



Initiative as Institution: How the Belt and Road Initiative Influences Chinese Firms' Participation in Global Value Chains

Jiwei Wu[†] and Weiwen Yin^{*,*}

[†]Ph.D. Candidate, Department of Government and Public Administration, University of Macau, China

^{*}Assistant Professor, Department of Government and Public Administration, University of Macau, China

*Corresponding author. Email: wyyin@um.edu.mo

Abstract

This article investigates how the Belt and Road Initiative (BRI), proposed by China in 2013, influences the participation of Chinese firms in the global value chains (GVCs). More than just an economic strategy, BRI could serve as a substitute for inadequate contract enforcement in cross-border economic transactions between Chinese firms and their foreign counterparts. Using data from Chinese private companies listed from 2008 to 2016 and multiplicative interaction models, this article evaluates the impact of BRI as a policy shock that enhances contract enforcement and encourages Chinese firms' participation in the GVCs. The results suggest that, following the implementation of the BRI in 2013, private firms with political ties to the government became more active participants in the GVCs, thanks to greater support from the Chinese state in facilitating contract enforcement abroad. The findings imply that BRI, as a state-led economic strategy, can also function as a mechanism that encourages private firms with political connections to expand globally by reducing transaction costs in cross-border trade activities.

Introduction

Over the past two decades, global value chains (GVCs) have played a critical role in advancing globalization. Participating in GVCs is important not only for firms from advanced economies, which can reduce operating costs through offshoring, but also for those based in the developing world as it provides the best opportunity to receive knowledge and technology transfers through spillovers.¹ In recent years, firms from developing countries have also begun to upgrade their positions in the chains.² They increasingly engage in

¹ Rory Horner, "Beyond Facilitator? State Roles in Global Value Chains and Global Production Networks," *Geography Compass*, Vol. 11, No. 2 (2017), p. e12307. <https://doi.org/10.1111/gec3.12307>.

² Valentina De Marchi, Elisa Giuliani, and Roberta Rabellotti, "Do Global Value Chains Offer Developing Countries Learning and Innovation Opportunities?" *The European Journal of Development Research*, Vol. 30 (2018), pp. 389–407.

higher value-added activities within the GVCs, such as research and development, and design,³ which provide opportunities to access resources, reduce costs, and absorb foreign knowledge.⁴

While participation in GVCs brings substantial benefits for firms by enhancing their efficiency, it is not a risk-free choice and exposes firms to uncertainties stemming from the cross-border dispersion of production.⁵ Specifically, firms engaging in GVCs may experience contracting frictions due to contract incompleteness, which often gives rise to cross-border contractual disputes.⁶ For example, technological leakage and free-riding on brand names are always concerning for firms in their cooperation with foreign counterparts.⁷ Therefore, the quality of contract enforcement for cross-border economic transactions has become a highly relevant factor when a firm decides to participate in the GVC or not.

Firms generally encounter the so-called hold-up problem when making investment decisions: without strong contract enforcement across borders, firms have little incentive to participate extensively in the GVCs.⁸ This concern can be partially mitigated for firms headquartered in developed countries where formal institutions for effective contract enforcement are not only available but can also extend their coverage to their activities in foreign lands through the so-called long-arm jurisdiction.⁹ For instance, US multinational corporations can file lawsuits domestically against overseas suppliers violating contractual obligations, relying on US courts and enforcement mechanisms even for conduct occurring abroad.

On the other hand, firms originating from the developing world where formal contract enforcement is weak and does not extend globally can hardly receive protection from their home country institutions, thus the hold-up problem is more severe for this type of firms relative to their first-world counterparts. Holding all other factors constant, they are relatively more reluctant to engage extensively in GVCs.¹⁰ In countries with underdeveloped formal contractual institutions, informal or semiformal substitutes could serve as alternatives to facilitate trade and investment. These alternatives include, among others, family connections, social networks, and social norms.¹¹ While not as effective as formal legal

³ Alvaro Cuervo-Cazurra and Pavidia Pananond, "The Rise of Emerging Market Lead Firms in Global Value Chains," *Journal of Business Research*, Vol. 154 (2023), p. 113327. <https://doi.org/10.1016/j.jbusres.2022.113327>.

⁴ Petr Pleticha, "Who Benefits from Global Value Chain Participation? Does Functional Specialization Matter?" *Structural Change and Economic Dynamics*, Vol. 58 (2021), pp. 291–9.

⁵ Pol Antràs, *Global Production: Firms, Contracts, and Trade Structure* (Princeton: Princeton University Press, 2015).

⁶ Ana Margarida Fernandes, Hiau Looi Kee, and Deborah Winkler, "Determinants of Global Value Chain Participation: Cross-country Evidence," *The World Bank Economic Review*, Vol. 36, No. 2 (2022), pp. 329–60.

⁷ Witold J. Henisz, "The Institutional Environment for Multinational Investment," *The Journal of Law, Economics, and Organization*, Vol. 16, No. 2 (2000), pp. 334–64.

⁸ Raymond Vernon, *Sovereignty at Bay* (New York: Pelican, 1971), pp. 44–59.

