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INSTITUTIONAL ADVANTAGES AND CHALLENGES OF CHINESE OUTBOUND DIRECT INVESTMENT IN SOUTH ASIA

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Abstract

Over the past three decades, the proliferation of Chinese outbound direct investment (ODI) has been related to both financial and non-financial support conveyed by the state and related authorities of concerned countries. At the same time, the Covid Pandemic and the Russia-Ukraine war unveiled the tendency for geopolitical and global economic restructuring that has caused risks for Chinese ODI and its sustainable development. This qualitative study relied extensively on secondary data and employed strict textual analysis of the relevant literature. It focuses on the challenges that Chinese ODI causes when investigating in India, Sri Lanka, and Pakistan and argues that Chinese ODI engaged in an infrastructure-related sector strongly associated with institutional support from a home country may face high risks during economic and political uncertainty in countries such as Sri Lanka and Pakistan. Therefore, it suggested that Chinese investment should show greater diversification rather than one that shows a mere focus on its involvement in the infrastructure sector activities. Chinese ODI has played a role that has focused on the relationship between China and the governments of the host countries; however, diversifying investment into other industrial sectors that can link with the global value chain can make greater economic engagement with the host country. In the case of India, Chinese investments can be negatively affected by political risk as the level of India-China diplomatic relations fluctuates from time to time, especially during shifts in the global political structure. Chinese ODI cannot depend on the Chinese government to solve investment risks but seek solutions through the business and industrial community to face the local regulators and enhance its involvement in regional economic development and scale influence. Overall, with higher global economic uncertainty, Chinese ODI in South Asia that are heavily supported by Chinese government can face high institutional risks.

Keywords: Outbound Direct Investment, Chinese investment risk, South Asian countries, economic environment

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1. BACKGROUND

The unleashing of the barriers to trade (the tariffs and non-tariff barriers) and the war on trade (trade bans, trade blockades and trade embargos) in the late 2010s strongly affected the endeavours for globalisation, seriously impairing economic growth and social stability of the world over. Then, this unleashed inflation, further distressing the economies and distressing societies. This development made way for crippling consequences for the global supply chain. Concurrently, however, another issue of significance brought far-reaching implications for the nations, namely Covid-19. This forced the lockdown of the enterprises, which in its turn impacted economic productivity and employment. The economies that depended on international trade suffered the most (Verschuur et al., 2021). Independently of all these, however, simultaneously, the unleashing of the armed conflict between Ukraine and Russia brought about severe consequences for the parties of the competition and other countries. This was due mainly to the trade that was impacted due to this conflict. The consumers of gas and oil were affected first (Khudaykulova et al., 2022). This rendered a severe impact on the economies of the West. Then, the countries (including those of Asia and Africa) that imported Ukrainian and Russian supplies of agricultural goods (Liadze et al., 2022).

As perhaps a major part of globalisation measures, China took significant steps towards promoting international trade, investment, and strategic partnership with the countries in the developing world and those from the industrial West. This was since China adopted the globalisation agenda of WTO in 1984. These measures adopted by China comprehended the Belt and Road Initiative that China launched in 2013 and developed over the years since. By the time the barriers to trade and trade wars were launched, China had managed to secure significant growth in the arena of its external sector activities, including trade, investment, and strategic partnerships with other countries.

However, the Belt and Road Initiative of China did not comprehend only Chinese external trade investment and its strategic relations. It also comprehended establishing physical and soft infrastructure (managerial and administrative policy-related activities) that comprehend Chinese trade, investment, and strategic partnerships (Lin and Doemeland, 2012). This includes the securement of access over turbulent waters to destinations beyond seas. This also includes mutually beneficial agreements for access to sea waters (particularly in the Indian ocean territory) with countries in the neighbourhood of the transportation routes (Bluhm et al., 2018).

Following possible turbulence to emerge in South China Sea Territory, China anticipated developing alternative access to Indian Ocean territory (Conrad, 2017). South Asia, with multiple nodes for land and sea passages, connected China with West Asia, South Asia, East, West and North Africa, and even the countries of Western Europe. Chinese trade links with countries in these regions are significant as they initiated China to undertake massive ODI projects in the Indian Ocean and Red Sea Territories (i.e., Djibouti and Eritrea) (Krupakar, 2017). The purposes of these projects were basically to accelerate economic growth and social development in those countries.

However, the geopolitical risks are also complicated. China and Pakistan have maintained long-term and stable diplomatic relations. The internal conflicts of Pakistan are deep-rooted (Bhattacharya, 2018). Only a handful of countries, such as China and the USA and some from the Middle East (such as UAE and Kuwait), have involved Pakistan in meaningful programmes of investments (Danish and Akram, 2014).

