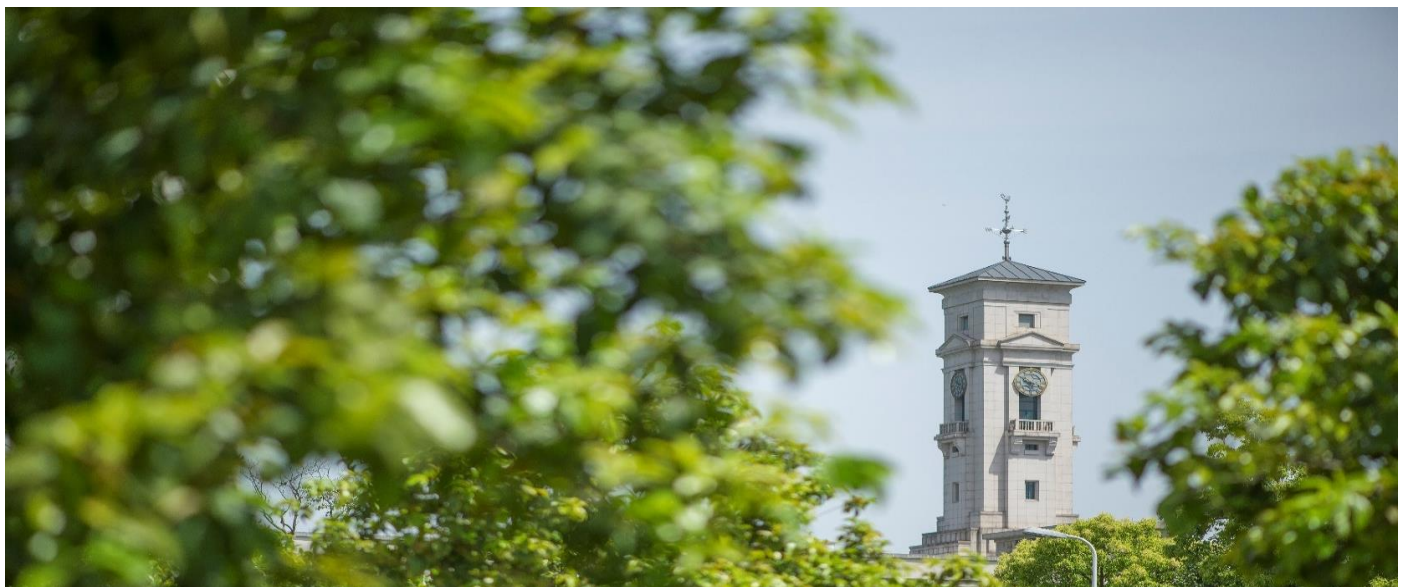


The Belt and Road Initiative for an Intercontinental Ecosystem: Strategic Implications for Multinational Enterprises around the World

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Michele Geraci is the former Undersecretary of State at the Italian Ministry of Economic Development, where he was responsible for Trade and Investment and key promoter of the MoU on the Belt & Road Initiative between Italy and China. Prior to that, he had lived for ten years in China where he analyzed the Chinese economy and worked as professor of finance teaching courses in various universities, including the University of Nottingham Ningbo China, NYU-Shanghai, and Zhejiang University. Prior to moving to China, Mr. Geraci was an Investment Banker in the City of London and an Electronic Engineer for over 20 years. Immediately before taking his role as undersecretary, he was named as a potential choice to be Italy's Prime Minister. He is a frequent guest on major international media and has been awarded the Italian Knighthood title by Italian President Mattarella. He holds an MBA from MIT Sloan.

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International trade and FDI, as well as other forms of cross-border economic activities, are essential to globalization, even in the emerging era of neo-globalization as a unique balance between globalization and de-globalization. Despite the hype, globalization is a relatively new phenomenon. In the past few decades, international trade and FDI were largely regional in scope (Cantwell et al, 2010; Rugman, 2003; Rugman & Verbeke, 2004). For globalization as the highest stage of internationalization, inter-continental economic activities are much more critical than intra-continental ones. In recent history, inter-continental economic activities have often occurred across the Atlantic and the Pacific Oceans. This contrasts with much older types of inter-continental economic activities that occurred in the form of cross-land exchanges. For example, in the ancient *Silk Road* era, China and Europe engaged in inter-continental economic exchanges that gave rise to economic, social, technological, and cultural transformation in both China and Europe. This historical era included the birth of the Renaissance and the Industrial Revolution as the most significant events in the history of East-Meeting-West (Li, 2012). Now it seems that history is repeating itself in another context, as evidenced by the *Belt-and-Road Initiative* (BRI). Even though the BRI was initiated by China, it cannot be considered a sole effort on the part of China. Rather, it could be reframed as a mega-project of international collaboration between China and Europe in a move toward an inter-continental *ecosystem* (in terms of a cross-continental community of self-organized, yet interdependent, members engaging in co-opetition based upon an institutional platform as their shared infrastructure for interaction, cf. Jacobides,

Cennamo & Gawer, 2018; Nambisan, Zahra & Luo, 2019; Shipilov & Gawer, 2019), and as one of the most critical events in the emerging era of neo-globalization. The purpose of this paper is to identify the salient challenges of the BRI to intercontinental economic integration, and discuss the major strategic implications of BRI for multinational enterprises (MNEs) around the world. In particular, our study bears critical implications for the debates over the potential effect of China's international relationships on China's domestic policies, and also the domestic forces underlying such international relationships, even under the condition of economic "cold war" (e.g., Allison, 2017; Petricevic & Teece, 2019; Teece, 2020; Witt, 2019; see Li, 2019 for a review).

