



# THOUGHT LEADERSHIP BRIEF

## A Kaleidoscopic Perspective of the Belt and Road Initiative and International Business Policy

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### KEY POINTS

- ▶ Initially a regional initiative that aimed to connect China with neighboring countries, the BRI has since expanded globally and today there are only 57 countries that have not joined the BRI.
- ▶ The BRI – like a kaleidoscope – elicits vastly different patterns of opportunities and challenges as we turn the perspective from policymakers in China, to governments in BRI host countries, and to officials in third countries.
- ▶ The application of integrative thinking to these perspectives allows for the identification when BRI projects generate tensions between countries and how this influences their IB policies.
- ▶ Further research should offer insights on how China can tweak its BRI related IB policies to foster sustainable BRI projects that are beneficial for both their own economy and for BRI host countries.

### ISSUE

Since 2013, China's "Belt and Road Initiative" (BRI) has grown in number and become increasingly global in scope. Despite these trends, international business (IB) research on the BRI remains limited. To call upon IB scholars to adopt a policy turn in their study of the BRI, "with the purpose of advancing IB theory, contributing to important debates with scholars in allied social sciences, as well as helping to resolve these difficult challenges our generation is currently facing" (Buckley et al, 2017: 1046), we issued a call for papers at the Journal of International Business Policy to reflect on the nature and scope of the BRI and how it influences IB policy.

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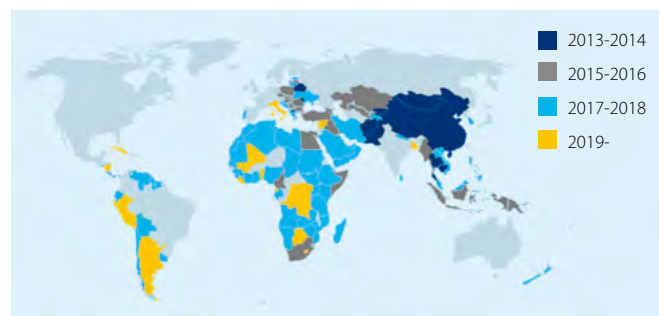
## ASSESSMENT

Findings of the Special Issue articles suggest the need for complex integrative thinking about the initiative. We demonstrate that the BRI elicits vastly different patterns of opportunities and challenges as we turn the perspective from policymakers in China, to governments in BRI host countries, and to officials in third countries. Each country typefaces different economic, geopolitical and social upsides and downsides of embarking on the BRI, which help shape the initiative. We will also show that juxtaposing the different perspectives and identifying overlaps between them allows us to develop a more coherent understanding of how BRI policies develop and why they vary across countries.

Much of the IB scholarship has mainly focused on three characteristics of the initiative that help explain BRI-related IB patterns. First, IB scholars treat BRI as a formal institutional change in China that has helped motivate Chinese firms to internationalize quickly and extensively. Secondly, scholars have homed in on the state capitalist nature of BRI. The Chinese central and regional governments play a key role in selecting BRI projects and financing them with loans from Chinese state-owned policy banks, commercial banks, and sovereign wealth funds. Of the 191 BRI projects outside of China in the CSIS Reconnecting Asia database, 78 projects were funded exclusively by Chinese sources (Table 1). Thirdly, studies have focused on the geographic concentration of the BRI. Figure 1 shows how the official list of BRI participants has spread geographically over time (Sacks, 2021).

As Lewin and Witt (2022) explain in this Special Issue, “[BRI is,] at its core, a national political initiative that plays out in the domestic and global arenas – economics is the means, but politics is the objective.” It is not only China’s political context that shapes the BRI, but also that of BRI host countries and third countries. To illuminate the full ramifications of the BRI, it is important to recognize its kaleidoscopic complexity (Roberts & Lamp, 2021). Every turn of the kaleidoscope lets the pieces shift and reveals distinct perspectives that countries have about the initiative.

**Figure 1. Countries that have Joined the BRI by Signing a Memorandum of Understanding, by Period.**



Data Source: Green Belt and Road Initiative Center

## Chinese Perspective

China faces a variety of economic and non-economic societal challenges that it believes can be addressed by promoting IB through the BRI. Yang (2022) focuses on the link between the BRI and innovation. Yang conjectures that the BRI disproportionately boosts the innovation performance of firms that are in close network proximity with BRI firms that implement foreign railroad projects, leading to a cascading innovation effect. He hypothesizes that the knowledge complementarity with BRI firms positively influences a company’s innovation performance, and that this relation is stronger for private firms than for SOEs.

