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## One Belt, One Road, One World: Where is US Business Connectivity?

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### 1 Introduction

China, as the world's second largest economy and largest exporter, has continuously sent shock waves around the globe. One of the biggest has been the launch of the One Belt, One Road (OBOR) or Belt and Road Initiative (BRI, 一带一路倡议). On March 28, 2015, China's top economic planning agency, the National Development and Reform Commission, released a new action plan outlining key details of President

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Xi Jinping's OBOR initiative, which was announced in late 2013. The BRI aims to link China to Europe, the Middle East, and Africa, via routes that could cover 55% of the world's GNP, 70% of the global population, and 75% of its known energy reserves. The BRI is buttressed by the \$40 billion Silk Road Infrastructure Fund, the Asian Infrastructure Investment Bank (AIIB), with registered capital of \$100 billion, and the BRICS New Development Bank, with eventual capital of \$100 billion. The BRI has rightly been called "the most significant and far-reaching initiative that China has ever put forward" (Dzodin 2016).

While the rise of China is the most important business phenomenon of the twenty-first century (Davies and Raskovic 2017), the BRI is one of the most ambitious human projects experienced by the world, which aims to integrate geographically contiguous countries in Eurasia into an economically cohesive region via the land-based Silk Road Economic Belt and the oceangoing Maritime Silk Road (MSR). At \$1.4 trillion and still growing, China's stated financial commitment to these projects is eleven times the size of the Marshall Plan, restated in current dollars; it is the largest and potentially the most transformative engineering effort in human history (Freeman 2017). Projects will be land bound from Kunming to Singapore and, separately, to Kolkata; Kashi [Kashgar] to Gwadar (which also is a key port), and separately to both Tashkent and Tehran; Xi'an to Istanbul and then to Moscow, Rotterdam, and Lisbon.

While the USA may appear not to be on the geographic pathway of the BRI (however, see Fig. 4.1 for a different perspective on the connectiveness of all the planet's land masses), does that mean that the USA should remain aloof? The US government has been sending unclear signals in the last few years and US commentators only began to warm toward the BRI when the Trump Administration sent the Pottinger-led delegation to the BRI Summit in May, and the Administration announced support for US companies to participate in the BRI on June 22, 2017. This study intends to address the questions: What makes US businesses connect to China's twenty-first-century monumental BRI project? What are the gains, costs, and risks of such connectivity to the USA and US firms?



**Fig. 4.1** How are the land masses connected on the planet? Source: Map of Proposed World Landbridge, reprinted with permission of EIR News Service, Inc., all rights reserved

International business theories suggest that multinationals from advanced countries expand overseas to exploit their firm-specific advantages (e.g., Dunning 1977; Rugman and Verbeke 2001). We suggest that the US firms' connection with the BRI is inevitable given the superior technological advantages and other core capabilities these firms have across a wide range of economic sectors, including information communications technology (ICT), energy industries (including clean energy), infrastructure and construction, engineering, logistics, e-commerce, legal and accounting services, finance (including fintech), and environmentally friendly industries and sustainable development (including green and circular economy sectors). Given the massive economic integration initiatives currently underway and encompassing all of the countries associated with the BRI, US businesses are likely to find location advantages in BRI countries. Gains seem obvious, but not without costs and risks in the current geopolitical environment, which are elaborated on in the next section.

## 2 BRI in History: US Involvement Along the Silk Road

In contrast to the 300-plus year history of American engagement in maritime trade in East and Southeast Asia, US actors have been largely absent from the land-based trading routes connecting China to Central Asia. One of the few exceptions was Owen Lattimore (1900–1989), who worked as a trader in Inner and Outer Mongolia in the 1920s. Lattimore's familiarity with the region raised its American profile during his tenure as editor of the Beiping (Beijing)-based periodical *Pacific Affairs* in the 1930s–1940s, but this never translated into more lasting business opportunities. Significant US business involvement in Inner Asia had to wait until the 1990s, when opportunities for investment were facilitated by the emergence of independent states in Central Asia, the decline of Russia's influence there and in Mongolia, and China's economic opening.