The Background and Challenges of BRI

Although the BRI could be viewed as a mega-project of international collaboration between China and Europe for long-term symbiosis, there remain concerns about, and challenges to, its effective implementation, some of which represent more fundamental controversies. In particular, we need to examine such concerns and challenges from the European perspective, above and beyond the Chinese perspective.

Europe and China are major trade partners, with Europe being the largest trade partner in the world for China, and China as the second largest trade partner for Europe. The growing prominence of China as an economic superpower, and its growing confidence as a leading global political force, has led the European Union (EU) to develop a new strategy toward China relative to its previous position in 2006 (EC, 2016). Some of the main tenets of the European view of the BRI can be drawn from this 2016 position paper and also from more recent policy papers, such as "EU-China, a strategic outlook" (EC, 2019) and "Connecting Europe and Asia: Building Blocks for an EU Strategy" (EC, 2018). The general view is that a good and strong relationship between China and Europe will be mutually beneficial, while further fostering trade and investment between the two major blocs will be facilitated by a

strengthening of the physical road, train, and sea connections and the digital infrastructural links. In the 2018 paper, the European approach was framed as “*sustainable, comprehensive and rules-based connectivity*” (EC, 2018: 2). Hence, there is no doubt that Europe recognizes the importance of strengthening the connections between China and Europe, but there remain major concerns over the way China is executing the BRI as its core framework to develop its connections with Europe.

One of the key concerns relates to “the rules of the game” that will govern the way the BRI is implemented. Europe’s rules are market-based, such as the rules for transparent and open procurement in infrastructure projects. From Europe’s perspective, China does not strictly follow these rules as the State has enormous control and power over firms, especially in the case of state-owned enterprises (SOEs). The key criticism is that this does not create a level playing field for all firms because various unfair practices mean the State provides specific support to Chinese firms in general and SOEs in particular. In the context of the BRI, the concern is that China is pushing its own model of doing business onto the countries and organizations along the route of the BRI. Another concern is that the conditional debt-based investment under the BRI may create dependency on China of vulnerable countries and organizations. The long-term goal of the EU is to strengthen trade and investment under a transparent and rule-based international order to eliminate unfair practices, while including the reciprocity among trade and investment partners, and also the improvement in human-rights records in trade and investment. To achieve the above goal, it is imperative that Europe maintains its position concerning fair market competition and rule-based practices. However, Europe seems to be split on how to implement its position concerning China, especially in the context of the BRI. On the one hand, some (such as the former Prime Minister of Belgium) argue that Europe should operate as one strong voice (Verhofstadt, 2019). On the other hand, others argue that Europe should maintain its overall policy toward China, but it should allow

each member of the EU to have some autonomy and flexibility in its own specific practices concerning its trade and investment practices with China (Geraci, 2019). This argument is reflected in China's signing of MoUs with Italy, Luxembourg, and Switzerland (non-EU, but European) in the recent past.

The issue of sustainability of investment in the BRI infrastructure is a second area of concern for Europe. Europe considers sound environmental performance critical to any long-term economic growth and prosperity for all citizens. It recognizes the EU and China's "*shared commitments and interest in global sustainable development and the 2030 (sustainable development) Agenda*" (EC, 2019: 2). However, it is concerned that, while "*Chinese investments have contributed to the growth of many receiving economies, ... these investments frequently neglect socioeconomic and financial sustainability and may result in high-level indebtedness and transfer of control over strategic assets and resources. This compromises efforts to promote good social and economic governance and, most fundamentally, the rule of law and human rights*" (EC, 2019: 4). For example, specifically concerning the issue of climate change where the EU sees China as a leading partner in promoting the Paris Agreement, it also notes that China is a leading player in constructing coal-fired power plants in various countries, thus undermining the achievement of the goals of the Paris Agreement (EC, 2019).

Europe has been working closely with, and generally recognizes that, China is increasingly active in its efforts to address these two major concerns. However, a deeper-level and more fundamental concern from the European perspective is geopolitical in nature. In its latest strategic outlook on EU-China relations, Europe considers China to be a "cooperation partner", a "negotiating partner", an "economic competitor", and "*a systemic rival promoting alternative models of governance*" (EC, 2019: 1). It then continues to stress that a whole-Europe approach is needed to defend its interests and values. This illustrates the

paradoxical tension with which Europe is trying to cope: on the one hand, Europe adopts a pragmatic approach where expanding economic ties with China is seen as important; on the other hand, Europe adopts a principle-based approach where such major concerns as “good governance”, “sustainable socio-economic development benefitting all participants involved”, “transparency”, and “the international rule-based order” are central to its strategy to create stronger connections between Europe and China. Not surprisingly, some concerns over the BRI mega-project are aptly formulated by one observer: *“The BRI (...) to its critics is a case of China now exporting its philosophy of development beyond its borders - a philosophy which is largely self-interested, lacks legal structure, and supports state development in order to build a strong Chinese state”* (Brown, 2018: 219). An illustration of European concerns is a joint statement made by the European ambassadors to China by 27 (out of 28) European nations in 2018 about the lack of international transparency in the BRI procurement process to the extent that the BRI execution *“runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies”* (Heide et. al., 2018).