As perhaps the principal member of the South Asian community, India has risen since the turn of the century to be the most attractive country for Foreign Direct Investment (FDI). Concurrently, China emerged as its leading partner in trade despite intermittent diplomatic upheavals between the two nations (Ahmadi, 2022). Notwithstanding this, the Chinese ODI in India has not been significant, and the Application (APP) ban on Chinese investment in 2020 also disheartened the confidence of Chinese investors (Mazumdar, 2022). In the case of other South Asian countries, the lack of sustainability and coherence in their national-policy guidelines and diplomatic strategies has also increased risks with FDI (Wignaraja et al., 2020). It thus has dampened investment confidence.

However, South Asian countries have advantages that can be complementary to Chinese industrial growth (Xu, 2017). The South Asia Regional Cooperation Alliance (SAARC) could provide strategic opportunities for Chinese ODI based on its foothold in the region rather than in opening up the whole regional markets. This study is to investigate these links and seek potential mechanisms for Chinese ODI to avoid the risks in South Asia.

2. METHODOLOGY

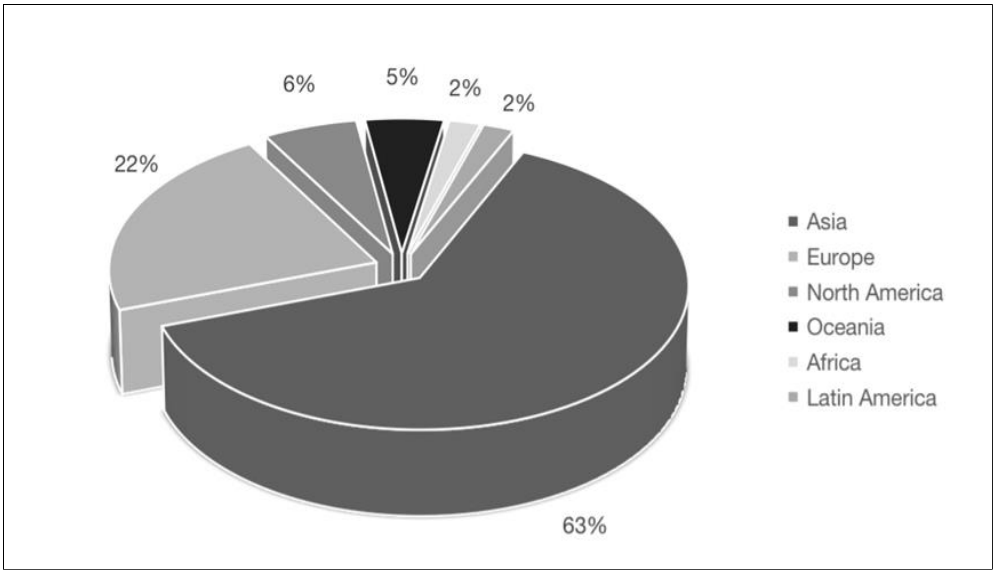
This qualitative study relied extensively on secondary data and employed strict textual analysis of relevant literature. The purpose of this study was to contextualise the institutional advantages from China and challenges that Chinese ODI has been facing in South Asian countries since the outbreak of the Pandemic and tendency of global political and economic structural shift.

There are extensive studies on the motives of Chinese investment in Asia, however, there are rather limited studies on Chinese investment in South Asia, and there has not been any significant study since the Pandemic. Therefore, this study analysed relevant secondary sources that gives a structural outline to fill the research gap.

3. DEVELOPMENT OF CHINESE ODI

At the dawn of the new millennium, China announced its “Go Out” policy, the aim of which was to accelerate its ODI growth. Thus, China has become a significant leader in the global FDI sector within two decades since it opened itself as an Emerging Economy. Until 2016, Chinese ODI flow ranked second globally with 197 billion US dollars (WIR, 2021).

Initial Chinese ODI enjoyed location advantages mainly concentrated in international tax havens such as Hong Kong, the Cayman Islands, the British Virgin Islands and Luxenberg (Sutherland et al., 2019). The proportion of investment in these locations has been significant, which by 2017 amounted to more than 70% of total investment (COMFOM, 2017). However, with its investment diversification, the proportion of "tax havens" has declined.



Source: MOFCOM, 2017

Figure 1: Regional Distribution of Chinese ODI stocks (2017)

Following this trend in the location for Chinese ODI, primarily the "tax havens", the Chinese ODI started to shift to developing countries, including Indonesia and Vietnam, quickly becoming the favorite destinations for Chinese ODI (Sutherland and Ning, 2011). Concurrently with this, the countries of South Asia have shown to be significant in fast absorbing Chinese ODI. The Chinese ODI grew from 11.72 million USD in 2003 to 1.1067 billion USD in 2017, which makes an average annual growth of 38.3%; the investment stock increased from 45.24 million USD at the end of 2003 to 11.8156 billion USD at the end of 2017 (MOFCOM, 2017).

