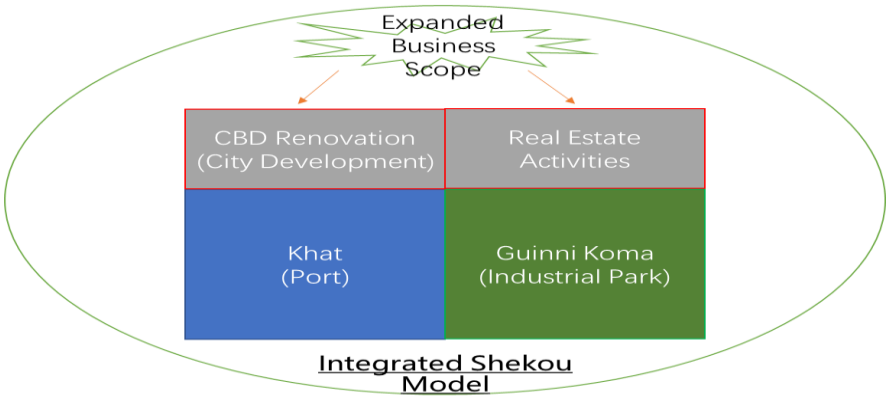

Fig. 8.1 Russell's Strategies in Replicating the PPC Model
Source: Table 8.2 and Sections 7.2.2 and 7.2.3.

By proposing to renovate the old port site under Khat and expanding business scope to engage in real estate activities at GK, Russell has achieved the effect of replicating its Shekou Model in Djibouti. And such a strategy has also appealed to the heart of its host, making this export of a unique Chinese model a win-win outcome.

From an organizational institutionalism perspective, by embedding an ***Additive*** element (i.e., CBD renovation) into an ***Adaptive*** strategy format (JV) and seeking regulatory change to expand GK's business scope, Russell has achieved a ***Transformative*** effect of exporting the PPC Model, hopefully transforming this logistic hub to a regional trade entrepot, as aspired by its host. Russell's conglomeration of resources and capabilities is what its host has dreamed of.

In sum, Russell has employed a variety of channels and techniques delivering its business and institutional strategies. These delivery strategies, either customized or

innovatively adapted from existing popular ones, are just as important as the institutional strategies or messages to be delivered. This is particularly critical in cross cultural communications and settings.

8.2.4 Section summary

In addition to investing in training facilities and reaching out to the local community through its CSR programs, Russell has applied several unique strategies to manage Djibouti's institutional challenges that it identified in advance. It has engaged all three types of firm strategies, namely, ***Adaptive***, ***Additive***, and ***Transformative*** in pursuing its business objectives.

While each of its strategic actions and plans can be termed as one of the three types, Russell has combined all these strategies into a coherent grand strategy. By (re)packaging its investment activities in Djibouti, it has customized the PPC Model to the Djiboutian circumstance. This experiment, if executed well, might create a chance to bring Djibouti closer to its aspiration of becoming the Dubai of Africa.

The preceding discussions have focused on Russell's proactive behaviors, which are driven to advance its clearly intended objectives. It is worth noting, however, that unintended consequences effected by host government or partners could become transformative on the host institutions as well.

For example, to accommodate RussellPort's acquisition of a 23.5% stake in Khat, DPFZA was reorganized to form GHIH, an investment holding company, to hold Djibouti's infrastructure assets, including the remaining 76.5% in Khat (KH11). This represents a small step forward, separating DPFZA's commercial activities from its regulatory functions. As a matter of fact, this is what Russell has advised its host (KH11) and done in Shekou (see Box 6.1).

"Our development is faster than institutional change, such as taxes and legislation." "Some initiatives to revise the tax law" (KH32). The need to attract foreign investors and align with international practices, as well as the potential benefits promised thereby, may ignite or force through additional reforms to Djibouti's institutional structures. Obviously, Russell's entrepreneurial efforts in improving the host institutional environment will benefit not only itself and its customers or partners but also the society and economy at large, and likely for the long-run.

Table 8.1 RussellPort's Institutional Strategies in Sri Lanka

Key Risk Characters / Factors	Key RussellPort Strategic Actions	Intended / Resulting Effect	Strategy Type
Sapphire			
▪ Unclear specifications in port law on foreign and private participation in port business and ownership of port assets	- Follow precedent (JV with SLPA) - Participate in international public tender - Exhaust legal help to comply with laws - Seek SDP treatment - Use internationally credible designers	- Address risks of government expropriation	Mostly *Adaptive* Some *Additive*
▪ SLPA monopoly of multi-country consolidation (MCC) business	- "We are challenging the law" (SA22)	- Break industry barrier	*Transformative*
Abhayagiri			
▪ Equity investment capped at 99-year	- Accept government change	- Loss of property value	*Adaptive*
▪ Unclear specifications in laws on: - Foreign ownership of port assets - Foreign ownership of common user facility services - SLPA monopoly of fueling services	- Follow precedent (JV with SLPA) - Ensure legal procedures are correct - Seek SDP treatment - SLPA economic majority in ServiceCo - Seek to enter fueling services	- Preempt uncertainty due to changes in government and policy - Address defects in law - Break industry barrier	Mostly *Adaptive* Significant *Additive* *Transformative effort*
▪ Lack of specificities in Free Zone / Free Port policies	- Obtain max flexibility in business choice - Experiment modified PPC Model - Expand scope of business - Engage external consultants / advisors	- Create synergistic businesses - Exploit potential externalities	Mostly *Adaptive* Significant *Additive* Somewhat *Transformative*
Institutional environment applicable to both Sapphire and Abhayagiri			
▪ "Chaotic democracy" ▪ Frequent government turnover ▪ Swings in ruling party's policies	- Pursue international tender/ market deals - Follow JV precedents / Align interests - Exhaust legal protections/SDP status	- Manage risks of nationalization - Address limited	Mostly *Adaptive* Somewhat *Additive*

▪ History of government expropriation	- Create benefits to local stakeholders - CSR programs - Disseminate info on hiring, TEU increase, and awards won	government commitment - Address political, media, and public perception	
▪ Suspicion of Chinese activities / anti-China sentiment ▪ Negative impact of local political rhetoric ▪ Perceived threat of "Debt Traps" and other international influence	- CSR programs - Transfer technologies / knowhow - Localize management - Train young recruits / competitive comps - Highlight HK listed company status - Highlight commercial nature of project - Deemphasize Chinese SOE background - Delink from BRI	- Address public / politician perceptions - Build rapport with local community - Minimize impact of political swings - Avoid extra cost of doing business	Largely *Transformative*
▪ Regulators or host partner's lack of expertise and resources	- Advise on business development plans - Introduce international best practices - Transfer knowhow and expertise - Sponsor education / training programs - Host visits to Shekou / China - One-stop services to assist customers	- Mitigate limited regulatory capacity - Improve efficiency	-Primarily *Additive* -Somewhat *Transformative*
▪ Unionization / Lack of skilled workers	- Localize management - Emphasize on shared interests - Promote professionalism - Competitive compensation and bonuses - Employee training and certifications	- Minimize extra cost - Maintain productivity - Retain customers - Avoid collective bargaining	-Primarily *Additive* -Somewhat *Transformative*

Source: GoSL (1979) and interviews with informants.

Table 8.2 Russell's Institutional Strategies in Djibouti

Key Risk Characters / Factors	Key RussellPort Strategic Actions	Intended / Resulting Effect	Strategy Type
Khat			
▪ Host government majority control	- Operating control/Key management roles - Introduce self-operate model - Assist in (and leverage) financings	- Enhance operating control and monetize value-add measures	*Adaptive* Significant *Additive*
▪ Government nationalization of DCT	- Wait and see (due to pending lawsuit)	- NA	NA
Guinni Koma			
▪ Investment safety	- Form two JVs	- Align interests	*Adaptive*
▪ High taxes and other costs of doing business	- Negotiate a package of incentives	- Reduce monetary cost	Mostly *Adaptive* Significant *Additive*
▪ Outdated practices and inefficient administrative procedures	- Form OpCo to exert operating control - Build one-stop services function to outsource government processes - Assist bureaucracy in admin matters	- Monetize knowhow - Improve administrative efficiency	Mostly *Adaptive* Significant *Additive*
▪ Low investment returns	- Share upside of land development	- Expand business scope	*Transformative*
Institutional characters applicable to both Khat and Guinni Koma			
▪ "Clannism" ▪ Legislative power by President ▪ Lack of skilled labor ▪ Poor regulatory capabilities	- Align interests (by forming JVs) - Advise on development plans - Leverage Chinese government/partners - CSR programs/ Employee training - Transfer technologies and knowhow	- Contain institutional weaknesses - Emphasize on shared interests	Somewhat *Adaptive* Mostly *Additive* Significant *Transformative*
▪ Poor economic endowment	- Experiment PPC Model - Introduce best practices and financings	- Expand business scope - Create externalities	*Transformative*

Source: Interviews with informants.

Table 8.3 Evolutions in Goulash Radzwill Special Legal Regimes

	Presidential Decree / Key Item	No. 253 (2012/06/05) Initial Stipulations (Clause #)	No. 326 (2014/06/30) Changes or Additions (Clause #)	No. 166 (2017/05/12) Changes or Additions (Clause #)	Resulting Effect	Strategy Typology
1	Industry Standard	Belarus, China, and other (2.11)	Reinstated (1.11)	Belarus, China, and EU (27)	-Reduce compliance cost	*Additive*
2	Permitted Industries	"Attract high-tech industries and competitive enterprises"	GR Master Plan approved six industries: Electronics and telecom, fine chemicals, pharmaceuticals, biotech, engineering, & new materials	Add: Logistics (including bonded warehouse zone), ecommerce, big data and R&D, and social and cultural activities (7)	-Expand business scope from 6 to 10 industries	Mostly *Additive* / *Transformative* effect
3	Minimum Registered Capital	No mention	No mention but Park Admin applied a higher threshold (GR11; GR21)	-$5mm for industrial -$0.5mm for R&Ds, spent over 3 years (7)	-Lower threshold -Cater to more industries	*Additive*
4	Land	-Permanent ownership by resident firms (2.7) -Free of taxes on transactions (3.1)	Land and leases pledgeable to approved financial and nonfinancial legal persons (1.7)	-Pledgeability of land and land leases reaffirmed (23)	-Create security -Create liquidity in properties -Enhance value	*Transformative*
5	Tax Benefits (incl: profits, land, VAT)	-Exempt for the first 10 years and half rates for the next 10 years -Various other benefits	Reinstated (various clauses)	-Exempt for the first 10 years of profitability and half rates till 2062 (40)	-Additional tax benefits -Longer benefit duration	*Additive/ Transformative* effect
6	DevelopCo	-Establish DevelopCo and define its roles (2.4) -Land can be leased or privately owned at 50%	-Roles reinstated and more specified (1.5) -Allowed to conduct "other operating activities"	-Land to DevelopCo at 25% cadastral value (19) -Develop and sell office, industrial and residential	-Direct subsidies -Expand business scope -Price-setting	*Transformative*

		cadastral value (2.7) -Exempt for land lease fees (6.1) -Various tax benefits (3, 4, 6)	-As property owner, right to determine its own matters within GR, including land transactions	properties free of profit and other taxes (41) -Receive gas and electricity at cost and free to set resale prices (82 & 83)	ability	
7	Foreign Exchange	No mandatory conversion of forex receipts to local currency (6.2.3)	No mandatory conversion (5.2) Forex transactions allowed (3)	-Free exchange -No restriction on uses -Free to open bank accounts offshore -Lend to or borrow from nonresidents -Free to invest in or entrust with nonresidents (74)	-Enhance value of property -Lessen infringement on property rights -Remove barriers to entry	*Transformative*
8	Sale of Goods/ Tax Benefits	Various tax benefits (4, 6.3)	Various tax benefits reinstated	-Free to set sales prices -Entry to monopolistic businesses (78) -No production, sales or import /export quotas (79)	-Operating freedom -Lower entry barrier -Right to use owned property	*Transformative*
9	Venture Capital Investing	No mention	No mention	-Exempt of capital gains tax up to 2027	-Expand business scope -Increase resident financing sources -Increase returns	*Transformative*
10	Customs	No mention	No mention	-Customs rules formulated to facilitate bonded	-Facilitate new business	*Transformative*

				warehouse and logistics business (Chapter 7)	-Follow market practices	
11	Minsk Sate Government	-Follow one-stop principle, assist DevelopCo and Park Admin in performing their roles (8.1)	-Reinstated	-No inspection allowed without Park Admin's prior approval (3) -No interference of DevelopCo operations (2) -Resident firms can only be sued in court (5)	-Protect investor rights -Reduce administrative interference -Strengthen rule of law	*Transformative*
12	Park Admin	-Establish Park Admin and define its roles (2.3)	-More authority and roles are more specific (1.3)	-Keep confidentiality of customer information (3) -One-stop administrative function to locate in GR (4) -Simplified process (7, 11) -Marketing roles (11) -Decision binding on other government functions (5, 7, 12)	-Protect privacy and property rights -Improve administrative efficiency -Role change	*Transformative*
13	Government Reporting	No mention	No mention	-Minimum requirement (80)	-Reduce cost and admin burden	*Additive*
14	Effectiveness of Special Legal Regimes	-Most favored SEZ status	-Tax and tariffs not specified in this Decree don't apply (6)	-Most favorable SEZ (5) -This law prevails over any new ones if deemed less favorable (88)	-Strengthen government commitment	*Transformative*

Source: Belarusian PDs# 253, 326, and 166, Belarus-China (2011), interviews with informants.