Notwithstanding the major criticisms, Europe has shown increasing interest in the BRI mega-project, and its growing engagement is visible compared to the limited responses at its onset, both at the level of individual European countries and at the level of the EU. For example, Europe’s expanding involvement in the Asian Infrastructure Investment Bank (AIIB) is an illustration of the increasing engagement of Europe in the BRI. Many European countries, such as Germany, France, Italy, Netherlands, Spain, and the United Kingdom, became the voting members of the AIIB from the end of 2015. Europe considers this approach by the AIIB to be positive because it boosts the BRI mega-project into a stronger position as a multilateral initiative; one which has the potential to gain further support from Europe. It is also believed that such voting power could help to sway the financial framework

towards market-based rules, transparency, and good governance principles. This view is also expressed in a statement adopted by the European Parliament at the end of 2015, i.e., it *“believes that given the geostrategic relevance of this (One Belt, One Road) initiative it should be pursued in a multilateral way; [and it] believes that it is of the utmost importance to develop synergies and projects in full transparency and with the involvement of all stakeholders”* (EP, 2015: 9). In the same document, it was further stated that it is important to strengthen the strategic infrastructure links between China and Europe, such as cooperation on infrastructure investment along the New Silk Road and New Maritime Silk Road (EP, 2015: 8).

One of the major recent initiatives on the part of the EU has been the establishment of the EU-Asia connectivity strategy and, related to that, an EU-China connectivity platform was set up (the fourth meeting of the platform took place in April 2019). One of the aims is to create stronger ties between the well-established Trans-European Network and Asian networks and to explore possible synergies with the BRI initiative. Overall, there is no doubt that Europe recognizes the need for, and supports the development of, further infrastructure to strengthen the connections between China and Europe. It considers a multilateral framework with clear rules as the best possible vehicle to move this forward, and if the BRI mega-project moves in that direction Europe might become more receptive to it.

Responses to the BRI beyond Europe have been mostly positive, this is certainly so in the case of developing countries that are (potential) hosts for the various BRI projects given their position in the Belt and Road and the expected impetus those projects provide for economic development (Kohli & Zucker, 2019). The recently concluded second global forum on the BRI also indicated broad support for its goals. However, mostly due to geopolitical concerns or specific discontent with particular BRI projects or broader Chinese policies, a number of countries are not represented, e.g., India, Sri Lanka, and Turkey (Kuo, 2019). Further, the US

view of the BRI was initially cautious under the Obama administration, but seemingly more positive in the first year of the Trump presidency. However, as the trade conflict between the US and China escalates, the Trump administration has become more critical of the BRI (Cai, 2018). The US is mostly concerned about the geopolitical implications as it considers it a challenge to the leading role of the US and the doctrine of free market institutions and its democratic underpinnings (Petricevic & Teece, 2019; Teece, 2020; Witt, 2019). Moreover, the BRI is seen as a way for China to expand its influence in the regions encompassing the Belt and Road, potentially leading to those countries being much less receptive to the US influences. While the geopolitical concerns may be central to the perspectives of the US and India, the main concerns of other, both advanced and emerging, countries center on the issues of sustainability, transparency, inclusiveness, and the application of fair market-based rules. Hence, while many countries have taken an initially positive stance regarding the BRI, a significant progress is required in those areas of concerns to cement a more long-term commitment to the BRI mega-project.

The Emerging Perspective of an Inter-continental Ecosystem

As reflected by the above debates from diverse perspectives, “*consensus has not been reached about what BRI is, how it may affect others, and how it may evolve*” (Alon, Zhang & Lattemann 2018: 12). In spite of this, the major impact of the BRI on the world is generally assumed, rather than convincingly articulated, to include such issues as inter-continental cooperation, inclusive participation, and the emerging era of neo-globalization.

For the specific purpose of convincingly clarifying the nature and relevance of BRI, we propose a three-level framework for its analysis to include its surface, its middle, and its deep levels. While most researchers, policymakers, and practitioners have recognized the features of the BRI at both surface and middle levels (see Blanchard & Flint, 2017), we argue that the

deep-level essence of the BRI mega-project as an inter-continental ecosystem for long-term symbiosis has not yet been adequately articulated.

First, at the surface level, the BRI mega-project has been perceived by most Chinese researchers, policymakers, and practitioners as a China-centered effort aimed at helping China solve the problem of over-capacity in its infrastructure and manufacturing sectors. This would be achieved by the expansion of the export market for China's excessive inventories and oversupplied stocks to those potential markets in the less developed regions of Central Asia, the Middle East, South Asia, Southeast Asia, and Africa. Such a view is widely shared among Chinese researchers, policymakers, and practitioners, and it is also more or less shared among their counterparts in other emerging regions (e.g., Chen, 2017; Ke, 2019; Liu, 2017). However, this view with a focus on the "hard power" of building physical infrastructure from China's perspective is rarely shared across Europe and the US, where a different perspective is widely adopted, even to the extent of economic "cold war" and the so-called *Thucydides's Trap* in terms of the conflict between a rising power and a ruling power inevitably resulting in a war (e.g., Allison, 2017; Li, 2019; Petricevic & Teece, 2019; Teece, 2020; Witt, 2019).