3.1. Industry distribution of Chinese ODI

From the perspective of their distribution, the Chinese ODI is highly concentrated in different regions. Chinese ODI in Asia is concentrated in leasing and business services, accounting for 44.8%; investment in Africa is focused on construction and mining, accounting for 52.3%; investment in South America is concentrated in the information transmission, software and information technology service industry, accounting for 48.1%; investment in North America is mainly focused in manufacturing, accounting for 22.4%; investment in Oceania is concentrated in the mining industry, accounting for 53.6%; only investment distribution in Europe is relatively scattered (Table 2).

In the case of South Asia, in 2017, the Chinese ODI focused on Pakistan (with an investment share of 48.4%) and India (an investment share of 40.2%). The Chinese ODI concentrates on infrastructure development, energy source development, vehicle manufacturing, electronics manufacturing, and food processing in Pakistan (COMFOM, 2017); whilst, Chinese ODI in India focused on information technology, infrastructure development, high-end manufacturing, and industrial activities (Oxford Analytica, 2020).

Table 2: Industrial Distribution of Chinese ODI (2017)

Region	Industry	Stock (Bil. USD)	Percentage (%)
Asia	leasing and business services	5103.40	44.80
	financial industry	1403.40	12.30
	wholesale and retail trade	1535.10	13.50
Africa	construction	128.80	29.80
	mining industry	97.60	22.50
	financial industry	97.60	14.00
Europe	manufacturing	341.20	30.80
	mining industry	224.90	20.30
	financial industry	177.20	16.00
South America	information transmission, software, and it services	1865.70	48.20
	leasing and business services	765.70	19.80
	wholesale and retail sales	694.50	15.40
Oceania	mining industry	224.00	53.60
	real state	44.10	10.60
	leasing and business services	31.30	7.50

Source: MOFCOM, 2007

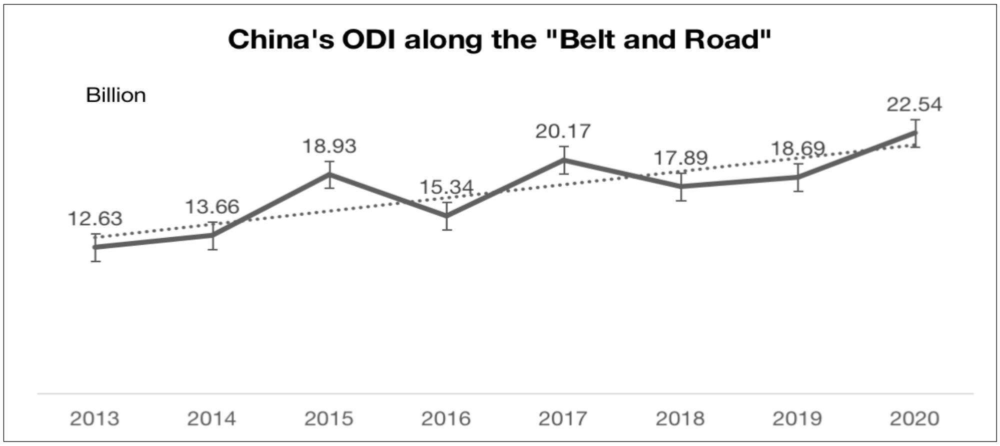
Regarding determinants of Chinese ODI, it presents plain characteristics in individual regions but shows diversity in the global market. In industrialised economies, the Chinese ODI tends to be technology-seeking and learning-oriented, while in most developing countries, the Chinese ODI tend to be strategic-seeking and resource-seeking (Dong and Fan, 2017; Fu et al., 2018). From the perspective of enterprises, state-owned enterprises have shown their preference for strategic seeking and resource or technology-based cooperation. Yet, private ODI enterprises focus mainly on maximising their profit (Chen et al., 2018). This phenomenon also indicates that Chinese ODI has integrated with global market diversification and the global value chain (Qobo and Le Pere, 2017). This is substantiated by the fact that Southeast Asia is an economic region combined with the global value chain.

As different countries in Asia share another part of the economic ladder with countries with high economic and technological levels, such as Singapore and Malaysia, Chinese ODI focuses on investment in knowledge and capital-intensive industries, such as life sciences, electronic information, new materials, energy conservation and environmental protection, marine technology and other high-tech sectors. For Vietnam, Cambodia, and other countries of Southeast Asia with low labour costs, Chinese ODI focuses on labour-intensive industries, such as textiles and garments, infrastructure etc. fields; for countries with rich natural resources, such as Indonesia and Malaysia, Chinese ODI mainly in resource-based industries such as petrochemicals, tropical agriculture, marine fisheries (Embong, 2017).

