The Role of Chinese State-Owned Enterprises (SOEs) and Recipient Governments in China’s Cross-Border Infrastructure Projects

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Research Question
What is the role of Chinese state-owned enterprises (SOEs) and recipient governments in the development and execution of Chinese cross-border infrastructure projects?

Background
• Belt and Road Initiative (BRI), the umbrella for China's cross-border infrastructure projects, is central to its foreign policy.
• Other states have political concerns about China’s strategic goals and debt-trap diplomacy.

Literature Review
Debate #1: China’s Role in Cross-Border Infrastructure Projects

<table>
<thead>
<tr>
<th>Unilateral Actor</th>
<th>Financier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposes strategically-designed projects.</td>
<td>Recipient govts and SOEs propose projects, and China chooses which to finance.</td>
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Debate #2: China – SOE Relations

<table>
<thead>
<tr>
<th>SOEs as Arm of State</th>
<th>SOEs as Independent Actors</th>
</tr>
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<tbody>
<tr>
<td>Seek national interest.</td>
<td>Independent and profit-driven.</td>
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Principal – Agent Relationship
Agents of China–interests may conflict or align.

Argument
Financier + Principal-Agent Relationship
Hypothesis: SOEs and recipient governments are both powerful actors in China’s infrastructure projects and seek to maximize their own interests.

Research Design
Case study of China-funded projects:
- **Gwadar Port** (Pakistan)
- **Hambantota Port** (Sri Lanka)
Examine how recipient government and relevant SOEs behave with respect to each project.

Findings
Notable SOE Behavior

<table>
<thead>
<tr>
<th>Gwadar Port + Other CPEC Projects</th>
<th>Hambantota Port</th>
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</thead>
<tbody>
<tr>
<td>Port operator was established by China to operate Gwadar</td>
<td>SOE lobbied Sri Lanka and Chinese government</td>
</tr>
<tr>
<td>Negotiates with Pakistan to maximize profits</td>
<td>Inflated project proposal and costs</td>
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</tbody>
</table>

Notable Recipient Government Behavior

<table>
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<tr>
<th>Gwadar Port + Other CPEC Projects</th>
<th>Hambantota Port</th>
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<tbody>
<tr>
<td>Project met domestic needs</td>
<td>Project met domestic needs</td>
</tr>
<tr>
<td>Sought funding from other countries before China</td>
<td>Sought funding from other countries before China</td>
</tr>
<tr>
<td>Proposed the project after SOE lobbying</td>
<td>Proposed the project</td>
</tr>
</tbody>
</table>

SOEs: 1) opportunistic profit-seekers, 2) sometimes profiteering by inflating costs, 3) may also act as arms of the state.
Recipient Governments: usually propose projects to respond to domestic need.

Implications
1. Recipients have legitimate development needs
   • China provides funds when others do not
2. China is not forcing unprofitable projects
   • SOE profiteering and recipient’s domestic conditions cause unsustainable projects
3. Recipient-driven initiative
   • Mix of strategy and ad hoc arrangements