Among modern nation-states, Russia has the strongest historical foundations for Inner Asian continental trade with China. Commercial ties between the two nations may have been relatively small in scale before the reign of Catherine the Great (r. 1762–1796), but they assumed increasing significance as an outlet for Chinese luxury goods about the same time as tea, silk, and other export items began to flow to Europe and the USA through the maritime trade routes. Instead of traversing the ancient Silk Road routes through Xinjiang and Samarkand, however, the principal artery of Russian land-based trade ran from near Beijing through Inner and Outer Mongolia, into Siberia, and across the vast Russian steppes to Moscow and St. Petersburg. Similar to the Canton-based *Cohong* (guild) merchants, the Horhot-based Shanxi merchant firm Dashengkui grew immensely wealthy from the trade with Russia and Eastern Europe, to the extent that by 1893 its capitalization was equivalent to 70–100% of the total land-tax revenues of the entire Qing Empire (Qiao 2017: 31).

Although this trade lagged during much of the twentieth century, these historical foundations, coupled with the geographical proximity of Russia and China, potentially hampered the USA from assuming a major

role in Inner Asian trade. Successive American administrations have tried to overcome this disadvantage, in part through sponsoring initiatives such as the American University of Central Asia in Bishkek (Kyrgyzstan). Nonetheless, USA-based expertise on contemporary Central Asia remains limited, and military meddling in and around Afghanistan has compounded these difficulties. Moreover, instead of seeking peaceful, constructive engagement, the USA has perversely imposed sanctions on two of the most important links in the BRI network, namely Iran and Russia. This clumsy approach continues to hinder the collaboration across multiple political borders that will be essential if US businesses are to be successful there in the medium to long term.

In short, while US connectivity to the historical Silk Road is almost non-existent, given the country's short history, with the advent of the Cyber/Digital Silk Road its connectivity to the current BRI may present a totally different picture, given that the USA is a global epicenter for advanced technology, energy production, financial institutions, industry rules and standards, and the pervasive presence and utilization of US technology around the globe.

### **3 US Connectivity with the BRI in the Digital Age**

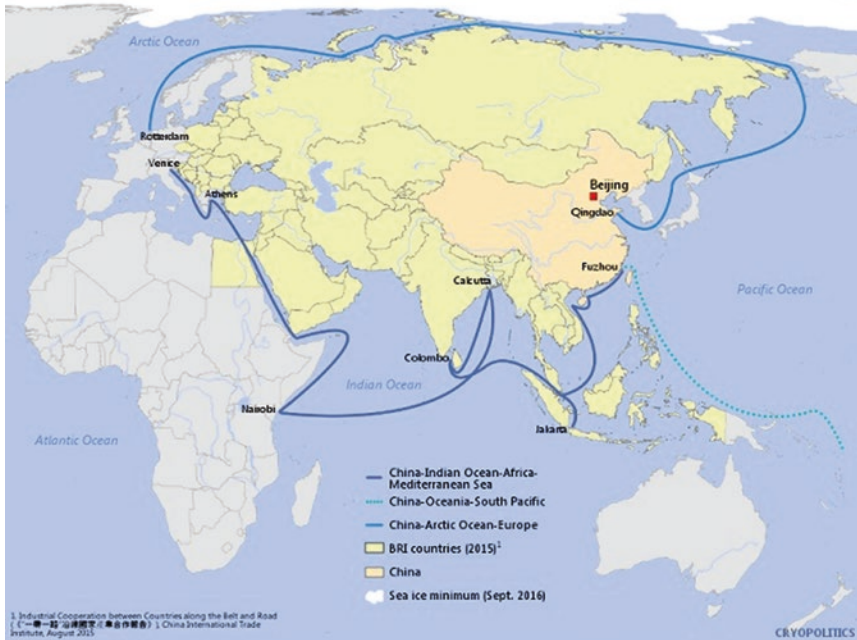
According to the World Economic Forum, human society has now embarked on the Fourth Industrial Revolution, which builds upon the Digital Revolution, and is characterized by a new wave of technologies that have the potential to fuse and transform the physical, digital, and biological worlds we currently inhabit (Schwab 2016). The Fourth Industrial Revolution is marked by emerging technology breakthroughs in several fields, including robotics, artificial intelligence (AI), nanotechnology, quantum computing, biotechnology, Internet of Things (IoT), 3D printing, and autonomous vehicles (Schwab 2016). In stark contrast to earlier revolutions, from which it was largely absent to its immense detriment, China is likely to be at the very heart of such future epochal disruptive technological developments. The challenges of logistics, transport, time, distance, and