3.2. Chinese ODI development trend and challenges since Sino-USA trade friction and the Pandemic

Since 2017, there has been a clear decline in the flow of Chinese ODI activities in Asia. This is perhaps because the Chinese government has put more restrictions on asset loss. This has been achieved by the government has categorised three types of policies that encourage, restrict, and ban ODI activities (Norris, 2017). And China has put specific restrictions on the field of real estate, entertainment, sports clubs, film studios. Then, the surge of Sino-USA trade friction followed by the pandemic further stirred the global business environment that caused global economic turbulence, political turmoil, and various social issues. And this has made international development even more unpredictable. Trade frictions among large economies such as China and the USA, trade embargos and bans towards certain energy key exporter countries, and epidemics worsening intermittently have been the causes of global inflation and increased global poverty. Major global strategic shifts of the major economies also have accelerated the development of regionalisation that potentially challenged globalisation. For many small and developing economies, especially the countries with the Chinese Belt and Road coverage, their diplomatic strategies have also become more uncertain, causing higher risks for Chinese ODI (McConnell and Woon, 2021).

Despite uncertainty for various reasons, Chinese ODI remains stable in Belt and Road countries. In 2020, the growth rate of Chinese ODI in Belt and Road countries was 20.6% compared with the year before, with USD 22.5 billion, and it covered 63 counties with more than 10,000 organisations (Figure 2). This was indicated in China's national strategy for internationalisation. However, these ODI activities seem to have received support from home countries rather than their firm-specific advantages (Boateng et al., 2022). With high growth in the early ODI development stage for Chinese ODI, significant investment challenges emerged in the case of, for example, the Chinese enterprises that lacked knowledge of the investment characteristics in individual host countries as well as the local laws and regulations (Wu and Parkvithee, 2017). This also concerns the lack of knowledge of Chinese private enterprises of international financing (Aizenman et al., 2018). Furthermore, these enterprises depended heavily on financial support from Chinese state banks (Stone et al., 2022). Finally, this depended on the lack of experience in investigating international projects with these Chinese private enterprises and, therefore, had to depend heavily on market information and related policy issues that they could procure from Chinese authorities and related organisations (He et al., 2015).



Source: MOFCOM, 2022

Figure 2: Chinese ODI in Belt and Road countries between 2013 and 2020

3.3. Chinese Economic-Strategic Relationships with South Asian Countries

Through the gigantic growth of the economy experienced over the past four decades, China has been seen as a major economy that smoothly handled the global economic crisis and recession and has also been considered the global economic powerhouse. And one of the economic facilitators China offers is the massive transformation from a gigantic foreign exchange reserve to the proliferation of ODI (Aggarwal and Ayadi, 2012; Wei et al., 2012).

Chinese ODI has accelerated South-South Cooperation, of which Asian countries are the most important partners. Asia as the region received a significant part of Chinese ODI compared with the rest of the world. According to COFCOM, in 2019, Chinese ODI flow in Asia was more than 80% of her global investment, which came at the peak since the record from 2003. Despite the traditional economic factors (market seeking, resource seeking, strategic assets seeking, efficient seeking), the location choice has strongly been influenced by institutional factors (Kang and Jiang, 2012). One of the most critical determinants of the institutional factors may be considered as the regulation influence: the long-term strategic development led by Chinese policies. Following the “Go Out” (“go global”) launched in 2001, Chinese ODI has diversified (Buckley et al., 2008). However, the announcement of “One Belt, One Route” further enhanced the South-South and regional cooperation and as an accelerator for Chinese enterprises to have an international establishment.

“Belt and Route” is a renowned South-South cooperation initiative derived from the initial “Silk Road initiative”. However, the ancient practice was often considered a one-way flow of goods. Still, the new initiative, which assembles economies of the region to establish multiple ways of commercial and economic connections, and the launch of Asian Infrastructure Investment Bank (AIIB) also put the initiative into practice. As the centre of the initiative, such Chinese ODI development in Asia is also contributed by both push (internal) and pull (external) factors.

From the push aspect, there is viral domestic economic rebalancing, especially between western and eastern China. Economic diversification has gradually become a vital point for the whole of China to be further developed in terms of economic restructuring and maintaining social harmony. Therefore, the refocusing of economic activities in the western provinces of the country with the hope of expanding Chinese external trade and cooperation with South and West Asian countries, were believed to be able to accelerate China's economic growth and development in the Western regions of China (Ferdinand, 2016). This strategic plan has tightened the ties between China and South Asian countries.

Then, the smooth and safe transportation route through the Indian Ocean territory to the Middle East, Africa, and Europe must be secured and maintained to keep the Chinese market and natural resources flowing smoothly. Still, the disputed water in the South China Sea or the Malacca Strait can become turbulent waters that may harm sea transportation in the future and, therefore, one of the alternative land roads across Pakistan to reach Gwadar Port and extend the sea route in the Indian Ocean to connect these destinations has been highlighted by the Chinese government (see Map 1) was considered appropriate. In addition, such South-South economic cooperation can spur every individual country in the region so that conflict within the area may become eased. Thus, "One Belt, One Route" would pave the way for the South-South cooperation mission to integrate South Asia to reach mutual benefit and development.