Second, at the middle level, most European and American researchers, policymakers, and practitioners tend to believe that the BRI mega-project is an inevitable course on which China, as an emerging power, is expected to embark given its rise on a global scale in the new era (e.g., Callahan, 2016; Gave, C. & Gave, 2019; also see Blanchard & Flint, 2017). From this perspective, the BRI mega-project is the "natural" or inevitable by-product of China's new global status as a fast-growing wealth and power with an increasing influence over the rest of the world. In particular, this view focuses on the "soft power" of rearranging institutions in the world in line with the "China Dream" (Callahan, 2016). However, as this captures only part of the BRI mega-project, this perspective is far from complete.

Third, at the deep level, it is our central argument that the BRI mega-project can be interpreted as an expression of a new phase of globalization or neo-globalization as a unique balance between globalization and de-globalization that includes intercontinental integration. Distinctive from the above two views with the focus on either the “hard power” at the surface level or the “soft power” at the middle level (but both views are biased as China-centered), the third view argues that BRI should be reframed as a multilateral effort involving multiple parties, especially three major ones: (1) China; (2) Europe, and (3) all countries along the route between China and Europe. Although initiated by China, the BRI mega-project is by no means only China-centered; rather, it could be reframed as an inter-continental, multi-party cooperative ecosystem for long-term symbiosis. This can, and should, be the deep-level and long-term vision for the BRI mega-project. It is no accident that the BRI mega-project starts in China, but finishes in Europe. This is not only repeating the history in the past, but also making the history at the present and for the future. It is worth noting that this deep-level view has not been clearly articulated before, neither by scholars in China nor by others outside China (e.g., Li, 2019; Petricevic & Teece, 2019; Teece, 2020; see Li, 2018 for an exception; also see Alon et al., 2018 for a review).

Strategically speaking, we can envision a three-stage pattern of evolution of the BRI to capture its deep-level essence as an inter-continental ecosystem for long-term symbiosis. At the first stage, the BRI mega-project can, and should, start with strategic cooperation between China and Europe as two strategic endpoints. With strategic help from Europe, China can upgrade and transform itself from a middle-level manufacturing base into a world-class top-level manufacturing power. In other words, China can leverage Europe, often via the merger and acquisition (M&A) of so-called “hidden champions” in Europe (especially in Germany, Northern Italy, and the Nordic region). This can be achieved via a novel mode of post-M&A integration which we call “*invisible-touch*”, i.e., in terms of limited integration in governance

structure on the surface, but accelerated integration in the domains of business operation and cultural alignment below the surface (Li, 2018). This seeks to upgrade Chinese industries and firms and successfully implement China's "*supply-side reforms*" (in terms of enhancing the efficiency and effectiveness of upstream value-chain) in the special context of China's "*new normal*" (in terms of new contexts in China, including the slower economic growth and more intensive competition). This is noticeably reflected in the case of Geely-Volvo M&A (Yakob, Nakamura & Ström, 2018). From the perspective of European firms, this cooperation and integration with Chinese companies makes sense for a number of reasons. That is, they can leverage the Chinese strengths in some aspects of manufacturing (e.g., cost, speed, and flexibility), enhance connectivity to the Chinese market, and benefit from the strategic investment of Chinese partners in the further development of production and innovation capacity and still preserve their European identity. This is the first leverage, or "*seesaw*", of our envisioned deep-level essence of the BRI mega-project. From this perspective, it is clear that the BRI mega-project is by no means China-centered; rather, it is the inter-continental multilateral partnership that matters most.

At its second stage, the BRI mega-project can continue the strategic cooperation between China and Europe as two strategic endpoints and further expand into the regions or countries along the way between China and Europe, including Central Asia, the Middle East, South Asia, Southeast Asia, and Africa. The BRI mega-project will take the form of establishing diverse industrial parks and other forms of three-party cooperation between China, Europe, and local partners. This is the second leverage, or "*seesaw*", of our envisioned deep-level essence of the BRI mega-project. Again, from this perspective, it is clear that the BRI mega-project is by no means China-centered; rather, it is in essence an inter-continental partnership.

At the third stage, the BRI mega-project can finally expand its inter-continental link beyond its original scope to the rest of the world, including Australia, New Zealand, North

America, and Latin America. This is the third leverage, or “seesaw”, of our envisioned deep-level essence of the BRI mega-project. There should be no doubt that, from this perspective, the BRI mega-project cannot be solely China-centered; rather, it is the inter-continental partnership that will allow this vision to materialize. In particular, the BRI mega-project bears a far-reaching political implication that *G3* (i.e., the US, China, and Europe), rather than *G2* (either the US and China, the US and Europe, or China and Europe), is the most stable and constructive geo-political and geo-economic ecosystem with diverse global players as both competitive and cooperative forces for their long-term symbiosis. In this sense, the notion of an inter-continental ecosystem could be framed as a trans-continental community of largely self-organized, yet highly interdependent, members with co-opetition as the most common mechanism of interaction among richly diverse members in the context of a shared platform in terms of technological and institutional infrastructure to enable the long-term symbiosis in the community (cf. Jacobides et al., 2018; Nambisan et al., 2019; Shipilov & Gawer, 2019).