speed that propelled the Second Industrial Revolution remarkably are reappearing in the Fourth with the advent of the BRI. The BRI provides renewed opportunities for quantum leaps in innovation in such fields, while promising new, as yet unimagined, modalities for how we manage space-time and optimize multifarious cross-border data flows.

A major defining feature of the Fourth Industrial Revolution and, coincidentally, the BRI, is connectivity. Connectivity is ushering in a new era of deepening globalization and transforming how international business is conducted. Connectivity may well be the most dynamic force of the twenty-first century (Khanna 2016: 7–11). Governments and businesses are currently investing trillions of dollars per year in transportation, energy, and ICT infrastructure to stimulate and integrate the global economy (Khanna 2016: 11). Connectivity may, over time, render nation-states obsolete as it focuses on “hub” and “node” cities, and disregards or erodes the importance of national borders (Khanna 2016: 279–99). Connectivity is achieved by both physical and digital means. At the heart of the BRI is connectivity—as evidenced by the BRI transit corridors and their underlying physical and digital infrastructures. One of the five BRI pillars is “Facilities Connectivity” (Lewis and Moise 2017: 20).

Complementing closely the Cyber/Digital Silk Road, China is also developing the more traditional MSR. On June 20, 2017, President Xi Jinping announced China’s vision for maritime cooperation, setting forth for the first time the details of the BRI by sea. In a world in which 90% of all trade is carried by sea, the modern MSR is bound to have a strong impact. With an emphasis on sustainable development, the MSR focuses on marine resource utilization, industry cooperation (in industrial parks for maritime sectors, and economic and trade cooperation zones), maritime connectivity (by building shipping service networks and shipping centers), transport (by facilitating mutual recognition of customs regulations, or mutual assistance in law enforcement), and information connectivity (by building information networks and exchanges, and ensuring security and coverage).

The MSR vision unveiled the geographic scope of this monumental oceanic undertaking, which consists of three “blue economic passages”: (1) the China–Indian Ocean–Africa–Mediterranean Sea Blue Economic Passage, which connects the China–Pakistan Economic Corridor (CPEC) and the Bangladesh–China–India–Myanmar Economic Corridor; (2) the China–Oceania–South Pacific Blue Economic Passage, starting from



**Fig. 4.2** Tentative map of BRI corridors. Source: <https://www.maritime-executive.com/editorials/china-plans-arctic-belt-and-road-initiatives#gs.tBiWSPA>

the South China Sea and continuing into the Pacific Ocean; and (3) a passage reaching Europe through the Arctic Ocean, whose more concrete details have not yet been disclosed (Fig. 4.2).

The blue economic passages follow the pattern of the already familiar economic corridors developed as part of the land route. The concept of economic corridors distinguishes itself from other initiatives through the network effects of combined bilateral and multilateral agreements. These agreements are concluded in various forms, ranging from Memoranda of Understanding to Free Trade Areas. Furthermore, they facilitate supply chains along areas with deep historical connections, in a unique combination of public and private intervention (Lewis and Moise 2017: 19).