At the initial age, the task was connected with the infrastructure development in these countries. Many countries in South Asia lacked the necessary infrastructure to support economic growth. Hence, under the circumstances of global economic recession, FDIs from industrialised economies have touched very little on such projects. Yet some studies showed that infrastructure investment could contribute more to boosting economic growth than other types of investments (Baloch, 2018).

The establishment of Asian Infrastructure Investment Bank (AIIB), with the support of China and other countries that share its ideals, expressed their willingness for intensive infrastructure development in the concerned countries of the region. The strengthened South-South economic cooperation also can boost regional economic growth and reduce the impact of crises from western economies. Then, the infrastructure projects were believed to be certain to drive the demand for industrial equipment, construction-related materials, and services such as construction consultation, banking and financing (China outlook, 2016) and which could spur Chinese economic growth. Furthermore, from a political and diplomatic point of view, the economic benefits within the region will also promote regional peace, security and harmony between nations.

Under this broader regional cooperation strategic initiative for China, South Asian countries have been critical in South Asia (see map 1). Sri Lanka, as one of the vital points, has its essential geographic location, which is in the middle of the world, a frequently used sea lane where ships carry Chinese goods to the Middle East, Africa and Europe, and in return, natural resource and intermediate products are brought back; whilst crossing Pakistan by land can be a shortcut for China to reach the Indian Ocean that all those Chinese cargos can have an alternative route to get their destinations (Kanwal, 2018); and India as the economic powerhouse in South Asia, part of BRICS emerging economies with well promoted higher ended service sector and human resources such as in the field of IT, pharmacology development etc., India has solid economic tie yet political issues with China, if Chinese hard power (strong industrial sector) can in cooperating with Indian soft power, the whole regional economy can expect development stability and higher economic growth (Sun et al., 2012).

Source: The Hindu

Map 1: One Belt, One Route Initiatives

3.4. Economic Policies that Concern Chinese ODI in South Asian Countries

Since China launched the "Go Out Policy", the countries of Asia emerged as the most significant regions to receive Chinese ODI. Between 2003 and 2019, the countries of Asia received 67.7% of Chinese ODI (see Table 3). A considerable part of the Chinese ODI focused on East and Southeast Asia (Kang and Jiang, 2012). This is perhaps due to the relatively weak firm-specific advantages compared to what these countries enjoyed in the MNEs generated from the industrialised economies. Perhaps to compensate for this lacuna, more significant institutional influence leads to Chinese ODI flows mainly intra-regionally but not globally (Buckley et al., 2008; Kang and Jiang, 2012).

However, Chinese ODI location choices can be very different, considering different periods and economies (Lin, 2015). This can be true even when considering Chinese ODI in South Asian countries. Chinese ODI in South Asian countries was not much higher than 1% of Chinese ODI in the whole of Asia during 2004-2013 (COFCOM, 2013). But in contradiction, the average annual Chinese ODI growth rate in SOUTH ASIAN was almost double (69% compared with the growth rate of Chinese ODI in le Asia during the same period (see Table 3).

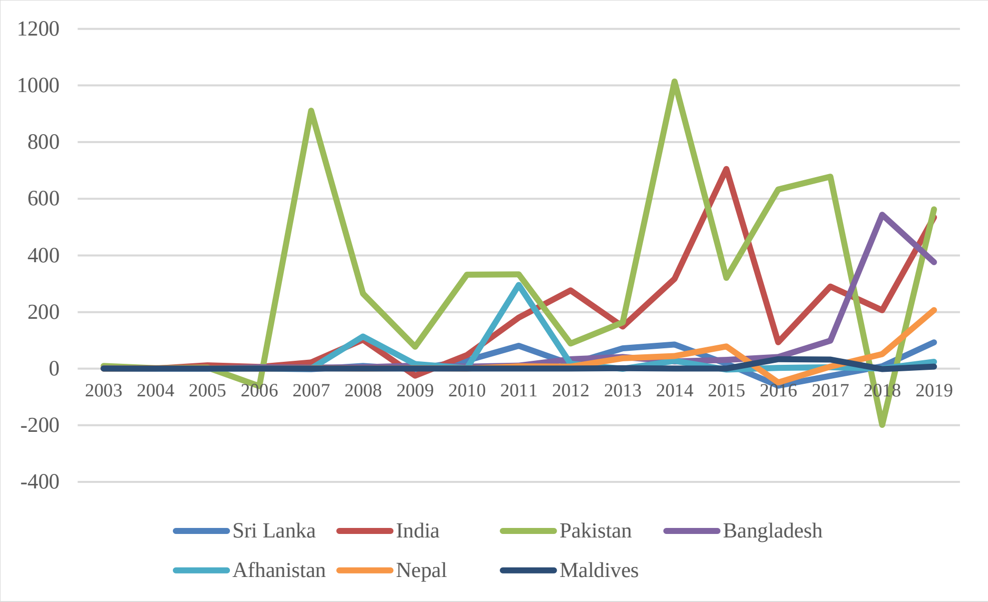
Table 3: Chinese ODI flow in Asia between 2004 and 2019 (in USD million)