8.3 Russell's institutional strategies in Belarus

This section will be devoted to understanding what institutional strategies have been engaged by Russell in its development and operation of Goulash Radzwill. Given the "transition outlier" nature of Belarusian political, economic, and legal environment (see Section 7.3.1), the establishment of GR is reminiscent of the experience of creating Shenzhen SEZ in the overwhelmingly socialist and SOE context in China in the 1980s. That means that GR cannot grow out of soil underneath by marginal and gradual improvement, as insisted by Belarusian politicians (GR11), but rather, it requires a complete transplant of different systems and practices from outside (see Section 6.2.2).

As such, the overarching task facing the Belarusian government, Russell, and its predecessors was to create formal rules required or the necessary legal framework to build this legal and territorial enclave in this Soviet-type country. Similar to the experience of establishing SIP and Shenzhen SEZ, firms' proactive and upward proposals, ideas, and requests needed to be incorporated into the top-down laws and regulations of Belarus. It is the job of PDs that serve the purpose.

Russell's strategies implemented in Belarus can best be illustrated by review of the evolution of three key PDs governing GR and how Russell has participated in and contributed to this process and improvement in the SEZ legal framework.

8.3.1 Legislative process and evolution of special legal regimes

It is worth cautioning that this analysis is not purported to be a review of the Belarusian legal and legislative environment. Instead, it only attempts to understand and focus on changes in the special legal regimes and learn what key changes of institutional nature have been made at the effort of business firms like Russell.

After the political leaders reached a consensus in early 2010 on the creation of a China-Belarus industrial park, working parties from both sides elevated through their governmental hierarchy and concluded a critical milestone by cementing their ideas into a concrete bilateral agreement in Sep 2011 (Belarus-China, 2011, see Table 7.16). Under this agreement, China commits, among other things, to introduce enterprises, provide management (including training of employees and transfer of industrial park knowhow), and arrange financings. The Belarusian government will undertake passing legislations on the SEZ and promulgating incentive programs and a whole host of implementation details. These legislations and their evolutions are depicted in Fig. 8.2 (see Fig. 8.2 and Table 8.4).

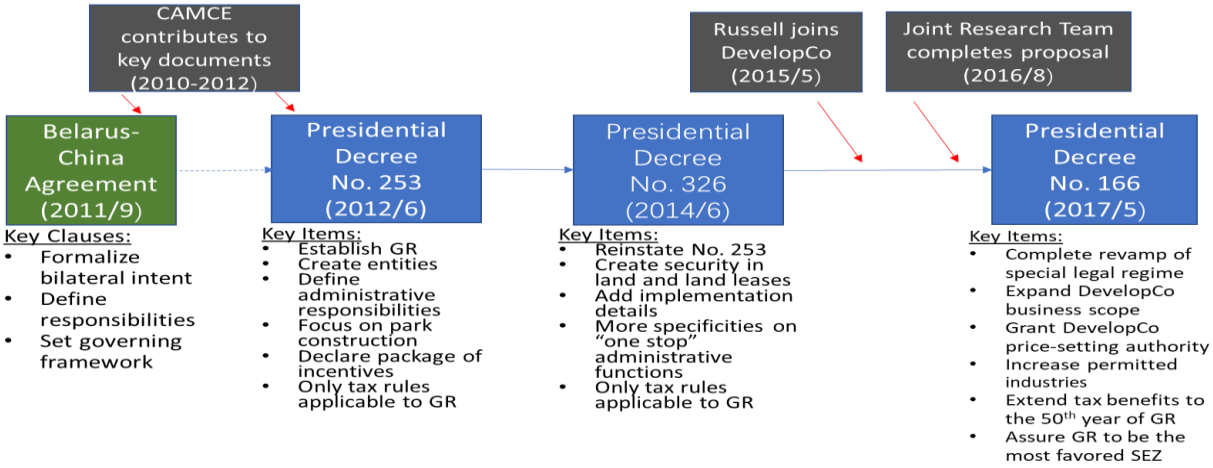

Fig. 8.2 Evolution of Goulash Radzwill Special Legal Regimes

Source: Belarusian PDs# 253, 326, and 166, Belarus-China (2011), Joint Research Team (2016), Luo (2019, and interviews with informants.

Subsequently in Jun 2012, Belarus issued PD#253, the first special legal regime governing GR which transports many of its undertakings in the bilateral agreement into this domestic legislation. It sets the physical location, size, and boundary of the park, creates regulatory institution Park Admin and authorizes the formation of DevelopCo, promulgates an initial package of tax and other incentives, defines rules and responsibilities about how central and state governments to coordinate among themselves and support GR, and other implementation measures.

Two years later, in Jun 2014, PD#326 was issued to update PD#253 and add more specificities, such as what to be covered under the Park Admin's "one-stop" administrative functions. One salient change is that land properties and land leases can be pledged to approved financial institutions for borrowings, essentially creating security in properties. (This reminds the case of Illinois Central reviewed in Section 3.4.2.1). These two sets of legal regimes focus more on construction of the park but less on park operations and attracting investors.

By the time Russell joined in May 2015, GR's Mater Plan had been approved by the Belarusian Council of Ministers, but construction progress was less ideal and marketing and attracting customers lagged target. Taking advantage of its experience in operating SIP in China, Russell beefed up construction work including its own logistics warehouses. However, attracting additional residents became very challenging. "We attracted only one new resident firm in 2016 and it signed up on the last day of the year" (GR11; GR21). Improving the park's investment climate became a priority.

During May – Aug 2016, a Joint Research Team (2016) comprising of academia and industry specialists from both China and Belarus was formed and conducted surveys of industrial parks in Suzhou and Tianjin, China and China-sponsored parks in Egypt

and Cambodia. Their concluding proposal was solely for the purpose of advising the two governments, particularly the Belarusian government, on overhaul of the then special legal regime. That led to the promulgation of PD#166, another key milestone in GR's development history (see Fig. 8.3 and Table 8.3).

8.3.2 Russell's channels of proactive strategic actions

In improving GR's external operating environment, Russell has exercised its influence at least through six channels as schematically depicted below (see Fig. 8.3).

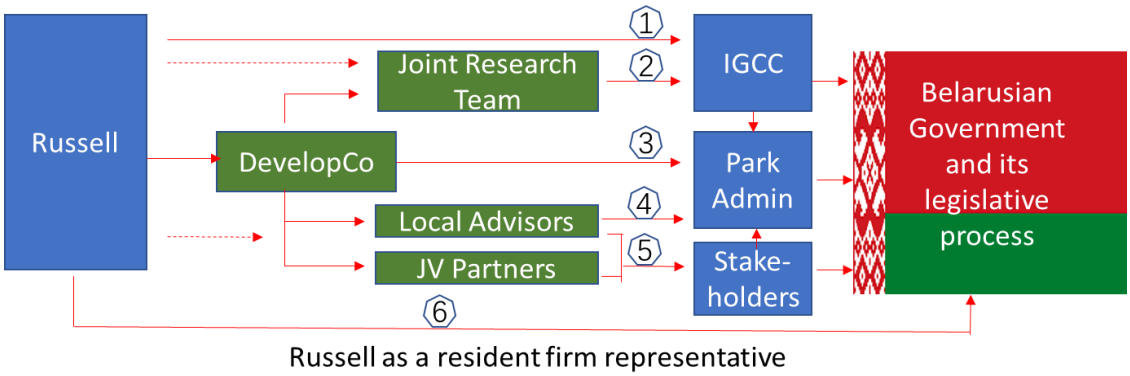

Fig. 8.3 Channels of Russell's Strategic Actions
Source: Interviews with informants and Section 7.3.2.

The primary vehicle to effect Russell's strategic actions is DevelopCo, which is legally charged with the sole responsibility of developing and operating GR. Naturally, it reports any issues, ideas, proposals, customer complaints and requests to Park Admin, labeled as (3) in Fig. 8.3, which is a multi-function state institution with legislative power (GR31). That can cycle these inputs into the legislative process and make changes accordingly. In addition, Russell can engage external advisors and consultants to perform studies (GR32). Their resulting proposals can become concrete suggestions to relevant authorities for legislative updates, as illustrated by labels (2) and (4) in Fig. 8.3.

Furthermore, DevelopCo can take advantage of its local JV or business partners and have them feedback to their regulators, state owners, and other stakeholders who have authority in providing input in GR related legislations (i.e., (5) in Fig. 8.3).

In all these situations, given Russell's operating control over DevelopCo, its strategic intent or proposals could be communicated through all these channels either directly or indirectly.

Moreover, Russell enjoys direct access to Chinese members of IGCC (i.e., label (1) in Fig. 8.3), the inter-government body responsible for resolving issues and setting overall strategy for GR. This channel can not only transmit its intent indirectly to the Belarusian side, but also augment its voice through this official passage, increasing

chances of adoption. Its expertise and reputation in operating industrial parks and China's top SOE stature carry much credibility with the Chinese authority when dealing with matters of political sensitivity. Conversely, Russell can leverage this mechanism for both its own and GR's interests by enhancing authority of its proposals.

In addition to Russell's operating capacity at GR, it also participated as the only resident firm representative in the drafting of PD#166 (GR24). This is its sixth channel of communications to the host legislative process (see (6) in Fig. 8.3). This affords it another angle to contribute to the improvement in GR's legal environment (e.g., the stipulations regarding bonded warehouse business).

As a matter of fact, resident firms are encouraged to report directly their complaints or issues of concerns to the Park Admin (GR51). PD#166 was triggered in part by the fact that so many issues and resident complaints had accumulated over time (GR21; GR24). It seems that the legislative process for PD#166 was truly a collaborative, open, and interactive process. More on that below.

In sum, Russell has superior access, directly or indirectly, to critical political actors in both China and Belarus. This advantage allows it to exert influence over Belarusian legislative process that produced its governing legal regime. Its expertise in operating industrial parks and effecting policy changes (see Box 6.1) and stature as a successful SOE in China (RU01) provide it with "credibility and bargaining power" (Dorobantu et al., 2017, p. 124) with both governments in fostering changes to GR's external legal and regulatory environment. These attributes make Russell a legitimate and effective actor or "institutional entrepreneur" to promote changes to host institutions and regulatory regimes.

8.3.2.1 Joint Research Team's key proposals

One of the key strategic actions pursued by Russell is a research project into best practices and successful models developed at other industrial parks. As a result, the Joint Research Team (2016) was formed and conducted its own survey and studies and consulted with DevelopCo and Russell as well. Its final proposal covers 10 major areas. Below will highlight several of these concrete proposals and see how they are translated into the special legal regime by comparing the proposals against PD#166 (see Table 8.4).

Table 8.4 Comparison between Joint Research Proposals and PD#166

Selected Proposals by Joint Research Team	Relevant Clause in PD#166	Item # in Table 8.3
1. Expand Park Admin's roles		
1.1 Join DevelopCo in attracting residents	11	
1.2 Improve approval efficiency	12	

1.3 Form "one-stop" service function in GR	4, 11, 12	13
1.4 Formulate detailed approval procedures		
1.5 Coordinate and supervise other regulators	12, 36	13
1.6 Have financial capacity to perform roles	11	
2. Exploit DevelopCo's potentials		
2.3 Improve service capability and efficiency	On-going	
2.4 Expand its roles to urban development	13	6
2.5 Engage in investing and other businesses	13	6
3. Expedite business introduction		
3.2 Expand scope of permitted industries	7	2
3.3 Form JVs to upgrade Belarusian enterprises	7	
Enhance protection of foreign investment	5, 88	15
4. Emphasize environmental protection		
5. Build bonded warehouse zone	Chapter 7	
5.1 Build GR to become a Eurasian logistics hub	7	2
6. Improve tax and other incentives	40	5
6.1 Wave DevelopCo's real property & land tax	41.2	
6.2 DevelopCo's right to sell land below cost	Implemented	
6.3 Foreign exchange gains not taxable	44	
6.4 Lower energy cost	82	6
7. Improve business marketing		
7.1 Focus on near term impact when targeting	7	2
7.2 Lower entry threshold of high-tech content		2, 3
7.3 Target suitable technologies, not the best		2
8. Improve standard conversion efficiency		
9. Improve immigration and labor matters	Chapter 6	
10. Improve interconnection with EAEU	EAEU SEZ status	

Source: Joint Research Team (2016), Belarus (2017), PD#490, and interviews with informants.

