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# LA INICIATIVA CHINA DE “LA FRANJA Y LA RUTA” Y EL PERÚ:

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Belt and Road Initiative – A perspective from China

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# **Belt and Road Initiative – A perspective from China**

## **1. Introduction**

There have long been many questions regarding Chinese firms, but even more since 2004 when many Chinese companies started going abroad and discussions on their motivations and capabilities, among other aspects, resurfaced. The Belt and Road Initiative (BRI) started in 2013 and international interest became more evident. When doing international business, companies face many barriers; this is addressed by the famous “CAGE” theory of differences in which “C” stands for cultural difference, “A” for administrative, “G” for geographical, and “E” for economic. This theory proposes that there are many differences between countries and that these differences are found not only at the macro level, but also at the industry and firm level, thus forming a cage for the firm. This cage is an obstacle for international investment because it means that countries or people do not fully understand each other, which is fundamental to doing good business in another country. This is also true for a country seeking to internationalize. All these factors show how important it is to explain initiatives such as the BRI.

## **2. Belt and Road Initiative – proposal and development by Chinese leadership**

The trajectory of the BRI has had several milestones: first, in 2013, the concept was proposed; second, in 2014, the spirit, principles, cooperation priorities, and mission for the initiative were described; third, in 2015, the Chinese government received feedback and positioned the initiative as one based on collaboration within the existing framework instead of taking a unilateral route as it had done in previous times; fourth, after more questioning regarding motivations or whether the initiative was a foreign aid scheme, the government refined the concept and reached consensus during 2016-2017; fifth, in 2018, more people became interested and started discussing the initiative, especially in Latin America. In this framework, President Xi Jinping announced that the BRI would be extended to the region.

In summary, the framework of the BRI encompasses the spirit of the Silk Road; principles, priorities, and method of cooperation; and vision. In 2019, the Chinese government developed the prospects of the initiative, which entail a route for peace, prosperity, innovation, opening-up, green development, and clean government. the government is still working on the framework and will continue to do so.

## **3. Background of the Belt and Road Initiative**

The BRI's background reflects its historical context. In ancient times when the Silk Road was established, China connected with its neighbors and achieved economic growth. There are two more recent additions to this background: the opening-up of China and investment abroad by Chinese companies.

With regard to openness and welcoming direct investment, China has had tremendous economic growth over the last 40 years while undergoing a process of development. Two issues were relevant during this process. First, the Chinese people realized how important it was that the government played its role. As a developing country, China learned from the world and its government made an effort to find the right path and policy to lead the country and enhance its growth, thus gaining the trust of the people.

Second, as a consequence of its opening-up, China attracted many foreign companies and realized that these multinationals contributed to the country's direction and

development strategy; they were also the most successful inside the country. Chinese companies learned from this experience and when they started going abroad, they made an effort to get to know the host countries and connect with their governments.

Another factor is that Chinese companies started investing abroad later than other countries, and found out that they needed to learn many things and overcome the huge cage that was in front of them. In addition, the world did not really know China, and other countries had many questions regarding Chinese investment. They might even be afraid of Chinese companies going abroad. As a result, China realized that it needed to express or tell the world its reasons for investing internationally. China gained a lot from the experience of foreign companies coming in, from the collaboration between China and the world, and now they sought to replicate this, to get into the world and collaborate with countries who welcome Chinese companies.

After the experiences of the foreign companies in Asia, China learnt from the challenges they faced. One of the major concerns around the BRI is that China carries out infrastructure projects at the expense of inflicting debt burden on the host countries. Before the take-off of its economy, China was poor and needed better infrastructure, so the country used monetary policy and borrowed from the world. In this framework, it bridged its infrastructure gap and ended up with a fiscal deficit and a huge debt burden to carry. Nonetheless, as the Chinese proverb states: if one wants to prosper, first one should build roads. In this line, the Chinese government was not fearful; it believed that once it had the infrastructure, it would achieve economic growth in a different format and that cash flows would be generated, and that is exactly what happened. For instance, in Jamaica, a Chinese company decided to build a road even though the economic assessment was poor, yet now the country has the road and the company has the cash flow.

China believes that there is a chance for countries to pursue development and also considers that infrastructure is mainly a public issue, so governments should have the right to choose whether they opt for a chance at development or exercise restraint due to the fear of debt burdens. Countries in the BRI choose freely; China does not push anybody because collaboration is an important aspect of the BRI.

Many question the slow pace of the BRI, but this is a misunderstanding. This is an initiative based on collaboration, so it depends on the willingness of the other countries. China wants to collaborate and has the money and the capabilities to do so, but the final decision is up to the host countries.

Another major question related to the BRI is whether the Chinese companies and banks can afford or are qualified for investments. In the beginning, China felt qualified for this because of its accumulated experience domestically, as well as its capital. Despite this, going abroad was more difficult due to the many differences that needed to be addressed, and as a result the Chinese companies were not so successful. However, through those failures, China learnt to perform good evaluations and make sure to profit at the same time.

#### **4. What is the foundation of Belt and Road Initiative in Latin America?**

This initiative was supported by China's internal experience, financial institutions, and companies. Besides, the country has the capabilities, infrastructure, and many other industries. Since 2004, Chinese companies going abroad have accumulated experience on how to understand host countries. In this era, China has developed tremendously in new aspects such as digital economy, digital transition, clean energy, and more. In

addition, its companies are investing abroad, which means that they can share their experiences with the rest of the world.

Latin America faces a huge infrastructure gap and seeks to develop, but it also has the experience of opening-up and managing foreign investment through a rather competitive mechanism. China understands that all these years following the Washington Consensus has led some countries to resent having resource-dependent economies. Latin America wants to get go beyond that approach and broaden its supply chain. This desire can connect to China's experience. Particularly, in Peru, China has many good companies like Shougang or China Harbour, as well as financial institutions such as Bank of China, China Construction Bank, and China Development Bank.

Finally, what is China going to do now that the BRI is extending to Peru and Latin America? China is looking forward to the attitude and willingness of countries to collaborate. It wants countries to realize that the Chinese experience is valuable and that Chinese companies and financial institutions possess many capabilities. Furthermore, there is not only one way to collaborate; the BRI is an innovative way to achieve multiple forms of development. In this think-tanks play a fundamental role since they link the government and the business world and facilitate spaces where everybody works together. This is similar to the PPP mechanism in Peru.

## 5. **Biography of the Author**



Dr. CHEN Taotao is professor at the School of Economics and Management, Tsinghua University and the director of the Latin America Center, Tsinghua University. Her main research areas are foreign direct investment (FDI), international business, and globalization and strategy. She has published more than 30 papers on the topics of FDI spillover and Chinese companies investing abroad, and has presided research projects supported by National Science Foundation, Ministry of Education, and Ministry of Commerce, among other entities. In recent years, Professor Chen Taotao has placed more emphasis on topics such as the business environment in the US and Latin America and the capability of young Chinese multinational corporations. As part of her research process, she has visited more than 50 branches of Chinese companies who have invested in US and Latin American countries, and collaborated with think tanks, multi-development banks such as ECLAC, IDB, and CAF, as well as top universities such as MIT in US, Toronto University in Canada, and Catholic University in Chile, among others. In addition, she participated in international forums such as the World Economic Forum and the Emerging Markets Forum, and has made speeches and been engaged with different kinds of debates.