Year	SLIP	Asia*
2004	2.02	3,013.99
2005	15.53	4,484.17
2006	56.21	7,663.25
2007	931.13	16,593.15
2008	137.46	43,547.50
2009	50.47	40,407.59
2010	407.17	44,890.46
2011	594.59	45,494.45
2012	382.49	64,784.94
2013	383.91	75,604.26
2014	1416.55	84,998.02
2015	1043.46	108,370.87
2016	665.64	130,267.69
2017	942.9	110,039.86
2018	15.3	105,504.88
2019	1189.56	110,840.94

*Asia excluding Hong Kong and Macao

Source: China's Outward Foreign Direct Investment Bulletin, MOFCOM, 2019

Based on other studies (Yang et al., 2020), Chinese ODI has specific negative significance toward political risks in the recipient economy. However, in the South Asian economies, the Chinese enterprises have a different approach compared with the location choices of MNEs from industrialised economies. India is the largest economy in South Asia and is considered one of the most favourable ODI destinations, yet Chinese ODI in India is rather lukewarm when comparing with Chinese ODI in other South Asian countries (see figure 3). Whilst, for most MNEs, high political risks as one of the most critical factors makes Pakistan one of the least favourable destinations of ODI in South Asia. But this practice does not apply to China. Based on the data (figure 3), the Chinese ODI in Pakistan is the highest in South Asian countries. The accumulated investment value during 2003-2019 was almost double that of the Chinese ODI in India. In the case of Sri Lanka, China and other prominent investors played a significant role in the Sri Lankan FDI sector, and based on Chinese ODI per capita, Sri Lanka received the highest investment value from China between 2003 and 209. However, the investment flow has not been sustainable in recent years due to both internal and external issues.



Source: MOFCOM, 2021

Figure 3: Chinese ODI in South Asian countries between 2003 and 2019 (Unit: million USD)

The determinants of Chinese ODI in South Asia seem to be heavily influenced by Chinese policies despite the importance of traditional economic factors. However, Chinese ODI towards individual economies in the region are affected by the Chinese police influence is not simple and uniform. Instead, it is complex and multifaceted. This is to say that in some countries, Chinese ODI is influenced by Chinese policies and seems to be more prominent than traditional economic factors, whilst, in some other countries, conventional economic factors have a stronger influence than Chinese policies.

3.5. Structural Features of Chinese ODI in South Asian Countries

South Asian countries have shown that they are enthusiastic about receiving external funds for developing infrastructure facilities in their countries, as this is one of the most critical determinants for economic growth and improving overall life standards (Bhavan et al., 2011; Rehman et al., 2020). There are several advantages to improving infrastructure in developing countries, such as increasing the employment rate, reducing poverty, diminishing transaction costs in social and commercial activities, enhancing international competition in production efficiency, and attracting FDI. (Sahoo and Dash, 2012). Sahoo and Dash (2010) have shown a positive significance between infrastructure development and economic growth in the countries of South Asia.

South Asian countries have generally suffered due to poor physical infrastructure impeding their economic growth, which is highly apparent in the case of East and Southeast Asian economies that propelled their economic growth owing to their excellent infrastructure facilities (Kelegama, 2012; Rehman et al., 2020). And based on a regional comparison of infrastructure, South Asia ranks at the lower end, just above the level of Africa. Despite there being a large discrepancy in different South Asian countries in terms of having access to electricity, the supply of water, sanitation, transportation, and telecom facilities, there is a general goal for their governments to upgrade infrastructure standards.

However, governments and business organisations in South Asia have also been considered the main obstacles to economic prosperity (Sahoo et al., 2014). This may be due to weaknesses or inefficiencies in the rule of government, such as corruption, the complexity of the legal procedures and a frail legislative framework lacking an appropriate coordination structure between government and private firms. On one side, the institutional and organisational issues make development deficient and costlier; on the other, minimal funds that have been allocated to it hurdle infrastructure development.

And there is also potential benefit among South Asian countries if trade in energy and related resources, such as natural gas, hydropower, minerals etc., can be improved. Therefore, building an intra-regional infrastructure framework is an essential factor for regional economic and social development. Compared with East and Southeast Asia, this progress has been more limited due to weak plans and a fragile institutional framework (Bhattacharjee and Haldar, 2015).