To summarize our three-stage pattern of the BRI mega-project for its deep-level essence as an intercontinental ecosystem for long-term symbiosis embedded in both historical and current patterns of exchange between Europe and China, as well as the emerging era of neo-globalization above and beyond the economic ties between Europe and China into Africa and other continents as a trans-continental ecosystem, we present Figure 1 to illustrate the core components (see Figure 1 for details). It is worth repeating that the BRI can be reframed as primarily geo-economic, rather than geo-political, in nature. In terms of delivering on these stages of BRI development, the case of Sino-Italy collaboration is elaborated below as a potentially viable approach or role model.

The Case of Sino-Italy MoU

Italy’s position toward the BRI mega-project is indicative of the more pragmatic approach in Europe. Given the economic importance of the EU’s relationship with China, enhancing

trade and investment can potentially benefit both sides. As the first large European economy to support the BRI, Italy is leading the way in strengthening economic connections with China, and could possibly serve as a role model for other countries (Geraci, 2019). One of the reasons for Italy to be proactive is that its trade and investment volume with China remains relatively small compared to other European countries, such as the UK and Germany. Part of the motivation to engage proactively with China for the BRI mega-project is to regain some historical connections, and also strengthen its competitive position relative to other European countries (Geraci, 2019). There are serious concerns in the EU over Italy's support of the BRI mega-project, as shown in the signing of a MoU in March 2019 (MoU, 2019) and some see it as a break away from a unified voice of the EU. However, while recognizing the EU as an overarching framework in terms of its policies regarding trade and investment, Italy's position is that the EU member countries are not only partners, but also competitors, so each EU member country has the autonomy and flexibility to promote its own specific projects concerning trade and investment.

The MoU between China and Italy specifically addresses six major issues concerning the BRI meta-project as follows (MoU, 2019):

Part 1: Objectives and Guiding Principles of Cooperation:

The Parties will work together within the Belt and Road Initiative (BRI) to translate mutual complementary strengths into advantages for practical cooperation and sustainable growth, supporting synergies between the Belt and Road Initiative and priorities identified in the Investment Plan for Europe and the Trans-European Networks, bearing in mind discussions in the EU China Connectivity Platform. This will also enable the Parties to enhance their political relations, economic ties, and people-to-people exchanges. The Parties will strengthen cooperation and promote regional connectivity within an open, inclusive and balanced framework beneficial to all, so as to promote regional peace, security, stability and sustainable development.”

The Parties will promote bilateral cooperation based on the following principles:

- a. Guided by the purposes and principles of the UN Charter the Parties will work for common development and prosperity, deepened mutual trust and beneficial cooperation;
- b. In accordance with their respective domestic laws and regulations, consistent with their respective international obligations, the Parties will strive to promote the smooth progress of their cooperation projects;

- c. The Parties will explore synergies and ensure consistency and complementarity with existing bilateral and multilateral cooperation mechanisms and regional cooperation platforms.

Part 2. Areas of Cooperation:

The BRI-related cooperation between China and Italy will include six major areas, i.e., policy dialogue; transport, logistics and infrastructure; unimpeded trade and investment; financial cooperation; people-to-people connectivity, and finally green development cooperation

Part 3. Modes of Cooperation:

Modes of cooperation may include, but are not limited to:

- (i) The exchange of high-level visits and discussions within existing governmental and non-governmental exchange mechanisms. The Parties will expand information-sharing in diverse fields and with multiple channels, to increase transparency and encourage the participation of people from all sectors of society.
- (ii) Exploring the development of pilot programs in key areas, economic exchanges and cooperation, joint research, capacity building, personnel exchanges and training.

The Parties will explore mutually beneficial models of cooperation to support the implementation of major programs, under the Belt and Road Initiative. The Parties will follow market principles, promote cooperation between public and private capital, encourage investment and financing support through diversified models. Both Parties reiterate their engagement towards investments which are socially and environmentally sustainable and economically viable.

The Parties will jointly explore opportunities of cooperation in Italy and in China and discuss cooperation in third Countries. The Parties are committed to modes of cooperation that are advantageous to all participants and to projects that benefit third Countries by supporting their priorities in terms of development and the needs of their people, in a fiscally, socially, economically and environmentally sound and sustainable manner.

The relevant Authorities of the Parties may conclude arrangements for collaboration in specific sectorial fields and for the creation of specific cooperation frameworks.

Part 4. Cooperation Mechanism

The Parties will make full use of existing bilateral mechanisms to develop cooperation in the framework of the Belt and Road Initiative.

The Italy-China Government Committee will be used to monitor progress and follow up.

Part 5. Settlement of Differences

Part 6. Applicable Law

Further, by following the EU's single voice approach under all conditions Italy would diminish the opportunities it could have to promote its national interests, largely because the

voices of Germany and France tend to be somewhat dominant in the EU. Notwithstanding Italy's bilateral link with China through the BRI mega-project, the MoU "*contains language and concepts that bring BRI projects closer to EU best practice on issues of climate change, transparency and making sure the playing field is level*" (Geraci, 2019). Adjacent to the direct collaboration between China and Italy, the two countries have also signed another MoU for collaboration on infrastructure projects in Africa, which is a further illustration of the necessity and feasibility of the BRI mega-project beyond China and Europe into other regions, thus highly consistent with the above-mentioned three-stage pattern of the BRI mega-project.