Liu and Wang (2022) draw focus to the factors that drive the speed of FDI along the BRI. They find that industry competition boosted the organizational speed of BRI investments, pushing firms to escape China through internationalization. However, both state equity and a firm’s location in an officially designated BRI province reduce the speed of internationalization. Chang, Torres de Oliveira, Chung, and Zheng (2021) find that both formal (e.g., laws and regulations) and informal (e.g., network events) BRI actions by provincial governments boost firm internationalization. In contrast, they find that the status of being listed as a key province targeted for development in the BRI does not boost firm internationalization. These results suggest the need for additional research on the antecedents behind regional variations in BRI policies.

**Table 1. BRI Projects by Origin of Contractor and Funding Source**

|  | Number of projects | Percent of projects that exclusively use Chinese contractors (%) | Percent of projects that use both Chinese and non-Chinese contractors (%) | Percent of projects that exclusively use non-Chinese contractors (%) |
|--|--------------------|--|---|--|
| Projects funded exclusively by Chinese sources | 78                 | 79.5   | 20.5  | 0.0  |
| Projects co-funded by Chinese sources          | 51                 | 66.7   | 25.5  | 7.8  |
| Projects not funded by Chinese sources         | 62                 | 50.0   | 17.7  | 32.3   |
| <b>Total</b>                                   | <b>191</b>         | <b>66.5</b>  | <b>20.9</b>   | <b>12.6</b>  |

Data Source: Reconnecting Asia Database. Authors’ calculations.



In their commentaries, Lin (2022) and Lewin and Witt (2022) emphasise the importance of China's geopolitical objectives related to the BRI. Lin argues that a key role for public policy is to help countries overcome the bottlenecks in hard and soft infrastructure so as to reduce the transaction costs in their businesses and allow for specialization in sectors with latent comparative advantages. The BRI can thus assist BRI host countries in structurally transforming their economies by providing them with access to infrastructure investment. Lewin and Witt (2022) take a more cautious view. They see the BRI as part of a larger effort by China to develop an alternative world economic order. The authors conclude by saying "[i]t seems to us that a stronger recognition of the political foundations of the BRI would open up a vast and likely highly rewarding range of research opportunities. It is our hope that IB scholars will capture them." We wholeheartedly agree with this statement.

### **BRI Host Country Perspective**

Many BRI countries face substantial infrastructural deficits that leave them poorly integrated in regional and world markets (Ruta et al., 2019). Direct investment from China may help generate economic development in these countries. At the same time, China's state capitalism, its growing clout in the global economy, its increasingly proactive geopolitical stance, and rising tensions between China and the US all require host countries to consider China's non-economic motives of BRI investments and the geopolitical ramifications of participating in a BRI project (Li et al., 2022).

For countries that are geopolitically aligned with China, China's call for developing a "community of shared destiny" through the BRI may have a special resonance that increases their willingness to participate in BRI projects (Li et al., 2022; Mações, 2019). Other countries – especially those more closely aligned to the US and India – may be more reticent. The geopolitical context also varies over time. Several BRI projects have led to debt distress, asset seizures and outpourings of negative public sentiment (Buckley, 2020). De Beule and Zhang (2022) use fDi Markets data from 2003 to 2019, and find that both a higher host country BRI sentiment and a host country policy agreement stimulate Chinese greenfield investment. These effects are especially pronounced for Chinese SOEs compared to private firms, which provide credence to Li et al.'s (2022) proposition that Chinese SOEs face a disproportionately high legitimacy gap in countries that are geopolitically less aligned with China.

### **Third-Country Perspective**

The sheer size and scope of the BRI imply that the initiative influences the political context far beyond China and BRI host countries. Third countries, such as the US, Japan, and India, have been paying careful attention to the economic and geopolitical effects of the initiative and have developed their own IB policies in response. The initiative promises to reduce trade costs for BRI economies by 2.8% on average with the rest of the world, and by 3.5% with other BRI economies, stimulating economic development (De Soyres et al., 2019). The growth in global GDP that these trade cost reductions generate can benefit third countries by creating more demand for their products and by generating greater macroeconomic stability in the BRI region (Hillman, Sacks, Lew, & Roughhead, 2021). It also helps address several