By pairing and contrasting the two documents, Table 8.4 illustrates that most of the selected proposals were reflected in PD#166. It is noticed, per author's calculation, that nearly 92% of the concrete and actionable proposals have been either legislated in PD#166 or subsequently implemented partially or completely. For example, one of the proposals is to grant DevelopCo freedom to price its developed properties and goods and services produced in the park, another recommends DevelopCo to sell developed land below cost in order to attract resident firms. The first proposal was adopted in PD#166, but DevelopCo was already selling developed land below cost without legislative stipulations.

It is also worth noting that some proposals are more qualitative, for example, "improve service efficiency." DevelopCo and Park Admin have been working hard to implement various initiatives either recommended by the Joint Research Team or derived from their own ongoing improvement efforts, or simply gathered from customer feedback (GR21). Another proposal is to improve connectivity with EAEU

and resident firm and investor access to the larger market. In Dec 2018, PD#490 declared GR to be the first EAEU Regional SEZ in Belarus. The recommendation has been implemented through a separate process.

In sum, while most of the proposals were legislated in PD#166, some have been implemented in ongoing operations, a few contentious ones have been left unfinished.

For example, Park Admin has applied a rather rigid criterion of "high-tech" manufacturing and engineering when approving applicants' qualifications. Russell's team (GR11; GR21) believes that the primary imperative for GR or any industrial park in their early stage of development is to attract whatever suitable businesses are available and build momentum as soon as possible. Then it can seek an upgrade of resident qualities or technology content when the park is filled out and resident firms are mature. In their view, the expanded scope of nine industries or ten, if social and cultural activities are counted, is already a compromise of the divergent views, but remains too narrow relative to the size of the park and expected development speed. "A hungry man should be satisfied with steamed bread and noodles, instead of waiting for abalone or shark's fin" (GR11).

However, Russell has failed to convince its Belarusian counterparty of this business philosophy, even when voiced through IGCC (GR21). Park Admin insists that this park is only for high-tech companies. Other industries or those with less high-tech content are welcomed in Belarus but can go to the FEZs or other parks (GR31).

8.3.2.2 DevelopCo's direct lobbying

Given its legally defined role of management and operation of GR and direct reporting or working relationship with Park Admin, Russell has effectively taken advantage of these channels and resources to advance its strategies and plans to improve GR's operating environment.

For example, the Minsk state government was a founding shareholder of DevelopCo. It treated the DevelopCo like another local SOE. It demanded to examine DevelopCo's payroll and to cut certain employees' salaries. It held meetings for local employees following SOE practices (GR21). Russell protested these interferences. As a result, Minsk state's equity shares were transferred to Park Admin. Examinations of or interference in DevelopCo operations without Park Admin's prior approval are explicitly prohibited in PD#166 (Belarus, 2017; GR21).

In another example, "we submitted a report and proposed to abolish price controls, foreign exchange controls, and quota systems." PD#166 adopted those proposals. It also waived VAT on certain business activities, including products imported and stored in bonded warehouse and resold in domestic markets. These are significant breakthroughs in host laws and regulations (GR11).

To what extent was DevelopCo or Russell involved in the legislative process? "PD#166 was pretty much drafted by us DevelopCo." "Over the course of our work and in assisting prospect firms, completing their applications, and dealing with governmental organizations, a lot of issues and obstacles were identified and accumulated." "During the drafting process, we engaged tough negotiations and resolved all those issues." "We injected our own heart and thoughts into the drafting and updating of this law" (GR22). "Nearly 80 percent of the revisions in PD#166 was based on our proposals." "These proposals range from land, construction, and taxes to labor and legal matters" (GR24). These are offered by DevelopCo's local managers.

In sum, Russell has employed a variety of strategies exercising influence directly or indirectly over the legislation of GR's special legal regime, which has significantly altered the external operating and institutional environment of GR and for itself.

8.3.3 Key changes in special legal regimes

Belarus has preserved Soviet era economic systems without much reform or liberalization. "Reform is a distasteful word among the Belarusian bureaucrats." Therefore, "The biggest challenge confronting Belarus is its [legal] systems" (GR11). "To develop the park, essentially it is about innovations in institutions and governing mechanism" (GR21). These assessments or observations shared by Russell managers and resident firms reflect their guiding thinking when pursuing their business goals at GR.

"That doesn't mean that things cannot be changed. It just takes time." "Within GR, it should be market, instead of government, that allocates resources. Government should minimize its interference in the park's operations" (GR11). This has been the guiding principles that Russell team has applied in advancing institutional changes.

8.3.3.1 Key institutional changes in PD#166

As mentioned earlier, the best way to capture the results of key institutional changes in Belarusian SEZ laws is through PD#166. They are summarized in Table 8.3 (see Table 8.3) and can be attributed to the following main themes.

A. Expand business scope

This should include increase in permitted industries (Item 2), lowering of registered capital (Item 3), expansion of DevelopCo's business scope (Item 6), and addition of a new legislative item --- regulations on bonded warehouse (item 11). These measures broaden appeals to more interested companies to invest and locate in GR. Proposals to improve air linkage and establish bonded warehouse zone in the park has resulted in the inclusion of Minsk International Airport in this SEZ and addition of a complete

new section on relevant procedures and tax rules concerning bonded warehouse business. That EU standard (Item 1) is explicitly written into this special legal regime also means that resident firms would become easier to export their products to the EU market or EU-oriented firms would face fewer hurdles to locate their production in GR. Overall, GR's connectivity with the EU is strengthened.

"Before 2017, there was no bonded warehouse in Belarus." "After extensive communications and visits to China, they agreed to establish a bonded warehouse zone in the park and promulgated tax and other incentives accordingly" (GR11). This is really a *Transformative* action implanted or imported from outside.

"Initial design of GR didn't consider attracting domestic firms." As a result of joint research proposals in 2016 (see Table 8.4), "quite a few of them became residents last year [2017]" (GR11). This should help Belarusian enterprises to access international markets and upgrade themselves and make foreign firms easier to find JV partners.

It is worth highlighting that DevelopCo has been allowed to invest and transact in real estate development and other activities free of taxes. This change should increase revenue streams for DevelopCo, on the one hand, and reduce costs of engaging these additional businesses, on the other, ultimately improving its chance of profitability and overall investment returns. This is a *Transformative* change to DevelopCo's business model and its governing regime as well.

In addition, this change may portend an adjustment in GR development policy from "industrial park" to "Park + City model" (since GR has no port, see Box 6.1). This is a transformative repositioning of GR.

B. Prescribe more incentives

The most obvious change is more tax benefits (Items 5, 8, 9, 10; also see Table 7.16). In addition, that DevelopCo can sell land below cost is a significant benefit to potential investors and resident firms. DevelopCo is exempt of land rentals when developing industrial, commercial or residential properties or charged at 25% cadastral value of land, reduced from 50% from PD#326, if it buys land to do such businesses (Item 6). These are significant subsidies to DevelopCo. Furthermore, gas and electricity will be supplied at cost, another direct cost reduction or subsidy to all resident firms and DevelopCo.

These are all significant incentive strategies on top of what is offered already. Qualitatively speaking, they are ***Additive***, but could become *Transformative* if their cumulative quantitative impact is considered. For example, profits tax was initially exempt for the first 10 years starting from registration date and half rates for the next 10 years. Starting point of tax exemption period has changed to the first year of

profitability and then half rates last till end of the special legal regime on Jun 5, 2062. This change is significant and potentially *Transformative*.

C. Restrain government interference and improve administrative efficiency

GR is pretty much a new phenomenon in Belarus even though the country has experimented with FEZs and HTP before. Governments at every level naturally follow their traditional approach to managing SOEs, which may result in undue interference (GR21). PD#166 explicitly bans all such interferences (Item 11). The government's visible hands are handcuffed. Resident firms can only be sued in court (Item 11).

In addition, relevant government functions are required to form one-stop service station in GR and provide onsite services to DevelopCo and resident firms (Item 12). To cut the red tape, the Park Admin is made the single point of contact for all administrative functions, and its decision is binding to all government departments. Certain government procedures are also required to simplify (Item 13) to improve service efficiency and reduce reporting burden on resident firms.

These practices are seemingly common elsewhere but "are revolutionary changes psychologically for these public servants. They are used to working for one supervisor but now two, that is, their minister and head of Park Admin" (GR31).

Moreover, the Park Admin's role has repositioned from a government bureaucracy to a service-oriented agency (Item 12). In addition to leading the one-stop service station, it is required to join DevelopCo in marketing and attracting resident firms and investors. This is to address the inherent weakness or deficiency in the initial design of the management or regulatory structure (GR11). As a result, DevelopCo-Park Admin relationship is tilted towards a more balanced one than the "you work, I approve" model. Attracting investors is a shared responsibility under PD#166.

Besides, Park Admin has been allowed to keep the money received from sales of land and reinvest these funds in park related activities, as advised by Joint Research Team (2016) (see Item 1.6 in Table 8.4). This change should provide it with financial resources to fulfill its various responsibilities, addressing the limited financial efficiency issue of weak institutions (see Section 2.3.1.3).

It can be said that these changes are significant ***Transformative*** forces within the prevailing Soviet style environment.

D. Grant price-setting authority

In a country where supermarkets don't have the freedom to set milk prices (GR11), it is a significant right or privilege for DevelopCo to be able to set sales prices for its

developed land and properties (Item 6) or for resident firms to sell goods or services at prices of their choice (Item 8). Import and export quotas are phased out too. This is a key distinction between a market versus planned economy. Therefore, this is a significant ***Transformative*** step made by the host government and illustrative of the ***Transformative*** beliefs held and implemented by Russell managers.

E. Protect property rights

It has been reaffirmed throughout the three PDs that GR will be the most favorable SEZ in Belarus and automatically qualify for more favorable terms if announced for other parks. PD#166 further guarantees that if any new laws or regulations enacted in the future worsened the status of DevelopCo or resident firms, those laws or rules would not apply (Item 14). *These measures address the key risks of limited commitment (or contract performance) of and potential expropriation of assets by government of weak institutions.*

It is specifically stipulated that DevelopCo and resident firms can keep their foreign exchange receipts, use them freely in their investing and business activities, and open bank accounts outside of Belarus. This essentially removes constraints imposed on private firms' (foreign exchange) assets and restores to their rightful owners unencumbered rights to derive benefits therefrom.

Another example is private land ownership that was granted to resident firms through PD#253. PD#326 grants the owners and holders of land lease rights to pledge such assets to approved financial institutions for credit. PD#166 further affirms that stance and expands approved pledgees to any legal person. This change will broaden asset-owners' financing alternatives and capacity and enhance the value of their assets too (Berkowitz et al., 2015). In a political or legal environment of predominantly public or state land ownership, it is a drastic departure to allow mostly foreign owed resident firms to own land and even create security. This represents a ***Transformative*** reform adopted by the host government.

In sum, PD#166 has transformed not only the special legal regime for GR, but also certain sections of the Belarusian government and its relevant regulatory functions and rules. But how the GR phenomenon affects the Belarus economic systems as well as its society at large remains to be seen.

8.3.3.2 Typology of Russell's institutional strategies

As seen from the preceding analyses and Table 8.3, reforms initiated by Russell and its fellow consultants and resident friends and adopted by the Belarusian legislature are truly ***transformative*** if the typology terms discussed in Section 4.4.3 are used to describe their intent and impact. It is simply because most of the proposed practices (e.g., firm's business scope, price-setting authority, creation of security in owned

properties) are market norms that had not existed in Belarus and cannot grow out of planned or socialist economic soil. They have to be transplanted or imported from outside, as was done in Shekou or Shenzhen in China since 1979.

Assigning a typology attribute in Table 8.3 is a matter of judgement. Some could fall between ***Additive***, if only compared to the previous PD, or ***Transformative***, if their potential impact or significance is considered. In the overwhelmingly ***Transformative*** or reform process of creating GR, no strategy is purely ***Adaptive***.

From an NIE theoretical perspective, few institutions are complete because they involve prohibitively high transaction costs to delineate at the outset, are rendered incomplete or obsolete as a result of changes in external environment, or are a compromise among stakeholders of conflicting interests (Horn, 1995). For a "transition outlier" like Belarus, a huge gap or vacuum exists in its institutional buildup, which is unable to foster market economic activities. It is no surprise that Russell's strategic actions mostly fill the host institutional void and build the rules of game for market activities and international practices to take root and grow.

8.3.4 Section summary

Russell managers have been aware of the tasks and challenges confronting them in this Soviet type environment and concentrated their efforts and strategies to tackle them head-on. They have succeeded to a great extent in achieving that goal, as manifested by PD#166. Most of their strategies have *Transformative* intent and impact, weeding out Soviet era regulations and practices and transplanting or importing rules and practices from international markets or their own reform experience in China. Unintentional consequence to host institutional evolution has resulted too.

As a result of the bilateral nature of the GR program and that Russell has been the Chinese government designated implementor of the project, Russell has enjoyed the privileges of a quasi-host institution (through DevelopCo or resident firm) in participating directly in the host legislative process of the special legal regime. This has given it an opportunity to advance its strategic intent and innovative actions to tackle the host institutional impediment. Its such institutional entrepreneurial capacity is unique and pioneering and could become iconic in the BRI narrative.

