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China's Belt and Road Initiative: Changing the Rules of Globalization?

When Xi Jinping announced 'One Belt, One Road' in 2013 or when the action plan for the Belt and Road Initiative (BRI) was released by the National Development and Reform Commission (March 28, 2015), China undertook the most significant international programme of the 21st Century. The BRI can be seen geopolitically, from a macroeconomic perspective, as a manifestation of Chinese Outward Direct Investment (OFDI), as an extension of State Owned Enterprises (SOEs), in microeconomic terms as a set of projects or in its immediate impact on single countries and locales.

China's international strategy can be described as 'State driven' rather than 'State controlled'. It combines a number of elements – "top down" investment from the State via State owned companies and sovereign wealth funds, "bottom up" investment by companies, both public and private, often utilising external acquisition of key foreign assets including technology, brands, skills and market access, network influence, and umbrella macro strategies such as 'One Belt, One Road'. This complexity – and the variety of actors involved – is a challenge for theory.

From the theoretical point of view, China's "outward involvement", aid, trade, investment, loans, even outsourcing (possibly to other Chinese entities) are often packaged together rather than separate activities motivated by separate agencies (aid agencies, exporters, multinationals, bankers, outsourcers). This 'separability problem' raises challenges for analysis. The BRI has been described as a "two wheel drive approach" (Zheng, 2018) covering "infrastructure connectivity" and "international capacity cooperation". These concepts cut across Western categories (Buckley & Chapman, 1997) and present theoretical and analytical challenges. At the macro level, it can be argued that China seeks to be a "rule maker" rather than a "rule taker". Consequently, the analysis cannot just proceed within a given framework of international rules, conventions and norms. China actively seeks to change the international order not simply to work within it. It can be argued that changing international rules is the primary purpose of the BRI.

A further problem is that even for China, hard data on the BRI is hard to come by. In international business research, categories do not always travel internationally. BRI initiatives represent a mix (in "western" categories) of aid, trade, foreign direct investment, soft loans, hard loans, commercial and development bank lending. Given that these differing flows have very different effects, unravelling them is crucial. The examination of the contracts underpinning BRI projects is vital but obtaining such contracts for analysis is a sine qua non of unravelling its effects. It has been widely alleged that 'debt servitude' is a consequence of BRI for host countries – the case quoted is usually Sri Lanka. Inability to repay debt can result in asset seizures by China (Sri Lanka again and Greece). The utility of some investments ('the road to nowhere' in the Balkans) is questioned. Many poor countries, desperate for investment, look to BRI for development and several to counterbalance Western (US) influence geopolitically. The desire for investment, any investment, in poor countries is

understandable and the promise of soft loans is often irresistible. But there are always consequences, sometimes unforeseen.

There are therefore many unanswered questions. Among the unanswered (and researchable) topics are the following questions:-

What are the global competitive impacts of the BRI, given that foreign (non-Chinese) bidders are often excluded from BRI contracts?

What is the content of the contracts that host countries have signed in the BRI? (Division between investment, debt, aid, and trade)

What are the business models behind BRI? (Joint ventures, mergers and acquisitions, build-operate-transfer (BOT) or franchises?)

Is 'debt servitude' a consequence of BRI? What are the costs and benefits of BRI for the host countries?

What impact does BRI have on COFDI? What (exclusionary) impact does it have on third country FDI?

What is likely to be the impact on world trade and FDI patterns?

How does BRI affect Chinese SOEs? (Is this merely a means of solving Chinese SOEs' overcapacity problems?)

Does investment in physical infrastructure accelerate or delay investment in digital connectivity?

Are vulnerable and small states targeted and, if so, can their bargaining power vis-à-vis China be strengthened?

What is the impact of BRI on the 'rules-based' global trade and investment system? (Is this simply a "rebalancing" of rules towards China and possibly towards developing countries or is it the imposition of unilateral Chinese rules?)

What are the legal implications of BRI? Does this extend Chinese legal extraterritoriality?

What are the human rights implications of BRI?

What are the environmental impacts of BRI?

Does the BRI represent an institutional challenge to "Western" (e.g. World Bank versus AIIB) or international (WTO) institutions?

In view of the alleged US and European (Brexit) withdrawals from globalisation, does BRI represent a bid for Chinese dominance of globalisation?

Chinese Belt and Road Initiative (BRI)

- China loans are paramount [Default risk e.g. Venezuela, Libya (Zimbabwe)...]
- Low Risk Projects?
- Standards?
Are low standards on attractor? or
Do Chinese put pressure on to drive standards down?
- China as 'builder of last resort' after other funders have turned projects down?
(EU, World Bank etc.)
- Investment (in highly regulated countries) in order to seek accreditation (e.g. nuclear power in UK) that can then be used throughout the world market?
- In general, no public tenders for Chinese projects – EU etc., insists on this. Big difference.
- Chinese arbitration (CIETAC).

Logistical motives. Relationship to trade?

The impact on legal studies is potentially momentous as Chinese law becomes enshrined extraterritorially through investor state intermediation and arbitration. The choice of law to cover contracts is critical and the potential clash of legal domains has wide ranging implications as Chinese institutions including the Chinese International Commercial Court (“the BRI court”) becomes embedded in host countries. The conventions that cover these practices are a similarly open research agenda.

The BRI represents a large scale shift in the multilateral regime – the focus of BRI is largely bilateral, not multilateral – and these significant changes mean that those IB researchers who concentrate on the firm level can no longer take the global institutional framework as given. An explicit focus on the global trade and investment regime is now required as a new factor in IB research.

The BRI is an amorphous concept. It is also a dynamic entity too, China being willing to rethink the BRI strategy in the face of ‘pushback’. It is a challenge to conventional modes of thinking and requires a great deal of conceptual preparation before serious investigative research can begin. Consequently it also allows international business researchers to explore the efficacy of their thinking, their categorisation of stocks and flows in the global economy and the utility of wider theorising. In other words, it is a new challenge to international business thinking in the way that emerging country multinationals were over a decade ago.

Key Role of Local Actors

Agency of local (host country) actors

- (1) In initiating projects
- (2) In outcomes

Interest groups in host countries (e.g. Ship owners in Greece. Port of Piraeus).

The more work is done by local subcontractors, the higher is the interest rate.

Bargaining Power

Overwhelmingly with Chinese.

Asymmetry in Power relationships – negotiating etc.

A remaining doubt is the veracity of the data. Coase (1988) recommended to researchers that they focus on the content and consequences of actual contracts¹. Access to contracts may be the only way of securing reliable information. Freedom of information in BRI will be limited, so this is a test of researchers' ingenuity (and bravery). The enormous potential consequences of BRI for host countries, China, the global economy and China's major competitors (the USA, India and Japan) makes this research critical for all our futures.

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¹ Coase (1988) p.74 says ".....studies should be made of the contractual arrangements between firms (long-term contracts, leasing, licencing arrangements of various kinds including franchising and so on), since market arrangements are the alternative to organization within the firm."