South Asian countries have opened their infrastructure development to foreign investors, and some sectors are given 100% ownership for specific years (Maparu and Mazumder, 2017). However, more than any other type of IDI, IDI in infrastructure development requires significant capital, generally in the hands of SOEs or private-sector monopolies and oligopolies. It is more sensitive towards political risks, diplomatic relationships and other internal and external institutional impacts; therefore, the host government must improve and ensure the regulatory credibility among the investors. And in this aspect, the Chinese government has been playing a prominent role in ensuring her ODI in infrastructure development has a smooth transition.

Chinese infrastructure development has been regarded as the economic facilitator since her open economic policies (Sahoo and Dash, 2012). Compared with South Asian countries, the Chinese construction sector has relatively better expertise and capabilities, but the attitude toward Chinese construction ODI is quite different among South Asian countries. In Pakistan, Chinese ODI has heavily enrolled in construction projects such as seaports, roads, railways, and pipelines, which is generally called China-Pakistan economic corridor (CPEC), with vast networks between China’s Xingjiang province and Gwadar seaport (Kanwal, 2018; Szczudlik-Tatar, 2013). Pakistan’s government does not just provide securities and other means of support for these projects when some of them face obstacles such as facing domestic conflicts and terrorism (Kanwal, 2018) but also allows enterprises to have control over the operation of Gwadar port (Malik, 2012). In the case of Sri Lanka, construction projects such as seaports, airports, roads, railways, bridges and metropolis development are also considered the main Chinese ODI targets. Some of them may have been slightly hindered due to the host country’s political strategies shift, but the primary political orientation has been favourable toward these projects. In contrast, the relationship between India and China has been a hard nut for both economies. Although both have overlooked the land dispute and focused on accelerated commercial activities, the political issues still make them feel the pinch from time to time. Toward Chinese ODI in India, the complicated regulatory procedure often spills a cold war on the initials (Martin, 2014).

3.6. Risks of Chinese ODI in South Asian countries

Along with global economic uncertainty since the start of the pandemic, the political, social and ideological differences from the worldwide perspective have further hampered economic development. Chinese ODI in South Asian countries also faced new risks and challenges. Chinese ODI focuses on Pakistan and India, but in terms of per capita Chinese ODI in the host country, Sri Lanka is an important place for Chinese ODI. These three countries have distinct economic and political characteristics, and their diplomatic relations with China can be divided into three categories. When the current pandemic and the conflict between Russia and Ukraine have led to more uncertainties in the global economy, society and politics, Chinese ODI faces enormous but different challenges in these three countries. Therefore, this study focuses on these three countries as critical case studies.

In India, Chinese ODI has shown certain complementary advantages in the Indian industrial sector; it has covered an extensive range of fields such as automobiles, pharmaceuticals, telecommunications equipment, mobile phones, home appliances, electrical equipment, steel, construction machinery etc. However, Chinese ODI engaged in start-ups has faced challenges over the concern of information security. For instance, in 2020, India began to ban Chinese APPs, resulting in all 59 APPs being removed from the shelves and their services stopped within a week of the announcement. For decades, this action was the most significant government opposition measure in the Sino-Indian business relationship. Some scholars believe this is India's sanctions against intensifying the Sino-Indian border conflict. Subsequently, India's APP sanctions against other Chinese investments continued to increase, but this did not interrupt the growing trend of Chinese "soft investment" in India. However, most control belongs to the Indian collaborators, as investment from China started to be marginalised. Yet, US and UK start-up investment in India has been heating up sharply.

Indian sanctions against specific Chinese ODI sectors blow the confidence in Chinese investment. Still, from an economic point of view, the Chinese ODI in India has not significantly affected the Indian economy. Without establishing its ecosystem of interests in India, the ability to counter risks is weak. At the same time, there is a phenomenon of lack of branding in Chinese investment in India; that is, products of Chinese brands are mistaken for products of India's own, and some Chinese companies even deliberately obscure their Chinese corporate identities to avoid unnecessary negative attitudes towards investment in India.

As major economies in the world and playing as economic engines in Asia, India and China are expected to positively impact global development through cooperation with complementary advantages. However, India has played a complex role with China. From the aspect of accelerating infrastructure construction, India participates in AIIB and agrees with the "Bangladesh-China-India-Myanmar Corridor Initiative" proposal but maintains low-key support for the Belt and Road Initiative. At the same time, India has also proposed countermeasures aimed at the "Belt and Road" initiative, namely the Project Mausam and the Spice Route. India has also established strategic cooperative relations with the United States, Japan, Southeast Asian countries, and South Asian countries (Xiao and Li, 2018). It has played an external check and balance effect on China. Therefore, the Chinese ODI in India should consider the importance of economies of scale and the complementary industrial advantages of the two countries to drive closer cooperation in the industrial chain and reduce the interference of non-economic factors.