8.4 Findings and cross-case generalizations

Recognizing the institutional constraints (see Section 6.4) and geo-recourse endowment characters of these B&R nations (see Chapter 7), Russell has employed a variety of firm plans and strategies to cope with host institutional conditions when advancing its business courses. These strategies generally conform to the typology of firm institutional strategies delineated in literature (see Section 4.4.3), although

assigning a typology hat onto a specific firm action involves a large element of judgement and subjectivity (see Section 5.3.3). This section intends to compare and generalize across cases and countries what firm strategies have been deployed, how they have been delivered, why Russell has been able to do so, and what has resulted in host environment.

8.4.1 Summary of Russell's institutional strategies

This subsection attempts to recap the key firm-initiated strategies (see Table 8.5), identify findings, and draw certain patterns or implications across cases.

Table 8.5 Summary of Russell's Key Institutional Strategies

Strategy Type	Adaptive	Additive	Transformative
Sapphire	-BOT/public tender -JV with host monopoly	-Seek SDP treatment -Advise regulators	-Challenge MCC rules
Abhayagiri	-JV with host monopoly -Agree to equity cap	-Seek SDP treatment -Seek tax incentives -Assist in government process	-Enter port services -Enter fueling services -Seek entry to refineries
Khat	-Minority shareholding -Agree to equity cap	-Operational control -Transfer knowhow -Advise government	--Engage in real estate / CBD redevelopment - Experiment PPC model
Guinni Koma	-JV with host institution	-Two JV structure -One-stop services -Seek incentives	--Engage in land/real estate development - Experiment PPC model
Goulash Radzwill	-JV with host institution	-Advocate foreign land ownership and create security	-One-stop service station -Seek incentives/subsidy -Advise on government -Import market rules and practices

Source: Tables 8.1, 8.2, and 8.3.

Table 8.5 is a combined but stylized version of Tables 8.1, 8.2 and 8.3. This simple contrasting analysis may reveal several findings and implications:

First, host institutional characters define what firm strategies can be applied.

Russell has engaged, or customized, all three types of institutional strategies in each of these countries, but the strategies' focus and impact vary. In Sri Lanka, for example, where English legal traditions remain strong and legislations tend to be complete but not necessarily up to date (SA21/AB21), Russell's firm strategies gravitate to be mostly ***Adaptive***, with significant ***Additive*** efforts to maximize advantages or benefits permissible under the prevailing institutional confines.

In contrast, in Belarus, the necessary rules, laws, practices governing the business programs and activities contemplated by the governments are incomplete or nonexistent under the prevailing Soviet type systems, thus, a new set of rules must be built from scratch. As a result, Russell's efforts have geared towards constructing and establishing the legal and regulatory frameworks required to enable these business activities to take place.

In the course of installing these new systems into the command economic institutional backdrop, Russell has also helped to remove some of the impediments in the host systems (e.g., Belarusian ministries to form one-stop services station in GK) and acted unintentionally as a "catalyst agent" (see discussions on the US Marshall Plan in Section 2.2.2). These actions may not fundamentally *Transform* this semi-closed economy, but at least Russell's business objectives are better assured under these new systems (e.g., PD#166 vs. PD#253 vs. old systems).

Second, foreign investors are capable of inciting changes in host institutions.

Russell as a competent economic actor is inherently capable of fostering institutional change (see Box 6.1; North, 1990/1994). Its experience in these countries has proved that institutions are not stagnant and can be changed or completely rebuilt. As a foreign investor, Russell is also equipped to effect changes to host institutions.

Its sources of such change power may have originated from its experience in initiating reforms, including pioneering the PPC Model in China, its huge financial capacity as a Fortune 500 MNC (see Section 6.2), its reputation and leadership in port management industry (see Section 6.3), or its long-term commitment to host communities lauded by local stakeholders (SA21/AB21; KH32). These attributes qualify Russell as an "institutional entrepreneur" (see Section 4.4.1) capable of effecting institutional reforms.

What is unique to Russell in these cases but not covered in existing literature is that Russell's Chinese SOE or state institution background may accrue it a certain real or perceived credibility and authority when facilitating or forcing through such changes. Its professional credentials augmented by Chinese government nomination of it to these bilateral programs (e.g., AB, GR, and GK to some extent) seem fit to the "catalyst agent" role nicely.

For example, in Djibouti, Russell is treated as both a "government-owned and a private company listed in HK." "As to Djiboutian concern, it is a private; for us, like it to be government-owned, like it to state in agreement that it is government-owned. If government-owned, it would give us more assurance." "Like to take advantage of state-owned, private [privately run] company" (KH32). These perspectives by a host official best illustrate the point.

Guinni Koma and Goulash Radzwill are state programs with a mission to significantly alter the development trajectory of these nations (GR11; GK13). Abhayagiri bears hopes of millions to revitalize an agrarian region. These projects are policy tools conceived by host politicians, but Russell has been enlisted to implement these grand and ambitious programs due to their bilateral nature. Although Russell has claimed itself as a commercial concern and pursued market practices in executing these projects, its official capacity, or its ability to represent official capacity, has been well received by host governments and partners.

Additionally, by forming and operating those JVs and assuming the responsibilities of its host partners implementing those state programs, it is taken as or acting like a host institution. Thus, it shares and enjoys certain privileges only available to domestic institutions. In essence, these JVs are a form of host institutional evolution.

Moreover, from a host perspective, Russell has an impeccable professional credential that can rival any leading private players in the ports industry. It is easy to understand why host partners like its commercial side. But why does it carry so much tractions by its noncommercial side? It might be its ability and influence to help host governments obtaining Chinese policy loans. It might be because of its political agent capacity to help access and facilitate Chinese political decision-makers at the higher hierarchy since inter-government deals always carry a political dimension. Its involvement strengthens linkage with the Chinese state and helps to sustain Chinese commitment. Or because it represents a huge crowd of Chinese investors, sort of collective bargaining. Or simply, because these countries have institutions or institutional legacies compatible with and comparable to China's own (see Table 6.4).

Whatever the scenarios might be, it can be argued that Russell's ability to influence host institutional change is to a great extent augmented by Chinese government credit enhancement --- to borrow a banking term --- regardless whether it is real or perceived. Its role as an implementor of BRI projects reinforces its institutional entrepreneurial capacity in launching changes to host institutions in these countries, since all of them have joined the BRI circle under different forms of bilateral agreements (NDRC, 2020).

Third, the BRI could become a catalyst agent to foster institutional reforms in B&R countries.

FDIs have been known to facilitate transfers of technologies and knowhows (Kumar, 1998; Ricken and Malcotsis, 2016). To continue the preceding analytical logic and look at the BRI as a whole, due to their large size and inter-government nature of some of the B&R projects, as indicated by the five cases studied in this research, the BRI may drive or foster changes and reforms to host institutions in order to accommodate, or achieve the goals promised by, these investments. Thus, the host

governments and stakeholders may have an incentive to initiate and welcome changes to their institutions.

In addition to the prospect of Chinese FDI inflows, the BRI means different benefits to different stakeholders in a recipient country (see Chapter 7). Their generally favorable receptions to the Chinese program may tolerate or inspire more reforms to their institutions. With credible executers like Russell, who are further endorsed by the Chinese state, the BRI's change effect could compound.

Fourth, innovative application of *Adaptive* JV market entry strategies.

JV format is a popular adaptive market entry strategy for foreign investors to align interests with host stakeholders in exchange for protection of property rights (see Section 4.4.3). Russell has chosen, or been forced, to adopt a JV format in all these cases. What is unique is its innovative applications of this simple strategic choice to address complicated business and political matters. For instance, by using two JVs of varying roles and equity share split (e.g., GK), sleight-of-hand design (e.g., AB), or simple contractual arrangement (e.g., KH and GR), Russell has effectively resolved potential conflict of interests and priorities among the partners, worked around host industry barriers, or materialized its various value-added measures by gaining management or operational controls.

Another unique aspect about its use of the JV structure is that in markets like Djibouti, JVs have served as a concrete vehicle to realize or take root of transfers of knowledge and knowhows, provide on-the-job learning and vocational training to local employees, outsource government administrative functions from bureaucratic hands to professional managers, keep aid money out of interested groups and corruption and embezzlement, and even force the host government to keep its various promises to investors (to some extent, not completely, as seen in DCT's nationalization). All these measures, ***Additive*** in nature, address all forms of weak institutional characters in such countries (see Section 2.3.1).

Therefore, innovative and effective use of a simple JV structure by a strong and committed foreign operator, or called investor-operator JV model, coupled with host institutional reforms, may represent a solution to the challenges that FDIs and aid donors confront in Africa. The Djibouti-Russell partnership, combining transfer of knowhow, reforms in institutions, and implementation of imported ideas and practices, may rekindle hopes amid the despair described by Collier (2007).

In sum, Russell has innovated a variety of firm strategies to deal with the unique institutional issues confronting its projects and in case countries. These strategies are expected to both benefit its investments and foster host institutional evolutions.

8.4.2 Assessment of the impact of Russell's strategies filtered through NIE lenses

The preceding analyses have tried to delineate and contrast between different sets of firm strategies among the case scenarios. This subsection is designed to continue the analytical process and assess the impact of these strategic actions under the NIE lens (and the fitness of the guiding theories to the case circumstances under study from a research methodology angle).

Since extensive elaboration of these strategies and their impact has been done in preceding analyses, borrowing a color band concept, Fig. 8.4 attempts to visualize patterns or spectrum of these strategies' effects (see Fig. 8.4).

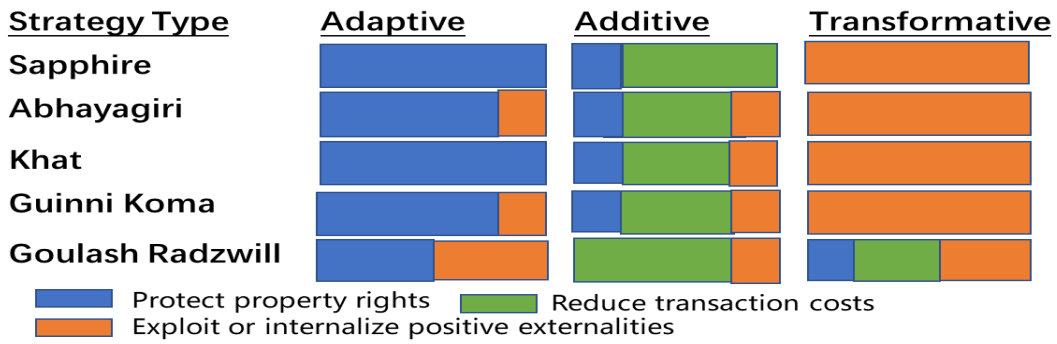

Fig. 8.4 Spectrum of NIE Implications of Russell's Institutional Strategies
Source: Based on Tables 8.1, 8.2, 8.3, and 8.5 and Chapter 3.

Several observations and findings may be drawn as below:

First, *Adaptive* approach tends to focus on protection of investors' property and contract rights.

Without repeating too much of what has already been noted, in all five cases, Russell has teamed up, by choice or by default, with host institutions or interested parties to undertake these projects. However, it has injected into this passive market entry strategy its own creativity, that is, use of two JVs to break host industry barriers (e.g., AB) or enter additional business or real estate development (e.g., GK and GR). In both scenarios, ***Transformative*** effects result.

Second, *Additive* strategies concentrate on reduction of transaction costs.

These proactive actions take different forms in different countries. This is obvious in Djibouti and Belarus where, for example, the one-stop services, incentive packages, or even CSR programs designed or pushed by Russell are geared towards lowering costs of investment and doing business in general.

In Sri Lanka, a key such strategy is to seek SDP stature for the two investments. But even within Sri Lanka and with the same SDP treatment, its effects vary. For

Sapphire, it is another layer of protection of Russell's rights under the standard BOT CA. In contrast, Russell's intent is to protect the various tax benefits that it had negotiated with the host regulators (i.e., BOI) for Abhayagiri. By law, such tax concessions need be approved by the Parliament and made into law or they are exposed to the risks of government turnover or policy change. Therefore, an ***Additive*** effort focusing on reduction of transaction costs has been incorporated into an ***Adaptive*** strategy to enhance property or contract rights protection (see Section 4.4.2).

Third, *Transformative* attempts mostly target to exploit externalities.

Whether it is a single attempt to break government monopoly of oil refineries, challenge the lawfulness of MCC restrictions in Sri Lanka, wholesale export of the PPC Model to engage in real estate development in Djibouti, or expand permitted industries and DevelopCo's operating freedom at GR, the ultimate goals of these strategies are to seek permission or broaden Russell's business scope to engage in profitable businesses and achieve cross-subsidies. Essentially, these moves are to create and capitalize on positive (reciprocal) externalities among multiple business lines.