Finally, the MoU could also serve as a litmus test to ascertain China's intentions, and its capability, to deliver on its promises for the long-term and sustainable success of the BRI mega-project. In other words, the MoU will put critical pressure on China to keep its promise. However, the MoU has a reciprocal effect as it concerns two-way traffic. Hence, the MoU can awaken Italy from the complacency of its recent past, and thereby accelerate the pace at which it can determine ways to strengthen its economic links with China as a new economic superpower. In this sense, the role of MoU as a litmus test is not only for China, but also for Italy. Hence, the actual effect of the BRI mega-project remains to be seen, also in the case of Italy as a role model for other European countries. However, if Italy's proactive stance is shown to be economically beneficial, the likelihood of Italy serving as a role model will certainly increase.

Strategic Options for MNEs in Response to BRI

Increased intercontinental connectivity, such as envisaged by the BRI in combination with the uncertain evolution of neo-globalization, has several implications for MNEs. The BRI intends to strengthen the links between the major economic blocs of China and Europe, and to enhance integration with the various countries along the various routes involved. In a

way, this is a reflection of the change in the balance of economic power that has occurred over recent decades, with certain emerging countries catching up with developed countries. The core activities of traditional MNEs in emerging economies (e.g., greenfield investment, merger and acquisition, joint venture, and strategic alliance) have helped these emerging countries to enhance their economic status, and new MNEs from emerging economies are becoming increasingly connected with the advanced economies through similar activities. The success of all MNEs from all economies increasingly relies on strong connections to consumers, suppliers, and others in these host institutional environments. Hence, we argue that a novel “second-home” strategy will become increasingly critical to MNEs success in the future. By “*second-home*” we mean the salience of a new location being so great that MNEs must treat it as similar to their own original home (i.e., the first-home), and at the same time the context of the location is so distinctive that MNEs must treat it as unique from their own first home for the notion of second home (Li, 2015; cf. Galvin, Hexter & Hirt, 2010; Hoover, 2006). The idea was suggested by the CEO of Danfoss from Denmark (Hoover, 2006), and then later adopted by some prominent MNEs from Europe (e.g., BMW, Grundfos, Mercedes-Benz, Porsche, SAP, Volvo, Volkswagen, among others). Among the Chinese MNEs, the second-home strategy is implicitly adopted in the case of the Geely-Volvo M&A (Yakob, Nakamura & Ström, 2018), and also explicitly implemented in the case of Huawei as pointed out by its CEO, Zhengfei Ren, that Huawei takes Europe as its second home (Huawei, 2019). In a sharp contrast to the “authentic” MNEs who rely on the “heritage endowments” built at home so that they “resist and limit local adaptation of process and products, and internationalize only if opportune by deploying preservation capabilities” (Arikan, Koparan, Arikan & Shenkar, 2019: 1), the second-home strategy bears unique implications for MNEs in the context of BRI and beyond (Li, 2018).

Given the extreme contextual distances between the advanced and emerging economies as the *global divide*, it is imperative to move up or down along the market segments across such a global divide, but little is known about how such movements occur. That is, how advanced economy MNEs move down from the high-end to the mid-end segment, and how their emerging economy counterparts move up from the low-end to the mid-end segment. As a result, we frame the global divide as both a challenge and an opportunity for MNEs on both sides of the divide.

However, the extant literature on global strategy does not directly address this issue. All existing models of global strategy share a set of implicit assumptions (Bartlett & Ghoshal, 1998). First, they assume that the most critical markets exist only in the advanced economies (i.e., the so-called “*triad*”, including North America, West Europe, and East Asia). Second, they assume that the cross-divide expansion is similar to the within-divide (i.e., between the advanced economies or between the emerging economies) expansion. Third, they assume that each MNE should have either multiple homes (e.g., multi-domestic strategy and transnational strategy), or only a single home (e.g., international strategy and “global” strategy). Further, the emerging models of linkage-leverage-learning (Mathews, 2002), springboard (Luo & Tung, 2007), and learning-based internationalization (Li, 2010) also assume a catching up or leapfrogging process out of a single home. Finally, one view posits that it is extremely hard to be a true global player with multiple homes (Collinson & Rugman, 2008; Ghemawat, 2001, 2011; Li & Li, 2007), and thus only a small fraction of MNEs can claim to qualify since the majority of the world’s largest MNEs are regional (home-region or bi-region) players (Rugman & Verbeke, 2003, 2004). This implies that most MNEs tend to engage in global activities from the perspective of their original homes. Hence, the issue of having a single home or multiple homes for MNEs is salient as part of their global strategies, especially in the context of the global divide. We posit that a novel perspective is needed to specifically

take on the issue of bridging and leveraging the global divide and believe that global innovation is a salient enabler in the process of addressing this need. We also argue that the biggest challenge to innovation is not so much in the domain of technology as in that of business models.