USA–China relations are already characterized by a deep, profound connectivity, and concomitant economic interdependence. As of 2016, the USA and China are each other’s largest trading partners. The majority

of US international trade is carried by sea, more precisely 53% of imports, and 38% of exports, with China being its top maritime trading partner. Each country is heavily invested in the other's economy and together constitute the world's numbers one and two foreign direct investment (FDI) destinations. The US, and especially the State of California, is a major recipient of Chinese outbound FDI (Hanemann et al. 2017: 32–33). A de facto comprehensive strategic partnership exists between the two countries, which has been described as G-2. However, the fact remains that the USA is not considered a BRI country, although the Trump Administration has expressed its support for the participation of American business in BRI projects and has just endorsed the development of the CPEC. Remarkably, the BRI generously comprehends the concept of “open inclusiveness”—that is, any country is free to participate in the BRI—including the USA. As the MSR is looking to build more ports and associated free trade zones, access will improve maritime transport worldwide. The Chinese initiative is a game-changer as the adjoining developments are open to any interested party, this in a context in which the standard practice is for a private company to open a port or operate a terminal exclusively (Shepard 2017).

As the Cyber Silk Road is still at an incipient stage of development, many of its elements are only now being identified and mapped by China and other BRI countries. Nevertheless, the maritime developments feed into its evolution. This presents an unparalleled opportunity for US companies in the ICT and Internet sectors to gain first-mover advantage in the construction and operation of this newest Silk Road. It also clearly plays to US competitive ownership advantages, not only for the IT giants of Silicon Valley, Silicon Alley, and Redmond, but also for a wide range of tech-savvy SMEs and start-ups, which collectively possess many ownership advantages. They will not be able to leverage their ownership advantages unless they participate in BRI e-commerce activities and evolving regional supply chains to leverage the location advantages (Lewis and Rogowsky 2015).

There are also large issues that will need to be addressed and resolved if the Cyber Silk Road is to operate smoothly, seamlessly, and safely. “Rules of the (Cyber Silk) Road” will need to be co-created, not just by governments, but inclusive of all relevant stakeholders, especially those



whose business is the Internet (Lewis and Rogowsky 2015). These “Rules” include, among others, interoperability, Internet governance, jurisdiction, conflict of laws, mutual legal assistance, trade facilitation, electronic contracts and documents, intellectual property rules, privacy, the protection of personal data, cross-border dispute resolution, and the convergence/integration of trade facilitation and e-commerce (Lewis and Rogowsky 2015). On the maritime side, China and the ASEAN States have agreed on a code of conduct in light of the notorious PCA arbitration with the Philippines regarding the South China Sea (Parameswaran 2017).

Chinese and US business leaders, government officials, engineers, scientists, academics, lawyers, and judges, in cooperation with BRI participants, should convene to discuss how best to structure a collaborative dialogue to address these “Rules of the Road” and formulate appropriate Cyber Silk Roadmaps. Institutional support is likely to enable such a collaboration (North 1990). Important vehicles to launch a comprehensive program include: the newly reorganized bilateral USA–China Comprehensive Economic Dialogue and Law Enforcement and Cyber Strategic Dialogue; subnational USA–Chinese state–provincial cooperation as well as USA–China sister cities associations; and the prescient Stanford–Berkeley–MIT Cyber Initiative, inaugurated by former President Obama in January 2015 in California.

On the maritime side, the AIIB is making cross-country connectivity through maritime routes a priority, particularly in South Asia, South East Asia and the Middle East. It is noteworthy that China has announced a \$57 billion investment plan for the Gwadar port and free zone, an essential trade hub for the CPEC. The United Nations has acknowledged the importance of these developments as the Security Council recently recognized the BRI, and CPEC in particular, in a resolution issued on March 17, 2017 (S/RES/2344 2017: para. 35). This shows the international consensus toward recognizing the BRI.