In Belarus, a country of incomplete institutions, all strategies can be viewed as ***Transformative*** regardless of the institutional objectives pursued by these strategies. Russell's efforts, regardless of if they are pushing for bilateral commitment, or advising and educating host officials and partners, or participating in the host legislative process, all target to remove obstacles against the import of international and market rules and practices to this former Soviet republic. The installed rules and practices cover, among others, protection of foreign investors' interests, minimization of economic, regulatory, and social costs of doing business, and open-up of additional industries and segment of the economy to foreign and private capital. All of these are important to attract and sustain FDIs to help transform its economy and the country as well.

In summary, ***Adaptive*** strategies mean to recognize the current settings of host institutions and levels of transaction costs, while ***Additive*** actions focus on reducing transaction costs, and ***Transformative*** efforts aim to, in addition to the above, create and internalize positive externalities and to improve the return profile of an investment.

Having said the above, it is worth cautioning that specific strategic behavior can fall into all three types depending on the institutional circumstances. Repeatedly affirming the protection of investors' property rights in Belarusian PDs is a transformative act by the host legislator in this state ownership dominated, quasi socialist economy. While similar laws already exist in Sri Lanka and Djibouti, enforcement is less than ideal. Any effort to strengthen such deficiencies could be more ***Additive*** (e.g., in Sri Lanka) than ***Transformative*** (e.g., in Belarus) in nature.

Furthermore, a firm strategy can be designed and implemented to achieve more than a single objective. For example, in Sri Lanka, RussellPort's seeking SDP treatment for Abhayagiri could both achieve better protection of contract rights and make into law the results of its hard-negotiated tax benefits. It is reverse engineered in Djibouti where the PPC experiment is implemented by the concerted efforts of Khat and Guinni Koma investments orchestrated by Russell.

In sum, individual ***Adaptive*** **or** ***Additive*** strategic acts combined can achieve a ***Transformative*** effect. *The beauty of Russell's effective or innovative application of these strategic elements is customization and creativity.*

8.4.3 Legal traditions and firm's institutional strategies

This research is not intended to build a linkage between legal traditions and firm's institutional strategies. Rather, since the three countries have covered a wide range of legal traditions and their respective legal institutional characters seem unique and representative of a larger group of B&R countries (see Table 6.4) (e.g., post-colonial, African and Mideastern, and former communist), some cross-country generalization may be drawn upon to illustrate a pattern or theme.

Legal traditions are about "creditor and investor rights, efficiency and quality of legal systems, and economic regulation" (Oto-Peralías and Romero-Ávila, 2014, p. 561). The prevailing view is that common-law countries have better investor rights protection, efficient contract enforcement, and higher level of judicial independence than civil-law states. On the opposite extreme, socialist and certain religious societies practice state or public ownership, concentrate (legislative) power to the (head of) state, and compromises on judicial independence (Saidov, 2003).

Among the case countries, in a relatively mature or sophisticated common law environment where the rule of law is generally established, but means of enforcement could be weak (e.g., Sri Lanka), foreign firms tend to adopt mostly ***Adaptive*** strategies augmented with ***Additive*** efforts to exhaust benefits within the existing institutional confines. In polities where both legal and institutional establishments and their enforcement are weak, incomplete, or even nonexistent (e.g., Belarus), ***Transformative*** actions must be taken in order to facilitate firms' commercial or market activities. These suggest that some sort of correlation exists between a country's legal tradition(s) and the institutional strategies available to and practiced by business firms (see Fig. 8.5).

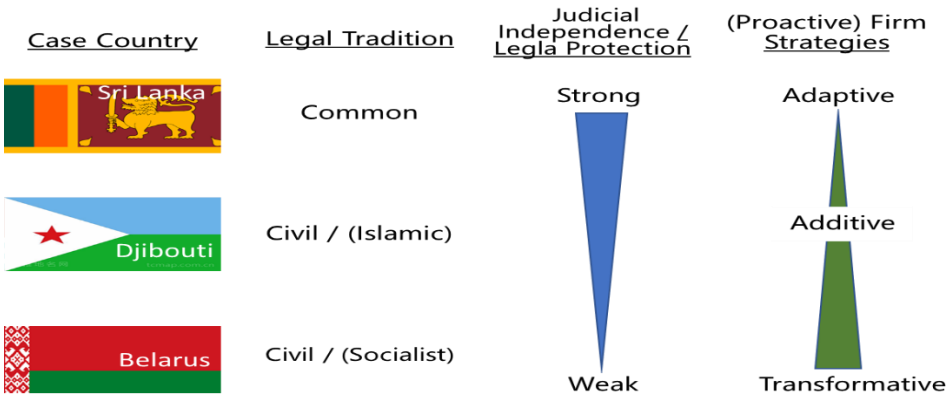

Fig. 8.5 Legal Traditions and Firm's Institutional Strategies

Source: Saidov (2003), Oto-Peralías and Romero-Ávila (2014), Table 6.4, and interviews with informants.

The above observation may be oversimplified and the scheme in Fig. 8.5 may mislead to imply that Djibouti is in the middle of the two extremes (between Sri Lanka and Belarus). Djibouti has adopted the French civil code mixed with Islamic and customary laws. Russell's firm strategies in Djibouti have been mostly ***Additive*** types. However, it would be difficult to discern whether Djibouti's legal institutions would be superior or inferior than Belarus' civil law system mixed with extensive socialist remnants. They could be the same because both of their Presidents possess huge legislative power and have acted like dictators, and both have amended constitutional term limit and been in office continuously for over two decades.

8.4.4 Key delivery mechanisms of Russell's institutional strategies

Russell has employed a variety of mechanisms or strategies in delivering and executing its strategic actions and plans as discussed in preceding sections. These delivery strategies look rather routine and generic but have embedded a range of innovative applications, achieved a host of its strategic objectives, and addressed a variety of host institutional challenges as highlighted below (see Table 8.6).

Table 8.6 Russell's Innovative Delivery of its Institutional Strategies

Strategic Action	Strategic Effect	Weaknesses Addressed
Advisory -Advise partners/regulators -Engage consultants -Host visit and demos	-Transfer knowhow -Import best practices -Educate/assist regulators -Third-party confirmations	-Host limited regulatory and institutional capacity (Regulators' capability, decision-making speed, regulatory competence)
Labor training -Vocational training -Apprenticeship	-Transfer/train job skills -Nurture industrial labor -Team bonding	-Poor social and cultural institutions (Lack of skilled labor, lack of industrialized work habit)
Form investor-operator JV	-Import industries -Take-root of knowhow -Management apprenticeship	-Lack of competent institutions and firms to execute business and institutional strategies

	-Outsource bureaucracy -Internalize externalities	-Host government limited commitment and accountability
Conglomeration of actions	-Synergies among strategies -Cost effective delivery of strategies (PPC in Djibouti)	-Single institutional entrepreneur tackles multiple weaknesses (e.g., capital, knowhow, labor)
CSR programs	-Reach out to society at large -Build/maintain reputation -Enhance employee loyalty -Embed into local community	-Address political, government, social, religious, cultural, employee constituents in a comprehensive manner
Leverage Chinese state	-Enhance home and host receptivity/legitimacy -Obtain credit/capital support -Solicit donations / State CSR -Validate project legality -Elevate strategies' authority	-Enhance institutional entrepreneurship and authority -Help strengthen host institution -Address home institutional weaknesses
Make long-term commitment	-Adapt to business nature -Long recovery cycle of capital -Call option on long life assets	-Win host trust -Enhance entrepreneurial capacity and credibility
Communicate to stakeholders (on strategies and business progress)	-Information transparency -Engage both internal and external stakeholders	-Reduce information asymmetry and host suspicion

Source: Tables 8.1, 8.2, 8.3, and 8.4, Section 6.3, and Chapter 7.

Table 8.6 is not an exhaustive list of strategic delivery mechanisms that Russell has used. It is worth noting, as to be elaborated more next, that some of these delivery strategies are also its firm institutional strategies but only discerned from a methodological angle or how firm strategies have been delivered. In another word, metaphorically speaking, firm institutional strategies are the message, delivery mechanisms are the messenger. Russell has carefully chosen its messengers for the messages to be delivered in these divergent and complex situations.

8.4.5 Sources of Russell's institutional entrepreneurial power

Russell has acted like a powerful and capable institutional entrepreneur in promoting changes to host institutions and become a force of catalyst agent under the BRI. Its sources of such institutional power have been explored or speculated in preceding discussions (see Sections 6.2 and 8.4.1). This subsection will only recap some of the salient features of Russell's institutional power and attempt to answer why it has possessed such capabilities (see Table 8.7)

Table 8.7 Sources of Russell's Institutional Power

Key Source	Russell Examples
Conglomeration Model	・ Capital resource, multiple industry lines, large size, venture capital and private equity funded firms

	・ MNC operating in multiple markets and capable of cross-nurturing and sharing expertise / practices ・ In-country critical mass of investments (SA+AB in Sri Lanka, KH+GK in Djibouti, multiple assets at GR)
(Compatible) Industry Expertise	・ Port management leader, shipping liner relationships (making Port of Colombo a transshipment hub) ・ Pioneer of PPC Model, experienced park operator
Firm History	・ Institutional entrepreneur at birth ・ Credible track records in China's reforms
Chinese Institution	・ Real or perceived authority within Chinese state ・ Designated executer of BRI projects ・ Ability to facilitate policy loan / aid applications and Chinese political process
China Inc Leader	・ Ability to deliver turn-key solutions with partners (e.g., CHEG as port builder of DMP, AADR contractor) ・ Active recruiter of (Chinese) firms / exporters relocating to these parks

Source: Hardy and Maguire (2017), Sections 6.2 and 6.3, and Chapter 7.

The fundamental source of a firm's institutional power is its ability to mobilize resources on the one hand and, on the other, to generate benefits to relevant stakeholders (Hardy and Maguire, 2017). Table 8.7 highlights that massive resources, including political, financial, organizational, and institutional, are at Russell's disposition. All five projects have generated tangible or intangible, imminent or long-term benefits to a variety of stakeholders as extensively explored in Chapter 7. This is consistent with Russell managers' confidence in their ability to protect its investment and assets regardless of host government instability, as long as it brings real benefits to host people (RU01).

8.4.6 Change impact of Russell's institutional strategies

The preceding discussions have examined Russell's institutional strategies based on its strategic intent and impact on host stakeholders (primarily financially and strategically) and itself (financially and institutionally). Next, its entrepreneurial impact on host institutional reforms will be explored. Russell's strategies have achieved at least the following results (see Table 8.8).

Table 8.8 Russell's Institutional Achievements in Host Countries

Key Category	Examples of Host Institutional Reforms
(New) Regulatory Institutions	・ Park Admin and evolutions in its roles and capacity ・ DPFZA repositioned as a (pure) regulator ・ SLPA upgrading its mission to "regional container hub" ・ Three-level governance structure at GR
New Industries	・ Modern industrial park and manufacturing (GR and GK), most

	advanced port in East Africa (DMP) · Real estate / CBD development in Djibouti · R&D incubation and bonded warehouse in Belarus
New Organizational Forms	· Two JV format (GK), investor-operator JV · Outsourced one-stop shop administrative functions · JVs (e.g., DevelopCo) as host institutions
New Practices	· Chinese apprenticeship for training employees · (Port) self-operating model (KH) · Chinese as a working language at GR
New Technological Standard	· Chinese and EU standards at GR · Chinese standard in Djibouti
Host Institutional Reforms	· Market or international rules and practices adopted in Belarus · Belarusian SOEs operating under special legal regime · Minks International Airport becomes a part of SEZ · FDI firm executing Free Zone policies in Sri Lanka · Tax and institutional reforms forthcoming in Djibouti
New Rules / Laws	· Special legal regime (e.g., rules on bonded warehouse in PD#166)

Source: Hardy and Maguire (2017), Tables 8.1, 8.2, 8.3, and 8.4, and Chapter 7.

By zooming in host institutional change impact, Table 8.8 illustrates that Russell's institutional strategies seem quite effective, and their change results are obvious and substantial. Some may have permanent impact on host institutions and economic growth. These evidences reinforce the claim that Russell is an institutional entrepreneur and a change agent under the auspicious BRI banner. It also supports the argument that the BRI could become a catalyst engine spearheading institutional reforms in B&R countries.

These host institutional changes are an (un)intended outcome of Russell's institutional strategies that have been pursued to advance its own business agendas. These are intermediate means utilized by Russell to achieve its commercial or noncommercial missions. Some of these institutional progress, if stayed, should benefit more than Russell and beyond its investment horizon.

8.4.7 Section summary

This section has focused on understanding and delineation of Russell's institutional strategies deployed in these investments and generalization of patterns and themes across cases and countries. It has found that Russell has deployed a range of firm strategies that have produced significant benefits to the host stakeholders (e.g., infrastructure) and itself (e.g., enhanced safety of investment). It has also devised a set of innovative measures delivering and implementing those strategies. Its such successes and capabilities can be traced to the origin of a unique portfolio of resources at its disposal. It has achieved true and tangible institutional changes in host countries.

It is a legitimate institutional entrepreneur in cross-border investment and a change catalyst under the BRI.