Moving up and down along the different market segments across the global divide is a major part of the business model for various MNEs with significant implications for their innovation activities. There are many critical challenges regarding how to create and deliver the distinctive values to customers in the advanced and emerging markets. A business model defines how an enterprise creates and delivers value to customers (Teece, 2010). One option is the “second-home model” as a potential business model for both advanced and emerging MNEs, with both similarities and distinctions between the first and second homes as a duality. The duality of similarity-distinction captures the essence of the second-home model as the imperative step toward the dual-core model. We frame the business model at the first stage of focusing on the home region as the *first-home model*; the business model at the second stage of focusing on building a new home as the *second-home model*, and the business model at the third stage of global players as the *dual-core model* (with the first “core” for the advanced markets as a cluster, and the second “core” for the emerging markets as a cluster, thus effectively covering the whole world with the dual cores). For the dual-core model, the analogy of “dual-core” design in the architecture of a computer’s central processing unit (CPU) is relevant.

The basic assumptions for the second-home model (also the dual-core model) are twofold. First, each MNE has a built-in core competence derived from the context of its first home, which we can call “*first-home lock-in*” as a path-dependent tendency to rely on the old core (Sydow, Schreyogg & Koch, 2009; cf. Arikan et al., 2019; Karim & Mitchell, 2000; Rugman & Verbeke, 2003, 2004). Second, the cross-divide expansion requires a path-breaking effort

to build a new core, which we can call “*second-home breakout*” (Li, 2013; cf. Kalasin, Dussauge & Rivera-Santos, 2014). In other words, while the first-home model is about exploiting the old core competence, the second-home model is about exploring a new core competence, and the dual-core model is about leveraging/integrating the two distinctive core competences (cf. Arikan et al., 2019; Li, 2010, 2013). It is worth noting that the dual-core model is necessary not only due to the extreme contextual distances or gaps between the two sides of the global divide, but also due to the extreme organizational inertia or bias of the first-home lock-in (as possibly the greatest challenge to the second-home model, thus rendering “*unlearning*” salient, cf. Arikan et al., 2019). For the purpose of building path-breaking new core competence via unlearning the old core one, cross-divide M&As can be highly instrumental (Li, 2010, 2015; Madhok & Keyhani, 2012; Karim & Mitchell, 2000). It is worth noting that the second-home strategy even implies that a truly global MNE should have two relatively independent headquarters, one for all operations on the side of advanced economies, and the other for all operations on the side of emerging economies, while there is an overlap in the board membership between the two headquarters for the special benefit of synergy via cross-divide leverage (Li, 2015).

Historically, a traditional strategy of MNEs from advanced economies is to sell their products globally with limited local adaptation. This strategy can work well when selling to other advanced markets and, to a lesser extent, to the high-end segment in the emerging markets. Recently, some MNEs like GE (Immelt, Govindarajan & Trimble, 2009) have recognized that this approach might not be a good strategy to penetrate the fast-growing mid-end market (when the low-end one is much harder, or even undesirable) in the emerging economies. On the other hand, emerging MNCs from emerging economies are not always happy with the low-end products they sell in the advanced markets, and their long-term

vision might be to enter the higher-end (typically the mid-end) market segment in the advanced markets (Li, 2007, 2010).

In the context of BRI, the above second-home strategy bears unique implications for both Chinese and non-Chinese MNEs. First, as a special attempt to bridge the global divide in the context of BRI, it is imperative for Chinese MNEs to move up to Europe, and for European MNEs to move down to China. It is worth noting that China has been often singled out as the most suitable choice of second home for many European MNEs. In other words, China tends to be taken as the most popular representative of emerging economies in terms of being the best location to develop the second core competence and the second headquarters. This trend can be further facilitated by the BRI.

Second, the second-home strategy is related to the three-stage pattern of the BRI mega-project. At the first stage of the BRI mega-project, both Chinese and European MNEs must firmly establish themselves in each other's region as their second home so as to gain the status of local insider, rather than being seen as an external intruder. At the second stage of the BRI mega-project, both Chinese and European MNEs must firmly establish themselves in the regions or countries along the route of the BRI mega-project as their multiple components of their second homes with the strong status of local insider, rather than external intruder. At the third stage of the BRI mega-project, all MNEs across the world in the future must firmly establish themselves in other non-home countries or regions as their second home with the strong status of local insider, rather than external intruder. This clearly reflects the deep-level essence of the BRI mega-project as an inter-continental ecosystem for a long-term symbiosis on the global scale as well as the inter-regional scale between China and Europe.

Third, in a separate study, we have developed an initial index of corporate readiness for the second-home strategy (Li, 2015). The index consists of two major parts. First, MNEs adopting the second-home strategy should be prepared to build up functional capabilities in

the second home, including full-fledged production, marketing, and R&D functions, in an evolutionary process from limited capabilities to full capabilities. For example, MNEs initially carry out their R&D at their first home in the first phase; then they move some of R&D activities (mostly D part) to the second home in the second phase; in the third phase, they move more R&D activities (mostly a small part of R, which we term “r”) to the second home, and at the final phase, they move full R&D activities to the second home. Second, MNEs adopting the second-home strategy should be prepared to build up organizational capabilities in the second home, including organizational structure and process, corporate vision and culture, and leadership style and pattern, also in an evolutionary process from limited capabilities to full capabilities. For example, MNEs initially adopt the first-home practices in the second home in the first phase; then they adapt the first-home practices to the second home in the second phase; in the third phase, they develop some new practices in the second home, and at the final phase, they leverage and integrate the practices of both the first and second homes.