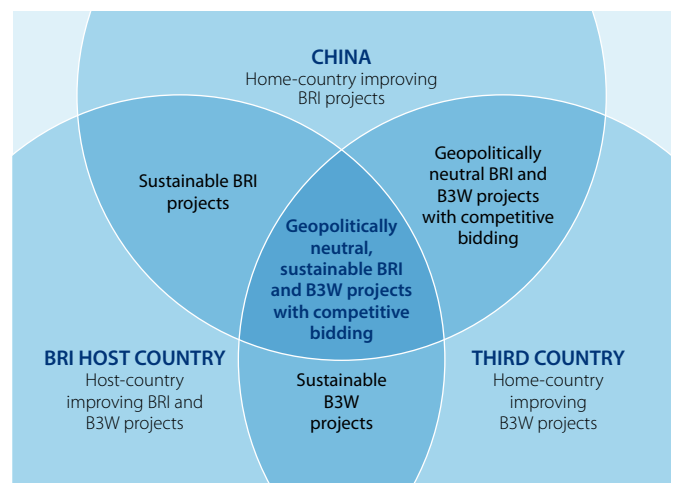
Sustainable Development Goals (SDG) related to infrastructure, poverty and inequality, thus serving as a vehicle for the attainment of the SDGs across critical regions of Asia and Africa by 2030 (Lewis et al., 2021).

While we have shown that BRI projects are dominated by Chinese SOEs, the Chinese government's introduction of "Third-Party Market Cooperation" between Chinese firms and MNEs may provide an opening (Zhang, 2019). However, there is concern that China has purposefully structured the BRI in a way that provides an asymmetric competitive advantage for its own SOEs in BRI countries (Teece, 2020). Li et al. (2022) show that close collaboration between the Chinese state and its SOEs gives SOEs a leg up in BRI projects. Ghossein et al. (2021) argue that the lack of transparency in BRI public procurement helps sustain this asymmetric competitive advantage of Chinese SOEs. Petricevic and Teece (2019) raise the alarm bell that this systemic competition can lead to a bifurcated world order between rule-of-law countries that have a default predisposition towards transparent relations between the firm and home-country governments, and rule-of-rulers countries that systematically favor domestic incumbents.

Third countries share the concern that the BRI strengthens China's political leverage over BRI host countries, moving these countries away from their own sphere of influence (Hillman et al. 2021). It is for this reason that geopolitical rivals of China have started countering the BRI by proposing alternative sources of funding for infrastructure projects. In June 2021, the Group of Seven richest democracies (G7) introduced the Build Back Better World (B3W) initiative that would offer developing nations an infrastructure plan that rivals China's BRI.

We can integrate insights from the three perspectives to develop a more coherent and nuanced understanding of the conditions under which BRI projects emerge, how they change over time, when third countries will initiate countering ventures such as B3W, and under what circumstances BRI (and B3W) projects can become win-win situations for all sides (Figure 2).

**Figure 2. A Kaleidoscopic Perspective of the Perceived Benefits from the Belt and Road Initiative (BRI) and Build Back Better World (B3W) Projects.**



## RECOMMENDATIONS

Acknowledging the kaleidoscopic complexity of the BRI illuminates the IB policy ramifications of the BRI. Every turn of the kaleidoscope moves the focus of analysis to a different actor and reveals distinct views about the opportunities and challenges that the BRI generates. The shape and scope of BRI projects are formed at the intersection between different perspectives, requiring the need of integrative thinking to determine IB policy actions and reactions.

Taking the BRI host country perspective, we demonstrate that host countries are willing to embark on sustainable BRI projects that make a positive contribution to their economic, social and environmental development. Several studies show that some BRI projects have benefited the host countries in terms of transportation infrastructure, income, and job generation (Fang et al., 2021; Li & Taube, 2018; Li et al., 2022a). However, other studies have documented significant resistance against BRI projects (Balding, 2018). Further research could offer insights on how China can tweak its BRI related IB policies to foster sustainable projects that are beneficial for both their own economy and for host countries. More research is also needed to evaluate how geopolitics influences a host country's willingness to embark on a BRI project and how it shapes IB policy actions and reactions.

There is also an urgent need for more research to empirically validate the link between geopolitics and BRI related IB. Furthermore, we have very limited knowledge of how the participation of host-country firms influences the survival and success of BRI projects. Future studies that focus on the capabilities that firms need to develop to navigate these geopolitical forces and even shape the geopolitical context would offer significant practical implications.

There is also a need to investigate how host countries coordinate with each other in their interactions with China on the BRI. Questions also remain about China's reactions to B3W. Will B3W push China to reconfigure the BRI, and, if so, how? Consequently, a promising research direction is to study the resilience of BRI projects under major global and regional environmental disruptions. How can policymakers in China and participating countries improve the resilience of BRI projects under major exogenous disturbances and accelerate BRI projects' post-disturbance recovery? How does the public sentiment towards China in a host country affect the survival of a BRI project? How do exogenous disturbances reshape the relative power status among China, BRI countries and non-BRI countries? All these research questions contribute to a better understanding of whether and how trade and investment in the context of BRI and B3W projects are conducive to sustainable growth.



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