8.5 Evaluation of findings and generalizations against refined propositions

Chapter 3 refined preliminary propositions developed in Chapter 2 by applying NIE filters to create three pairs of bipolar propositions. This section will conduct an exercise to confirm or infirm these refined propositions against findings and cross-case generalizations discussed in preceding sections.

8.5.1 Institutional strategies versus property or contract rights protection

P1a: B&R investors are unable to effect host institutional change to improve their property rights security; Instead, they have to live with whatever exists.

P1b: B&R investors can devise and implement firm strategies to enhance their property or contract rights security required by their investments.

There are two points to make by summarizing preceding discussions and findings:

First, Russell has been proactive in all these cases to enhance security of its property or contract rights. In addition to pushing for outright legislation (e.g., in Belarus), it has devised additive actions (e.g., two JVs for GK in Djibouti and SDP in Sri Lanka) to exhaust protective measures available to it.

Therefore*, P1a is infirmed and P1b is confirmed.*

Second, Russell has adopted a JV structure, commonly viewed as a passive entry strategy, in all these investments, but has embedded proactive elements (e.g., operational controls, CSR programs) in addition to strategies mentioned prior. Thus, it has accepted what has been forced upon it only in appearance (e.g., equity cap, minority stake), but in substance, it is not entirely a passive receiver. It can be argued that teaming up or bonding with local stakeholders is a conscious and proactive act to seek protection of its interests in the host environment. “It can be a good thing as long as it [SLPA] is a shareholder. Our interests are aligned” (SA11).

Therefore, *P1a is only approved in form but disapproved in substance.*

8.5.2 Institutional strategies versus transaction costs reduction

P2a: B&R investors’ institutional strategies would be ineffective to suppress the abnormally high transaction costs to justify their investments from a commercial point of view.

P2b: B&R investors' institutional strategies will be able and effective in reducing the high transaction costs and generate appropriate returns on their investments by proactively securing their property or contract rights and effecting favorable institutional changes in the host environment.

As discussed in Chapter 7, the five cases can be divided into two subsets. One is pure commercial investments (i.e., SA and KH), another has a huge element of inter-government nature (i.e., AB, GK and GR). The commercial projects have performed well and met Russell's business expectations. The others will take years to implement and produce results, therefore, it is too early to form a judgment.

These latter cases, however, still reveal the following:

First, Russell has been mindful of the risks of weak property rights protection, high taxes, and inefficient government systems and practices that affect these programs. It has taken a series of proactive actions to address these challenges, including changes to host institutions, ranging from complete overhaul of special legal regimes for GR, to negotiating extensive incentive packages for all three cases, to outsourcing certain host regulatory and administrative functions. These actions will significantly reduce transaction costs, both monetary and in-kind, of investing and operating these assets in these countries.

Therefore, *P2b is confirmed and P2a is infirmed based on Russell strategies' intent and potential impact.*

Second, though Russell's proactive strategies and actions have seemed effective in changing host regulatory regimes to contain super high transaction costs confronting these projects, that is only by design for now and will take decades to prove whether these cost savings will materialize and by how much. Thus, there are still uncertainties about their effect. In addition, even if these benefits will materialize as promised, whether it will have suppressed enough costs and induced adequate topline business growths to allow investors to have their money back and realize a return will be unknown for decades to come.

Therefore, *that P2a is disapproved and P2b is approved is only judged directionally (yes or no answer). It is too early to judge the ultimate performance results which require a quantitative element in the answers.* Or it has a causal effect element in this proposition that needs to be refined (see Section 8.5.4), (proving the authorial precaution that propositions should be refined in an iterative fashion (Yin, 2014)).

8.5.3 Institutional strategies versus monetization of positive externalities

P3a: B&R investors would not be able to internalize or capture positive externalities created by their investments given the stagnant nature of extant institutional settings in host countries.

P3b: B&R investors could deploy strategies and actions to facilitate enactment or change of host institutions and monetize positive externalities by proactively seeking delimitation of property or concession rights and appropriate scope of business.

Again, the five cases should be examined in two subsets. The two commercial investments (i.e., SA and KH) have performed well in their core ports management business without involving externalities. Russell's proactive efforts to challenge the MCC restrictions in Sri Lanka and engage in CBD development in Djibouti present it with additional profitable business opportunities. These are innate drives of for-profit firms and can be argued that they do have an element of exploiting positive externalities emerging from, for example, containers passing through its terminals or old port site it partially owns, but are pursued in the normal course of a firm's business operations.

These propositions, however, are more relevant to the inter-government projects (i.e., AB, GK and GR). In all three cases, Russell recognized upfront the challenges of making a return if invested. Accordingly, its strategies have been designed to seek incentives and subsidies to reduce costs on the one hand and, on the other, to explore additional business opportunities and revenue sources to compensate for the core but less profitable businesses (e.g., industrial park development). This involves breaking host industry barriers to, for example, enter fueling and oil refinery businesses at AB, or install new rules and seek consent to carry out real estate development activities in GK and GR. These efforts or attempts all aim to create and capture positive externalities brought about by these investments.

Therefore, *P3b is confirmed and P3a is infirmed based on these strategies' intent and potential impact.*

Business firms applying proactive efforts to tackle these host institutional impediments is one thing, whether such efforts would bear fruit is another. In Sri Lanka, removing industry restrictions means eroding monopolies and combating entrenched interests. Convincing Belarusian regulators to appreciate the gradual nature of technology upgrades evolves into a philosophical battle. Even if Russell could win all these battles, whether enough incremental business profits would be generated to compensate for the shortfalls in its core businesses will take decades to prove (so far only a few customers have bought lands at GR and GK, gains from these limited volumes would not suffice to cover the land development cost).

Therefore, *that P3a is disapproved and P3b is approved is only judged by the design of these firm strategies or based on their potential impact (yes or no answer). It is still too early to predict whether the ultimate performance results will generate sufficient amount of overflow benefits (quantitatively measured) to justify these investments commercially.* Again, there is a causal effect element embedded in this pair of proposition that need be refined or further calibrated in future research (Yin, 2014).

Having reasoned the above, this research cautions that these assessments focus only on the firms' intents and behaviors and their limited progress to date, not the performance results of these investments over a sufficiently long horizon. These B&R programs are at their infancy and will outlive multiple host administrations. It cannot rule out either nationalization (e.g., DCT in Djibouti) or renege of contract by their hosts (e.g., Sapphire's experience before RussellPort), or windfall of returns down the road. Therefore, their ultimate results remain unknown.

In sum, the B&R firms' proactive stance in dealing with host institutional legacies proffered by this research is unambiguously supported by the evidence from these cases. However, the ultimate effect of these firm strategies will have to be measured in the future (and beyond the scope of this research) in order to assess their quantitative effect or investment returns from a commercial point of view. That means causal effect analyses of, ideally, both individual strategies and their aggregate (e.g., effect of reduction in transaction costs and addition of externality benefits) to corroborate or diffuse this study of causal mechanisms.

8.5.4 Summary evaluation of refined propositions

By examining findings and implications derived from the case descriptions and interpretations in Chapter 7 and preceding subsections in Chapter 8, and against pre-developed theoretical propositions in Chapters 2 and 3, it is found that Russell's institutional strategies, in facilitating both its commercial and government (i.e., Chinese or host) inspired projects: (1) are proactive and (2) aim to secure property or contract rights, reduce transaction costs, and create and internalize positive externalities, among others. (These two points are the core proponents of the propositions of this research. See Sections 2.3.4 and 3.5, and Table 8.9).

Table 8.9 Summary Evaluation of Refined Propositions

Refined Proposition	Evaluation Result	Explanation
P1a: Investors CANNOT: -Effect institutional change -Enhance property rights security	-Passive stance infirmed -Approved in certain forms (e.g., JVs) but disapproved in substantive effect	-These judgements are based on intent of firm strategies -Need be substantiated by long-term, quantifiable results
P1b: Investors CAN: -Effect institutional change -Enhance property rights protection	-Proactive stance confirmed -Protection is enhanced legally and confirmed	-Need be substantiated by long-term, quantifiable results

P2a: Investors CANNOT: -Suppress transaction costs	-Passive stance infirmed	
P2b: Investors CAN -Suppress transaction costs	-Proactive stance confirmed	-Need be substantiated by long term, quantifiable results
P3a: Investors CANNOT: -Create and internalize externalities	-Passive stance infirmed	
P3b: Investors CAN: -Create and internalize externalities	-Proactive stance confirmed	-Need be substantiated by long-term, quantifiable results

The theoretical propositions articulated in Chapters 2 and 3 have proved to be useful and effective in understanding and explaining firms' strategic actions applied in these B&R countries. The bipolar design of the refined propositions was intended to entertain the popular perception of foreign firms' passive standing in front of the overwhelming host government on the one hand and, on the other, to prove and champion the proactive and capable stance of modern FDIs in battling weak institutions. This latter line of thought process has been inspired by the NIE spirit.

However, the above second point of confirmatory, qualitative assessment needs to be kept in the context of theoretical interpretations of firm strategies and institutional changes that have been implemented or promulgated to date. Whether an investment can be justified on commercial ground or by actual financial returns is a separate question that cannot be answered in this research (see Section 9.3).

For a case study of causal mechanism as opposed to causal effect measurement, this research's focus is to interpret and explain what has happened in the past, not to predict the future outcomes. This treatment conforms to the abductive logic of reasoning as advocated in literature (Robson and McCartan, 2016; Flick, 2018a).

These propositions could have focused on only firms' strategic intent without an evaluation of potential outcomes, because no results are available for measurement. However, without evaluating the outcomes of these strategies, it would be inadequate and incomplete to judge whether these strategies would be optimal. Therefore, a quantitative study of causal effect results should be supplemented at an appropriate future time to complete this long research process (see Section 9.3).

8.6 Chapter summary

Russell's institutional strategies

The cases studied in this research have indicated that these B&R investors have been mindful of the institutional challenges when they entered those countries. They have been very proactive and creative in designing, delivering, and executing their firm institutional strategies in the course of pursuing their (business) goals. They may not be proficient in NIE doctrines, but are astute and active practitioners of the NIE spirit.

By applying the institutional strategy typologies to Russell's various firm strategies and actions customized to the institutional settings in the case countries, it is found that it has applied all three types of institutional strategies when pursuing the five projects. It has also proved that by creatively applying and (re)packaging individual strategic acts, a single strategy can achieve more than one objective, or several of them can be bundled together to strengthen the enforcing power or to realize one grand goal (e.g., replicate of the PPC Model in Djibouti).

Russell has been very creative and innovative in engineering or (re)packaging its strategic acts to tackle the unique host challenges while advancing its interests. It can be generalized that *Adaptive, Additive*, and *Transformative* strategies tend to correspond to address property rights, transaction costs, and externality issues.

Russell has also been resourceful by leveraging its state institution background and Chinese government endorsement to empower its entrepreneurial capacity in delivering and executing its institutional strategies. It has made substantial contributions to the host nations' institutional reforms while pursuing those projects. Russell can be viewed as an institutional entrepreneur in inciting institutional changes under the BRI auspice.

Interpretive analytical process

The preceding analyses and generalizations have been driven and augmented by the inductive analytical process that was initially designed in Section 5.4.5 and has been executed as follows (see Fig. 8.6).

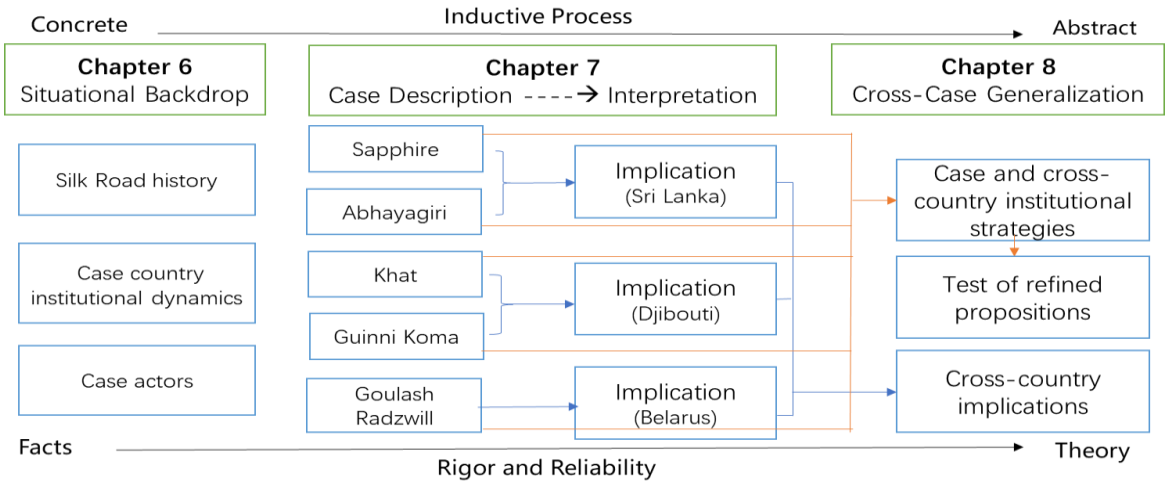

Fig. 8.6 Summary Inductive Analytical Process

This inductive process is core of this case study qualitative research project for developing implications, theories, and policy recommendations. It is also the inductive component of the abductive research paradigm (see Section 9.2.2).