Conclusion

Despite the major concerns and challenges for the BRI mega-project, especially from the EU perspective, but also from the US perspective, above and beyond the Chinese perspective, the BRI can be reframed as a mega-project of international collaboration between China and Europe toward an inter-continental ecosystem for a long-term symbiosis in the emerging era of neo-globalization. The key lies in the deep-level essence of the BRI mega-project, but the jury is still out concerning the actual execution and implementation of the BRI mega-project. In this sense, the MoU between China and Italy is an excellent case to follow. It is worth repeating that the BRI mega-project can be reframed as primarily geo-economic, rather than geo-political, in nature. Further, given the historical links between Europe and China, the BRI mega-project is primarily about the geo-economic cooperation between Europe and China,

and only secondarily about the geo-economic cooperation above and beyond Europe and China into other regions and continents.

However, the issue of the BRI mega-project should also be analyzed in the broader context of future links between China and the rest of the world, including the China-US link (see Li, 2019 for a review). According to a five-part series of in-depth reports by the *New York Times* in November 2018, the world is both fascinated and puzzled by the so-called China Model as a *dual-track reform* approach with limited reforms in the political domains, but major reforms in the economic domains (Bradsher & Yuan, 2018; Pan, 2018; also see Li, 2005 for a review). For example, “*China succeeded by creating its own model. It borrowed some Western ideas while rejecting others. It opened itself to the world when necessary, and put on the brakes when it chose to. It set goals and backed them with government money. It freed its people to make and spend money, but it forbade them to ask for a better deal*” (Bradsher & Yuan, 2018: 3). In other words, China did not like the Western playbook, so it wrote its own (Petricevic & Teece, 2019; Teece, 2020; Witt, 2019). More specifically, China has veered between competing impulses since the collapse of Soviet Union, i.e., “*between opening up and clamping down, between experimenting with change and resisting it, always pulling back before going too far in either direction for fear of running aground*” (Pan, 2018: 4). It is interesting to note the China Model seems to be paradoxical in nature, thus consistent with the Chinese traditional perspective of yin-yang balancing (Li, 2016).

Finally, it is the special context of the BRI mega-project that can greatly enhance the salience of second-home strategy as an effective approach to bridging the global divide. In this sense, the second-home strategy is directly related to the BRI mega-project. Hence, one of the most salient strategic (both theoretical and practical) implications of the BRI mega-project for all MNEs involved is to adopt the second-home strategy so as to become truly global players in the emerging era of neo-globalization.

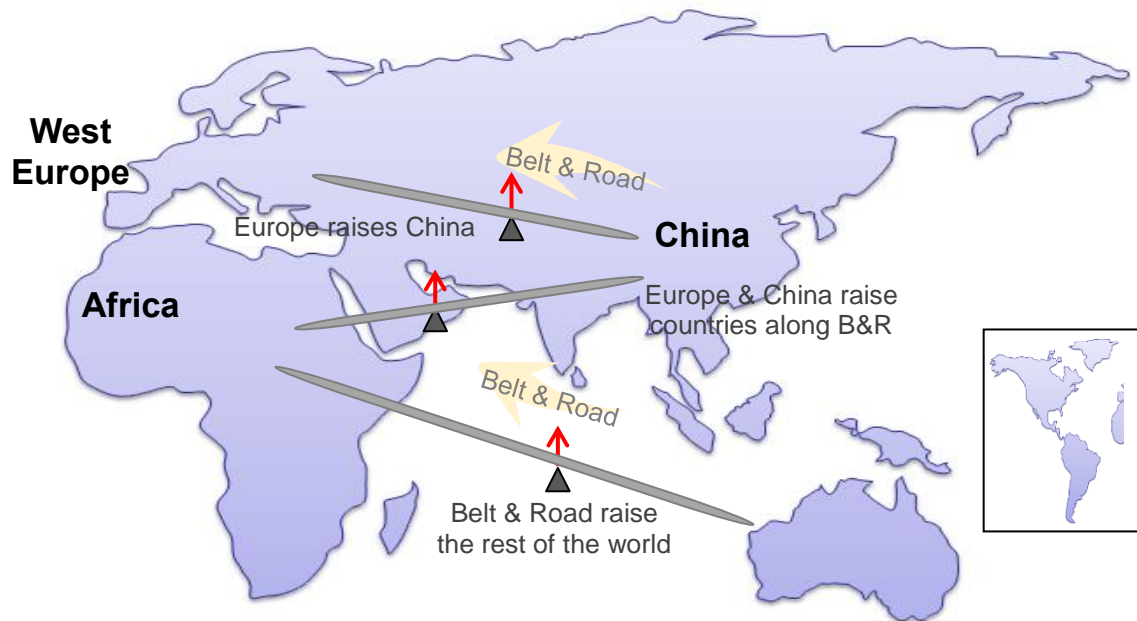


Figure 1: The Three-Stage Pattern of BRI as a Global Ecosystem for Long-Term Symbiosis

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