Pakistan has been facing high political risk since its independence. From an investment perspective, Pakistan received limited FDI source countries; among these significant investments, China has been the most prominent investment source country since the start of the new millennium. These investments have been tightly associated with CPEC with USD 46 billion, which will engage in an infrastructural sector that includes building Kashgar to Gwadar railway, upgrading Gwadar airport, upgrading or extending highways, building up pipeline networks to Kashgar etc. In addition, Chinese ODI is also engaged in the natural resource sector, such as mining; the industrial sector, such as vehicle and heavy machinery manufacturing; and the service sector, such as banking, management consultation, telecommunication, technology etc.

Although Chinese ODI in Pakistan has been thriving for the past decade, the political risk for these investments remain high as Pakistan’s polarised political systems and various theorist attracted toward aimed foreign citizens; for instance, in 2022, a suicide bomb-attacked a van caused 3 Chinese staff members from Confucius Institute were killed. The government of Pakistan has a significantly high level of corruption. The lack of political transparency caused agitation and fear among the public. This phenomenon has increased the chance for the growth of narratives that further hampers the support for CPEC (Shah, 2018). From some local business community points of view, CPEC may significantly impact the increasing Pakistan trade deficit without strengthening Pakistan's industrial competence. In addition, the Pakistan government kept a tight fiscal budget over recent years that disrupted the projects of CPEC to complete within due time (Idrees and Shafiq, 2021), which increased the risk for Chinese ODI involved in these projects.

From an external aspect, the global economic environment has been worsening the Chinese ODI in Pakistan. The Ukraine-Russian conflict causes a global shortage in fuel and agricultural products, leading to high global inflation. This has aggravated both the economic and political situation and pushed Pakistan to the edge of bankruptcy (Rehman et al., 2021). Whilst global warming that led to heavy floods has destroyed houses and agricultural fields, which caused catastrophic social and economic issues and forced the government to raise requests for various international organisations for financial and food support. And all these external uncertainties indeed increase the risks for Chinese ODI in Pakistan.

Compared with India and Pakistan, Sri Lankan political situation seems much more relaxing and friendly towards Chinese investors. However, the lack of coherent policies and unstable political systems have caused Sri Lanka not to be an attractive FDI destination. Chinese ODI faced various obstacles when the government regime shifted in 2015; for instance, the Chinese invested “port-city” project was temporarily on hold for a year, then the name was changed to “financial city” along with a new assessment by the new government; allocated Matara special industrial zone that aims to attract Chinese investors had faced various protests which caused these investors hesitated to engage any ODI activities in this area.

In 2022, Russia-Ukraine military conflict has caused global economic concern, pushing the price of fuel and agricultural goods. Some developing countries faced food security issues and economic and political turmoil. Both Sri Lanka and Pakistan ran out of foreign exchange reserves, and the depreciation of local currencies, as well as galloping high inflation, not just aggravated livelihood conditions, the further generated the anger of people and opponent parties; in the case of Pakistan, the former Prime Minister Imran Khan was ousted after the vote; while people in Sri Lankan have launched various protests against Rajapaksa family that led Mahinda Rajapaksa resigned from Prime Minister position. As social, political, and economic situations worsened, existing FDI either stood still or declined; subsequently, Chinese ODI also faced significant challenges. Despite the Chinese loan being 15% of Sri Lanka’s total debt and financial expertise agreeing there is no existence of said ‘Chinese debt’s trap’, some biased media portrayed a negative image and caused profound influence on a specific part of the society. In addition, Chinese ODI in the infrastructural sector has certain shortcomings; for instance, some landmark projects by Chinese enterprises have been questioned on their economic feasibility in the short and middle term. Therefore, when political or/and economic issues worsen in host countries, Chinese ODI may quickly become a political target.

4. CONCLUSION

The pandemic has unveiled the tendency for geopolitical restructure and global economic restructuring. This study focused on the new challenges that Chinese ODI has faced in some South Asian countries. As Chinese ODI, on a large scale, generally received solid institutional support in financial or/and non-financial terms, this has been a significant factor in the proliferation of Chinese ODI in “Belt and Road” countries. However, these global uncertainties have challenged Chinese institutional support for Chinese ODI during the economic, social and political structural shift.

Compared with Chinese ODI in other South Asian countries, investment in Pakistan and Sri Lanka are very significant, and it has considerably impacted the local social and economic environment. The study indicates that when South Asian countries enjoy economic stability, Chinese ODI in these countries has received a more positive response; however, when the host country is in a time of severe economic downturn, such investments are often the subject of condemnation, for instance, the accusation that Sri Lanka was caught in a debt trap due to Chinese loans. Therefore, Chinese investment should show more diversification rather than merely focus on its involvement in the infrastructure sector. Generally, Chinese ODI has played a role that has focused on the relationship between China and the host country's government; however, diversifying investment into other industrial sectors that can link with the global value chain can make greater economic engagement with the host country.

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