Chapter 9 Conclusion

This research journey has zigzagged through multiple theories, historical episodes, geolocations, investment cases, and informants. This concluding chapter will highlight several key findings and implications, evaluate research outcomes against predetermined conceptualization and theories to assess their fitness, identify potential limitations, and propose topics for future research.

9.1 Key conclusions and implications

9.1.1 Key conclusions and implications relating to the BRI

1) The BRI as a grand branding label

Chinese outbound direct investment became a trend years before the BRI came into being in 2013. The five projects studied in this research either started or were conceived prior to the BRI era. Thus, the BRI is a posteriori branding or aggregating label, repackaging various Chinese OFDI activities that had already happened or were happening into, or in conjunction with, a seemingly coherent national program. In addition, because the BRI has been so readily endorsed by political leaders, it has gained political significance within the Chinese state and beyond. Its scope and contents remain evolving and unfolding. This is typical of Chinese government practices or more accurately a product of the unique Chinese political, economic, and administrative institutional dynamics (see Section 9.3).

Nonetheless, it reflects a turning point in modern history for China when it turned from a capital import to a capital export nation. The institutional reforms initiated since the 1980s have transformed a once closed agrarian society to an integral player of the global economy. The BRI, therefore, represents a Chinese narrative of this transformative process, rejoining globalization after several centuries of isolation, or a "hybrid model" (Grimmel and Li, 2018) of the ancient and modern globalization (see Section 6.1; Ohmae, 1996; Osterhammel and Petersson, 2005).

2) The BRI as a capital allocation guide

Because of its official or policy nature and that most B&R projects are carried out by Chinese SOEs, the BRI has become a major national capital allocation guide for the Chinese state. This is a good thing for the capital-thirsty B&R countries, particularly, since China claims no strings attached.

The contrasting analyses (e.g., market versus government, government-run versus private firm executed) of the case projects suggest, however, that unless these projects and associated aid money are carried out under market scrutiny and through market

process, there is a high likelihood that the project planners' goals would fail and that the familiar pitfalls associated with government undertaking and mishandling and aid money falling into corrupted hands would repeat.

Market and private firms are the best assurance of the BRI policy goals and government growth agendas. B&R projects' feasibility and implementation, and capital allocation should be put to market tests in order to improve their chance of achieving policy planners' goals. Governments, BRI planners, and aid institution managers should avoid producing grand plans within government processes. Instead, they should follow market disciplines and work with private firms from the very beginning in developing such programs. They should limit their roles to where their advantages permit (e.g., credit enhancement, inter-government coordination), instead of replacing private firms to become front stage actors in market shows (i.e., commercial activities) and putting political ambitions above economic gravity.

It is worth cautioning that the above argument is derived from these specific projects and institutional circumstances, though it is also supported by historical evidence (e.g., U.S. telecom and railroad experience). Ideally, more experiments or case studies can be performed to test its applicability (see Section 9.3).

In modern days, large scale development projects can seldom exclude government, even in the case of HK's MTR. PPPs as an alternative have received mixed reviews (see Section 2.3.1). How to position government versus private firms, how to regulate their relationships, where government should stop and where market should step in each particular situation are much complex topics to explore but beyond the scope of this research.

3) Investor-operator JV model as an implementation strategy

Russell's initial success, projects' progress to date, and the favorable feedbacks it has received from host stakeholders suggest that the investor-operator JV model may achieve several results that traditional aid format has failed to. In addition to job creation and employee training, it helps to materialize or take root of transfer of knowhow, keep host government hands off aid money, and launch reforms to host rules and practices, making the host country more FDI and business friendly. Essentially, it helps to address the impediments of weak institutions by growing private business firms instead of government.

This investor-operator dominated (not any) JV model, if augmented by long-term commitment of host governments and / or sponsored by the Chinese state (which means capital and aid money), may represent a solution to implement the BRI (or other aid programs) effectively and lessen or remove the institutional obstacles (to FDIs, aid, and economic growths) prevalent in certain B&R countries.

This model could become a vehicle for international agencies to implement their programs as well. In another word, international agencies should put their money behind such implementors and address both weaknesses in recipient institutions and disadvantages of their own, such as lack of execution vehicle and monitoring tools. They and host governments just act as facilitators, private firms will run the show.

The above argument may need be put into the context that the current political order and institutional environment in these countries would be sustained and gradually improve, and the laws enacted to date would continue to be valid. However, this model or any model will not cure the disease of constant wars and instability of political turnovers in some of these nations, or the reckless behaviors of some of their rulers (e.g., DCT's nationalization). For example, both President Guelleh and President Lukashenko are aging and in their fourth or fifth term, the political environment in those countries post their rein is uncertain. Whether those PDs governing GR and GK will still be valid and enforceable then is a big unknown.

When questioned on the above potential risks and remedies, key informants shared the following perspectives. First, there is no absolute immunization of (political) risks, "you only take calculated risks." "Risks and opportunities go hand-in-hand" (SA11/ AB11). Second, "you avoid betting on officials or connections" to do deals or seek protection, "your projects must bring tangible benefits to the host people." "Regardless of who is in power, he has to deal with people's wellbeing (民生) to continue his rein and survive." "As long as our projects are aligned with people's interests (e.g., jobs, education, improvement in life quality), we have a better chance to handle unexpected risks" (e.g., GoSL's attitude towards AB) (RU01; KH12/GK12).

4) Geopolitical rhetoric about the BRI

The popular geopolitical rhetoric can be analyzed from the following angles:

Chronological perspective: as said above, many of the so-called BRI projects, including the ones mentioned in this study, predated the BRI era. The BRI is at best a *posteriori* branding label or mobilizing call dictated by typical Chinese institutional practices. The "Debt Trap" and neocolonialism criticisms assume a *priori* Chinese masterminded conspiracy, which is chronologically unfound.

Initiator perspective: the two inter-government arranged projects (i.e., AB and GR) plus GK were all conceived or proposed by the host governments and are significant policy tools and economic programs of these nations. The Chinese state and its SOEs have been sought after, in return they committed capital and other productive resources to these projects, even though there is both a political (e.g., GR) and commercial (e.g., GK) element in these deals. There is no doubt that these host political leaders invited Chinese forces to their countries for their own benefits, not to relive colonialism or foreign subversion.

Cost and benefit perspective: the BRI is a costly program to Chinese taxpayers (see Section 2.3.2) and Chinese SOEs that have undertaken some of these projects to fulfill their noncommercial missions. Their cost recovery and investment returns are years away, if ever materialized. In contrast, the various host stakeholders are immediate and long-term beneficiaries of these development projects. These are smart deals on the part of the host governments. They are not dummies who can be easily fouled by the Chinese, as implied by the "Debt Trap" conspiracy rhetoric.

On the contrary, if there were a "Debt Trap," it would be these governments who have successfully trapped the Chinese state and its policy banks and in turn Chinese taxpayers, because debt relief by China (Pan and Zhang, 2020) and most donor countries are common and few of these recipient nations had a track record of repaying their debt obligations on time and in full. In another word, they have successfully taken advantage of the various weaknesses in Chinese political, financial, administrative, and SOE institutions to their benefits (see Section 9.3).

To that end, the "neocolonialism" allegation doesn't hold water either.

5) Chinese SOEs' roles under the BRI

The five projects studied by this research have all been implemented by SOEs (i.e., Russell and its predecessors or partners). Given that Chinese SOEs are state institutions or an means of enforcement with dual missions, they are the preferred executors of BRI projects, playing a variety of roles. Also, as a result of the political significance attached by Chinese political leaders to the BRI, Chinese SOEs have flocked to declare their allegiance and / or devise strategies to profit from it as well. This is particularly true when a project is done outside the market process and public scrutiny or negotiated between governments. The Abhayagiri case best illustrates these points. These conducts leave a smoking gun of self-dealing or even political conspiracy among Chinese institutions.

The contrasting analyses and implications derived from these cases have seemed to suggest that, to contain SOEs' detrimental behaviors and leverage their capabilities and advantage, SOEs should operate in market context and follow market disciplines. Market is the most efficient and effective strategy to preempt political incrimination, allocate capital and other productive resources, and achieve goals (e.g., jobs, growth, industries, infrastructure, poverty reduction) contemplated by governments and BRI planners. Market is the most effective institution to align the interests of and minimize potential conflicts among all stakeholders, including SOEs themselves.

9.1.2 Key conclusions relating to institutional strategies of Chinese B&R firms

Chinese firms' institutional strategies deployed in the B&R contexts are the focal interest of this research. Specifically, this research sets its goals at the outset to understand what strategies they have applied, what types of strategies they have designed, and what effect these strategies have achieved. These questions have been extensively covered and the answers from this research will be highlighted below.

1) Chinese B&R firms' institutional strategies

Chinese firms in B&R countries have been active and proactive participants in and contributors to host institutional reforms. This is contrary to the common perception that foreign investors tend to be passively accepting host regulatory and institutional settings. Even if a commonly perceived passive strategy (e.g., JV, use of engineering consultants, CSR program) is taken, proactive efforts and elements are invented and embedded into the passive format, resulting in favorable benefits to their goals.
In addition, their institutional strategies have been customized to host political, economic, social and cultural circumstances in different forms, but all conform to the typologies, *Adaptive, Additive,* and *Transformative,* as defined and delineated in institutional organizational theories.

When analyzed through the NIE lenses, Russell's ***Adaptive*** strategies tend to focus on protection of property and contract rights, while its ***Additive*** efforts are deployed to lower transaction costs, and the ***Transformative*** attempts aim to create, exploit, and capture positive externalities.

These strategy types could mean different impacts depending on the institutional environment in which they are applied or the specific institutional obstacle or impediment to be tackled. One strategy can achieve several goals and multiple actions can be bundled or pieced together to realize a grand objective.

It is interesting to note that the intent and impact of Russell's firm strategies echo some of the historical cases reviewed in Section 3.4.2. For example, Russell's predecessors pursued and the Belarusian PD#326 created security in land within GR. This has enabled resident firms that have acquired land or long-term leases to pledge their assets and raise financing. This is similar to the effect of U.S. Land Grant Act on Illinois Central Railroad, or China's 2007 Property Law on Chinese listed firms (see Section 3.2.1). Similarly, strategies to expand its business scope and engage in real estate development mirror the rationale of Italian opera and HK MTR precedents.

It might be inferred that firm institutional strategies are a function of the institutional conditions that firms confront. Similar institutional and economic settings may prompt like firm institutional strategies.

2) B&R firms' innovations in delivering firm institutional strategies

A variety of innovative features and creative applications have been embedded or bundled into the afore-mentioned strategy types as illustrated in Tables 8.5. Russell has also been innovative in utilizing both traditional forms and unique Chinese practices as alternatives in the delivery and implementation of its firm institutional strategies (see Table 8.6). It has also mobilized a variety of resources, some of which are unique to Russell and / or Chinese institutions, to enhance its authority, delivery effectiveness, and resulting impact (see Table 8.7).

These should help enrich the variety and forms of institutional strategy portfolio. This could be another feature that Russell and this research contribute to the toolbox of practitioners and the studies of organizational institutionalism.

3) Suitability and applicability of firm institutional strategies

Since the relationships between business or foreign firms and host institutional environment need be regulated and adjusted to reflect changing forces (e.g., market conditions, technologies, firms' value propositions and competitiveness, host government policy and regulatory agendas) (North, 1990/1994; Horn, 1995; Barzel, 1997), B&R firms should be prepared to take on the assignment of inciting changes and reforms to host institutions as a routine task. Depending on the host legal tradition and enforcement practice, appropriate types of institutional strategies can be designed and implemented (see Section 8.4.3). Russell's experiences in these cases provide real evidence supporting the above argument and advice.

With that, it can be expected that Russell should and will continue to push for reforms to the current special legal regime for GR (i.e., PD#166), tear down some of the industry fences preventing it from entry of critical services in Sri Lanka, or seek commitment and compensation from the Djiboutian government to honor Russell's property and income rights entitled under its indirect ownership in DCT.

Therefore, firms' institutional strategies should go hand-in-hand with their business and market strategies.

4) Chinese B&R firms as institutional entrepreneurs

Russell's experiences in these cases demonstrate that efficient firms tend to be well positioned to incite and drive institutional change. Relative to their peers or other players in host domestic markets, some of these Chinese firms represent a breed of efficient firms capable of initiating, or required by their business or nonbusiness motives to incite, changes to host institutions in order to advance their goals.

Since some of these B&R projects are bilateral programs like AB and GR, and the host governments have signed up to cooperate with China on BRI matters, these firms' institutional entrepreneurial capacity has been enhanced due to their roles as

implementors of the BRI. Their change impact, augmented by Chinese state endorsement, is more obvious where (e.g., Belarus and Djibouti) host institutions are incomplete or extremely weak. Of course, this also runs the risk if bilateral relationship soured or Chinese state became less important to the recipient regimes.