Received multinational enterprise (MNE) theories suggest that firms seek out ownership and location advantages and they tend to leverage such advantages to expand their international business (Barney 1991; Dunning 1988). Ownership advantages refer to the possession and leveraging of certain valuable, rare, unique, hard to imitate, and organi-

ationally embedded intangible assets (i.e., proprietary technology and knowledge), strategic assets (i.e., competences and capabilities), and a firm's multinationality, that is, a platform from which the firm's assets can be further exploited internationally (Barney 1995).

Location advantages come from unique features, such as easy supply of natural and labor resources and government incentive policies. Thus, by possessing and leveraging these advantages, a MNE is likely to engage in cross-border, value-creating activities through their coordinated system or network (Cantwell et al. 2010; Dunning 2009). In the digital age, firms that possess proprietary technologies are more likely to be in a strategic position to leverage location advantages in foreign markets.

US big businesses have been quick to recognize the lucrative potential of the Cyber/Digital Silk Road. Many leading American ICT multinationals, such as Microsoft, IBM, Apple, Qualcomm, Intel, Cisco, and Oracle, have been enmeshed in the Chinese digital economy for decades. Their established China platforms now allow for relatively easy ingress to the BRI. Of course, such MNEs are already operating independently in many of the BRI countries to leverage location advantages. The Asia-Pacific Gateway (APG) is a clear example of digital connectivity by sea in which American big business has been involved. The APG is a submarine fiber-optic cable connecting China, Hong Kong, Japan, South Korea, Malaysia, Taiwan, Thailand, Vietnam, and Singapore. Companies that are part of the consortium include market leaders from all states, including the US Facebook, who invested an undisclosed value in 2012. APG represents an opportunity for cooperation, as the Japanese company NTT will manage junctions in Osaka and Tokyo to a cable connecting to Grover Beach, California, and Harbor Pointe, Washington, known as PC-1 (Fulton 2016). Although PC-1 and other previous attempts, such as the Asia America Gateway cable, are in service, another subsea cable is being built. (Fulton 2016) The Southern Cross Cable Network will travel from California to Sydney, also connecting to Japan. Facebook, Microsoft, and Google have all been consistently investing in similar initiatives. It seems that the APG bridges a gap, facilitating a long-sought connection. As American businesses have clearly expressed an interest, it is only a matter of time until the efforts yield results.

Microsoft is particularly well positioned to participate in the BRI via its ubiquitous Windows operating system and suites of business software products. To underscore its commitment to the Cyber/Digital Silk Road, in 2016 Microsoft jointly launched, with the Dunhuang Research Academy, “Xiaoice”: an online chatbot imparting cultural information to Internet users about the Buddhist Mogao Grottoes along the ancient Silk Road, demonstrating how, in the age of the mobile Internet, AI can facilitate the understanding of different BRI cultures (Liu et al. 2017). Global market leaders Amazon and Microsoft, via Amazon Web Services (AWS) and Azure, respectively, are also posed to extend their cloud computing technologies to BRI countries, following the path of Alibaba’s Aliyun. IBM has likewise entered the fray, having partnered in March 2017 with a division of the Wanda Group to provide IBM cloud computing services, such as Watson, blockchain, and the IoT, to Chinese companies via Wanda’s data centers (Darrow 2017). Amazon, despite its limited success to date in penetrating the Chinese domestic market, appears to be gearing up for a major role in BRI e-commerce, taking on the heavyweight Alibaba—initially in the India and Southeast Asian markets (Koyanagi 2017). Fintech, in which China now leads the world (Mittal and Lloyd 2016: 6), is also attracting the interest of US financial institutions, including Experian and Silicon Valley Bank. In 2016 Silicon Valley’s PayPal teamed up with China’s UnionPay to facilitate cross-border e-commerce payments. As a result, foreign retailers in BRI countries, particularly those in Europe, now accept e-payments from UnionPay credit and debit cards via PayPal’s Braintree m-commerce platform (Soper 2016).

#### **4 Gains, Costs, and Risks of US Business Connectivity with the BRI: Resource-Based and Institutional Views**

While the international business scholarly contribution to the BRI discussion remains very limited, with a few exceptions (e.g., Tung 2016), commentary and debate over policy have shed some light on the key issues surrounding US connectivity to the BRI, particularly on the gains,

costs, and risks of US involvement. First of all, the imperative of US connectivity to the BRI is not so much rooted in historical connections as it is to pragmatism, and the competitive firm-specific advantages of US firms to participate in BRI countries and international cooperation—in fact, nothing less than the future global competitiveness of US firms is at stake. A resource-based view (RBV) suggests that firms participate in international markets when they own valuable, non-substitutable, and difficult to imitate resources and capabilities (Barney 1991), such as upward technological capabilities. RBV informs us that firms are driven to expand overseas when they see the potential in foreign markets by leveraging their firm-specific advantages (Barney 1996, 2001). Using RBV's basic theoretical logic, we posit that tremendous firm-specific ownership advantages enable US firms to more effectively extend, transfer, and leverage their firm-specific capabilities to connect with BRI countries and their markets. Connecting and operating directly in the BRI also allows US firms to utilize the many beneficial programs brought about under the BRI umbrella structure by leveraging location advantages.

It is an accepted fact (at least for now) that US firms possess the most advanced technologies and other know-how. Possession of such ownership advantages places US firms in a competitive position to exploit location advantages offered by BRI programs. Despite the fact that the US government has not exerted an active role in the BRI, US firms' ownership advantages may lend themselves to effectively connect to BRI countries that are likely to need technologies from US high-tech firms.

As China continues its development of the BRI, ensuring that China remains integrated in the global economic ecosystem is of paramount importance to all parties. After all, “American business is China business and China business is American business (你中有我,我中有你)” (remarks by Yang 2015). Isolation will only drive China to develop its own rules and standards, which will be difficult to overcome once established. American businesses need to actively participate in the BRI to help shape its direction. Otherwise, they risk falling by the wayside (Bohman et al. 2017). Institutional views inform us that government can enable or constrain a firm's business activities (North 1990). The uncertainty in current USA–China relations poses costs and risks to the

involvement of US firms in BRI projects. Without the US government fully engaging in the BRI program, US firms may be at a disadvantage in bidding for projects and operating in a BRI environment. For instance, the fact that the USA is not an AIIB member country may hamper US firms from getting funding from this bank for their BRI projects or even bidding them. Other avenues for funding may raise costs or post other risks.

Second, the re-emergence of both China and the BRI as a whole may require a major shift from the mentality of American global dominance and habits engrained after decades of nearly unrivaled American global competitiveness, to that of co-existence, cooperation, and engagement. Participation of American businesses is a most effective means to help shape the BRI development process into a transparent, fair, and collective decision-making process to ensure its continued transformation into a “peaceful economic project,” benefiting all participating countries (Bohman et al. 2017).

As Matt Pottinger pointed out, US firms may find good opportunities in BRI projects, especially in the areas of infrastructure, financing, the environment, and even energy. Given that the United States is a leading power in energy and financial services, US firms’ competitive advantages in such BRI projects would land them winning bids if the US government becomes a facilitator like other foreign governments (Chen 2017).

With China’s goal of achieving \$2.5 trillion in trade with Silk Road countries by 2025, the Chinese government is encouraging mergers, acquisitions, and greenfield investments in BRI countries. The current surge of Chinese merger and acquisition activity in the EU reflects this objective, as does a desire to upgrade Chinese technology. China’s continuing urbanization and investment in fiber-optic cable could provide new market opportunities for Silicon Valley high-tech firms that possess firm-specific advantages.

In fact, gains from participating in the BRI go beyond US firms. US domestic infrastructure projects can be improved by embracing Chinese firms and capital, provided they follow US domestic investment and environmental rules. By joining in BRI projects, the United States would actually be in a better position to monitor China’s practices and voice concerns where needed, all of which would only make the initiative more

effective and transparent in the long run, bringing the BRI more in line with US interests.