In any event, Russell's institutional entrepreneurship is qualified and established, as evidenced by its achievements (see Table 8.8). Chinese state endorsement acts at most as an enhancer. Russell managers' careful and delicate handling of the BRI in host environment signals its confidence in its institutional entrepreneurship and belief in rule of law and market, which are the most effective strategy to ensure its long-term success and sustainability of its institutional strategies.

5) Broad implications

International institutions have tried to develop solutions to assist developing nations in both times of crisis and their routine management of these nations' finances and economy. The audience has either reluctantly accepted that advice, in the face of tantalizing aid, or rejected or rebutted those "lectures." For example, the Djiboutian government has vehemently protested the IMF's (2017) warnings to its foreign debt levels (Guelleh, 2019). International organizations' efforts to improve and strengthen institutions in these countries have generally failed (Collier, 2007).

Russell's experience and success in effecting institutional change in case countries may suggest that a better and efficient approach to that goal does exit. Lectures and aid money should be earmarked to back up market firms like Russell to do the job on their behalf. That means international agencies should team up (in equity or other forms, not a simple agent) with private (market) firms to implement whatever programs they contemplate, bypassing hosts' weak institutions or leveraging on private firms' ability to strengthen host institutions.

The investor-operator JV model or vehicle can be joined by anyone who is willing to supply capital and / or other resources. It can be used to facilitate the delivery of "lectures" by incorporating that into market operators' institutional strategies and implementation actions. It can be the vehicle to make things stick and take root, so long as they are subject to market scrutiny. But its usefulness cannot be exaggerated, they are facilitating tools than panacea to or substitute for Africa's poor political and social institutions.

Empowering private or market firms as opposed to lecturing governments may point to a new thinking or solution to resolve some of the growth and poverty issues in these countries.

9.2 Evaluation of research designs and related contributions

As highlighted in Section 1.6, this research has identified and intended to occupy the gaps in case study methodology and application of NIE theories in the B&R context, contributing to the relevant studies accordingly.

9.2.1 Case study as a research strategy in the B&R context

Compared to the goals set out in Section 1.6, this research has accomplished the following:

First, it has produced a comprehensive description of the five investments, derived policy implications, and generalized theoretical themes. It possesses features of all three types of case study research: ***descriptive***, ***interpretive***, and ***exploratory***. It has fulfilled the goal and filled a gap of understanding B&R projects in the local context (contribution 1).

Second, these projects are long-term and impactful development programs of host nations and representative cases of the BRI narrative. No detailed case stories have been published to date. This research has filled an information vacuum and built a foundation for extending the relevant research (contribution 3).

Third, by detailing the chronology of these projects, this research has unearthed the causal mechanism of their development process and allowed implications to be drawn upon. They have helped to diffuse some popular rhetoric and may serve as guides for similar investments (see Sections 7.4 and 9.1) (contributions 4 and 5).

Fourth, within the case study domain, theory-driven, interpretive and exploratory research are fewer than descriptive studies (see Table 5.2), particularly in the emerging BRI sphere. This project has expanded the field of interpretive and exploratory types of case studies.

In sum, the case study methodology is appropriate for this contemporary phenomenon and for investigating the causal mechanisms of the selected cases.

9.2.2 NIE as a guiding theory interpreting firm strategies in the B&R context

This research has aimed to explore Chinese firms' behaviors in the B&R context (second research question, see Section 1.5). It has also adopted a research design of theory-guided case study. As a result, NIE concepts and theories have been chosen to serve as the guiding principles of this project.

1) The fitness of this guiding tenet: this has been justified from the following angles:

First**, B&R countries as weak institutions**

The B&R polities are mostly of weak institutions. The three case countries represent majority types of institutional characters of such nations. The barriers to their growth and prosperity are attributable mostly to their institutional impediments, less to lack of capital or technological resources, or even resources endowments. Thus, institutional change and reform is a prerequisite to bringing in capital to these countries, or at least the two are happening simultaneously. This (proactive and sequential) stance is what NIE champions for and appropriate for investing in these locales.

Second, **property rights and market as fundamental institutions**

What institutions matter the most? It is the property rights and market institutions that matter the most to growth and investment in weak institutional environment. Russell has sought improvement in property or contract rights protection and market practice in all these countries and in all transactions studied by this research. This is strong evidence to the thesis that property rights institution has the first order effect on long term growth and investment (Acemoglu and Johnson, 2005). This also justifies the theoretical underpinning of the conceptualization framework in Fig. 4.1 that has guided this research.

Third, **organizational institutionalism as appropriate firm strategy in B&R context**

Institutional reforms are difficult to occur from within weak institutions where private or market firms are weak and don't possess the power and quality needed to drive such change. International lecture-givers and donors have mostly relied on host institutions to implement their programs and hence largely failed to achieve their intended results. Private or market firms have become the only hope to do the job.

It is not any private firm, but only those who are competent in both professional credentials and foresight, and experience in dealing with institutional reforms. Russell's track records have uniquely positioned it with the power and credibility required to tackle institutional challenges in the host countries, but any firm that invests and operates in such an environment should be prepared to design and implement its own set of firm strategies to deal with the hostile social and economic institutions. Firms' business or market and institutional strategies should go hand-in-hand when operating in these markets.

Therefore, applying an institutional filter to interpret and explore firm behaviors in weak institutional environments is an appropriate analytical strategy.

In sum, China's economic reforms and growth success are fundamentally about institutional reforms (see Section 3.1). This is also a strong endorsement of adopting

an institutionalism perspective in interpreting Chinese firm behaviors in the B&R contexts.

2) Research contributions:

This research has aspired to help strengthen the linkage, and fill a research gap, between neoinstitutional theories and infrastructure business in the B&R countries. The following has been accomplished:

First, there have been few publications that have applied NIE concepts and theories to infrastructure investment in emerging environment (e.g., Ficker, 2000; Hinisz, 2002). This research supplements the ongoing efforts of exploring institutionalism in infrastructure industry in developing economies.

Second, this research represents the first application, known to the author, of NIE concepts and theories to the BRI phenomenon. The implications and policy recommendations that have been derived by applying NIE filters may have broad impact on the ongoing research of the BRI and real-world practices of implementing the initiative (i.e., at both theory and practice levels).

In sum, the NIE interpretation of the BRI phenomenon has filled an important gap in both research and practice (contribution 2, see Section 1.6).

9.2.3 Embedded sub-framework as a third dimension of research framework

This research has unknowingly ventured into a research design that incorporates a sub-framework into an overall conceptualization (Ravitch and Riggan, 2012). This design has posed extra complexities in justifying the theoretical framework (see Fig. 4.1 and Sections 4.3 and 4.4). This research process has proved that this is a feasible design and has effectively guided this research, most importantly, on zooming in the firm institutional strategies set out in the research questions.

Specifically, this design has allowed NIE economic doctrines and organizational institutionalism to insect at Chinese firms' nonmarket strategies in the B&R context, making this research focus a four-dimension formation.

This may constitute another contribution in research methodology for the BRI research.

9.2.4 Experiment of abductive reasoning logic

This research has followed the traditional dissertation format initially, essentially a deductive process (Chapters 1 – 5). Then, it has turned inductive in the results and discussion (using traditional format terms) sections (Chapters 6 – 8). This reasoning

logic is called **abductive** and advocated in qualitative research (Flick, 2018a). The transition from Chapters 5 to 6 marks the shift of this research process from theoretical to methodological focus (see Section 4.3.2). This analytical logic has helped to justify and position the results discussions of this research, that is, what has happened to these projects can be explained and interpreted but their future outcome cannot be predicted (see Section 8.5)

This may constitute another contribution of this research experimenting the abductive paradigm in the BRI research, which seems quite relevant to and appropriate for the BRI phenomenon.

9.3 Key limitations and topics for future research

This research could have been enhanced if the following limitations had been addressed. Future research can be carried out to augment this research's results.

1) Limitations on data collection and access to informants

One of the research objectives is to produce a thick description of the cases for future research. Thus, access to quality data becomes critical. The case stories constructed in Chapter 7 have relied heavily on informants sharing of critical data, which have been corroborated by archival, literature, and public sources. This work product could be improved by addressing the following limitations. Future research can target to expand in these areas.

Access to key documents: due to confidentiality reasons, key investment agreements, shareholders' agreements, and other official or internal documents are not available for review and examination.

Access to additional informants: ideally, host government politicians and regulators involved in their internal discussions and debates, Russell's senior managers involved in their internal debates over their decision-making process, and more employees and host public can be interviewed to include more variety of stakeholders, reflect more host perspectives, and supplement more details to enhance the completeness and accuracy of the case stories. A "thicker" description's value to future research would be enhanced as a result.

2) Limitations on evaluation horizons

The investments studied in this research all are work-in-progress. They are in their early stage of development. Full benefits or results of the applied firm strategies will take decades to emerge and become meaningful for measurement and evaluations. Therefore, the assessment of approval or disapproval against preset propositions are of interim nature and subject to limitation of prematurity. Ideally, this evaluation

exercise could be continued at a constant interval, for example, every five or ten years and based on long-term observations and quantitative data and analyses.

Such a documented evolution process will be more meaningful and valuable for disclosing causal mechanism intricacies, refining propositions, and prescribing policy recommendations.

3) Quantitative analyses to supplement and advance this study

Quantitative studies could be carried out when, for example, the number of resident firms in GR or GK reaches a level of critical mass, say 200 firms, a survey of their investment considerations with questions designed to explore property rights, cost reductions, or noncore revenue stream issues can be arranged. This would allow to measure the effectiveness of the incentive packages and policy measures.

Further, if resident firms' key financial data or statements are available, quantitative analyses of operating profitability and investment returns could be performed to assess and estimate how much cost reduction of these preferential packages have contributed to their investment returns (e.g., % return contributed by property business or value increase to their total returns, as shown in the HK MTR case).

The findings from these quantitative analyses will be very helpful for designing SEZ policies and investment incentives for policy makers and BRI planners. They will help enhance or falsify some of the claims made in this research. Nonetheless, these investment cases present ideal grounds for a combined qualitative and quantitative research project, aiming for firm strategies or SEZ studies.

4) Study of social and cultural institutions in the B&R contexts

This research has declared at the outset its focus on formal rules, instead of informal constraints, of institutions. It has been noted, however, that these two sets of institutions are entwined and impact firms' choice of institutional strategies and their business performance in the B&R contexts. Ideally, separate studies can be carried out to discern these divergent forces and assess their impact on firm financial performance and B&R firms' choice of institutional strategies. This will provide valuable input to advance academic research like this one and develop practical and targeted firm strategies and policies for those institutional environments.

5) Limitations of a small sample of cases

The implications, cross-case generalizations, and policy recommendations drawn from this study are based on only five cases in three countries. Several contrasting analyses (e.g., SA vs. AB; AB prior to Russell vs. GK and GR) are rested on even

fewer cases. Ideally, these findings and implications can be tested in more studies and further corroborated or falsified by quantitative causal effect analyses when feasible.

6) Impact of Chinese institutions on the BRI and its implications in B&R context

Chinese institutional issues have been touched upon extensively in this research (e.g., BRI as a product of Chinese institutional practices, SOEs' behaviors, guidelines and practices followed by policy banks). It has also been speculated that the BRI's receptivity in these countries may be attributable to the fact that Chinese state has comparable or compatible institutions (e.g., administrative monopolies of key industries, concentrated state (presidential) power, sources of Russell's institutional capacity, also see institutional rankings in Table 6.4). However, this research did not provide a coherent discussion of such Chinese institutions and their impact on the BRI and how Chinese firms have behaved in the B&R contexts.

This research has focused on Chinese firms' behaviors in B&R countries when undertaking infrastructure projects. It has also sought to reflect host perspectives of such Chinese firms and their actions. Obviously, exploring Chinese firms' institutional impact in the B&R context cannot be separated from understanding how Chinese institutions affect the BRI and B&R firms as well.

Additional research may be conducted to examine and understand how Chinese institutions dictate the behaviors of Chinese firms or SOEs, policy banks, BRI policy makers and planners to complete the other side of the coin.

7) Chinese firms' CSR programs and their impact in the B&R context

CSR initiatives as a proactive firm institutional strategy has been extensively researched (Dorobantu et al., 2017), but there has been limited inquiry of B&R firms' such programs (Wang and Hu, 2017). Russell has applied CSR programs as strategic acts in all case countries and on an ongoing basis. However, this research has limited its scope to understand what has been done without following through to inquire of, for example, how much money has been spent, what specific programs have been sponsored, what (measurable) effect has resulted, what relationships are with its institutional strategies, and so on. Russell may represent a unique case for a study of B&R firm's CSR programs in advancing the BRI course.

In sum, these cases are impactful projects and involve a range of issues in both local contexts and cross-border dimensions, and in both theory and practice. This research has only scratched a tiny spot on their surface and more needs to be done. (End)

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