The USA can gain a voice in the BRI by having US firms be conduits for the USA–China Comprehensive Economic Dialogue—in which to discuss a joint economic development agenda and come up with a role for the United States to play to its strengths. American defense contractors, for example, could provide physical security and cybersecurity services to BRI projects, and the US military could help secure some of the more volatile regions, where Washington already has military assets, such as the Horn of Africa. That would spare China the need to increase its overseas military presence and bolster the legitimacy of the US forces working in those areas. By embracing the BRI, the United States could ensure that American firms and investors are not excluded from the opportunities offered by what might become the biggest economic development project in human history. Washington's engagement could also encourage some of the European, Japanese, and South Korean investors who have been reluctant to fund Chinese-led infrastructure projects to change their tune—which would have a broadly positive impact on global growth and, by extension, on the US economy. And by becoming a more active participant in the BRI's various related institutions, the United States would be in a better position to ensure that China's projects adhere to the rules of the game. The involvement of formal institutions is an effective conduit to unleash business opportunities for firms (Yang and Stoltenberg 2008).

In light of the burgeoning development of the Cyber/Digital Silk Road and evident rising US commercial engagement, the time would seem ripe for the formulation of a USA–China Connectivity Platform, which would publicize IT business opportunities and challenges inherent in the Cyber/Digital Silk Road, while also bringing together American and Chinese stakeholders at both national and subnational levels. Important participants and beneficiaries of this proposed Connectivity Platform should include SMEs and tech start-ups. This medium would also provide a forum for airing the multitude of technical, legal, and business issues that will arise from the construction of this hugely promising, but also profoundly disruptive, Silk Road. Such a vibrant bilateral platform would present opportunities for deep collaboration—not only with

Chinese, but also other BRI, partners—and offers the prospect of future fusion with similar BRI initiatives now under construction along the emerging Cyber/Digital Silk Road.

## 5 Conclusions

As much as the BRI may have geopolitical overtones, getting US firms to the bidding side and bringing them to the negotiating table may not only bring windfall gains for US firms, but also serve as an important step to keep a US voice heard in BRI circles. With the USA's prominent position on critical technologies and its strong economic foundation, BRI countries and projects need US business connectivity and need to follow established, though evolving, common standards. US interests can be served better if it can leverage the BRI to American advantage and if both sides work to facilitate international business transactions and cooperation. Ultimately, China and the USA have to ask each other if they are willing to share the common destiny of humanity. Are they willing to prosper together? Are they willing to embrace each other? What should they do to maximize the gains for their firms and their economy, while minimizing the costs and risks for themselves?

This chapter contributes to the scant, but growing, literature on the BRI by contextualizing US connectivity from resource-based and institution-based views. We are keenly aware that our study is limited by availability of empirical data and we are struggling with defining the phenomenon in the wilderness of the BRI; nonetheless, based on anecdotal evidence we are able to explore trends in US connectivity to the BRI, especially the Cyber Silk Road, and offer a number of implications for future research in this area. As the BRI is such a broad and unwieldy emerging field for international business scholars, future research needs to define the magnitude of the BRI's impact on firm behavior and define specific contexts in studies, given the vast variations between the more than 60 BRI countries. For studies on bilateral business relationships, such as this one, researchers could focus on the collaborative behavior of US firms and how networks with Chinese firms investing in the USA facilitate US firms' ability to gain bids for BRI projects, as well as how the

government policy shifts affect business decisions. Specifically, we should ask the following questions: What are the factors that can increase the likelihood of US firms participating in BRI projects? What role do cultural and institutional distances play in encouraging (or discouraging) US firms from participating in BRI projects? How does the US government's policy shift affect the collaborative behavior of US firms in BRI projects? How does partnering with Chinese firms investing in the USA facilitate or enable US firms to gain bids for BRI projects? How do USA–China business partnership outcomes vary across the Land, Maritime, and Cyber Silk Roads?

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