⁹ Gary Gereffi, John Humphrey, and Timothy Sturgeon, "The Governance of Global Value Chains," *Review of International Political Economy*, Vol. 12, No. 1 (2005), pp. 78–104; Timm Betz, Amy Pond, and Weiwen Yin, "Investment Agreements and the Fragmentation of Firms across Countries," *The Review of International Organizations*, Vol. 16 (2021), pp. 755–91.

¹⁰ Marion DAVIS and Chahir Zaki, "Global Value Chains and Local Business Environments: Which Factors Really Matter in Developing Countries?" *Review of Industrial Organization*, Vol. 57 (2020), pp. 481–513.

¹¹ Katherine K. Xin and John L. Pearce, "Guanxi: Connections as Substitutes for Formal Institutional Support," *Academy of Management Journal*, Vol. 39, No. 6 (1996), pp. 1641–58; Gereffi, Humphrey, and Sturgeon, "The Governance of Global Value Chains," pp. 78–104; Krishna B. Kumar and John G. Matsusaka, "From Families to Formal Contracts: An Approach to Development," *Journal of Development Economics*, Vol. 90, No. 1 (2009), pp. 106–19; Saul Estrin and Martha Prevezer, "The Role of Informal Institutions in Corporate Governance: Brazil, Russia, India, and China Compared," *Asia Pacific Journal of Management*, Vol. 28 (2011), pp. 41–67; Jeremy Edwards and Sheila Ogilvie, "Contract Enforcement, Institutions, and Social Capital: The Maghribi Traders Reappraised," *The Economic History Review*, Vol. 65, No. 2 (2012), pp. 421–44.

institutions in contract enforcement, they can still, to various extents, reduce transaction costs and mitigate the hold-up problem for cross-border commercial activities.¹²

The existing literature on contractual institutions alternative to legal proceedings mainly focuses on non-governmental arrangements. However, government-led economic initiatives, which are an understudied source of contract enforcement, can also play a role in reducing transaction costs. Governments employ a *mixture* of diplomatic, financial and institutional tools to facilitate contracting and curb opportunism in cross-border economic activities, in an effort to protect their firms and encourage these firms to reach globally. First, states can utilize diplomatic leverage to keep overseas partners in line.¹³ The threat of jeopardizing future political and economic ties deters contractual violations. Second, governments can create risk mitigation tools that leverage financial incentives, such as investment insurance schemes that compensate losses from government expropriation or contract repudiation abroad.¹⁴ Third, in the implementation of economic initiatives, states often promote arbitration and mediation services for cross-border commercial disputes through entities such as bilateral chambers of commerce and through the cooperation of these entities.¹⁵ These institutional tools can reduce downside risks that deter transnational economic exchanges.

The Belt and Road Initiative (BRI), proposed by China in 2013, embodies such an institutional approach to contract enforcement, integrating semi-formal and informal institutions. The BRI is an economic initiative aimed at closely tying China to Asia, Europe, and Africa through collaborative development and infrastructure projects.¹⁶ It comprises both official policies supported by the Chinese government and memoranda of understanding (MOUs) between Chinese and partner states. While these unilateral policies and bilateral arrangements do not necessarily involve courts or dispute settlement mechanisms typically identified as formal contracting institutions, they do include arbitration, which can be regarded as quasi-formal dispute resolution arrangements, and mediation, which can be regarded as an informal measure.

For example, the International Commercial Dispute Prevention and Settlement Organization (ICDPASO), a non-governmental international organization that offers both arbitration and mediation services, was established in 2020. This organization was initiated and has been actively supported by the Chinese government.¹⁷ Additionally, the International Commercial Mediation Center for the Belt and Road (BNRMC) has played a crucial role in

¹² Avner Greif, "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individual Societies," *Journal of Political Economy*, Vol. 102, No. 5 (1994), pp. 912–50; James E. Rauch and Vitor Trindade, "Ethnic Chinese Networks in International Trade," *Review of Economics and Statistics*, Vol. 84, No. 1 (2002), pp. 116–30; Mike W. Peng, Denis Y.L. Wang, and Yi Jiang, "An Institution-based View of International Business Strategy: A Focus on Emerging Economies," *Journal of International Business Studies*, Vol. 39 (2008), pp. 920–36.

¹³ Jing Li et al., "Diplomatic and Corporate Networks: Bridges to Foreign Locations," *Journal of International Business Studies*, Vol. 49 (2018), pp. 659–83.

¹⁴ Hongyu Jin et al., "Determination of Government Guarantee and Revenue Cap in Public–Private Partnership Contracts," *Engineering Construction Architectural Management*, Vol. 30, No. 2 (2021), pp. 393–414.

¹⁵ China's Supreme Court has encouraged domestic arbitration institutions to cooperate with counterparts in the Belt and Road countries to establish joint mechanisms for resolving commercial disputes under the initiative. This exemplifies state promotion of international commercial arbitration to facilitate dispute resolution where formal contracting institutions are underdeveloped or not preferable. See Xinhuanet, "Head of the Supreme People's Court Answers Reporters' Questions on the Opinions on Establishing an International Commercial Dispute Resolution Mechanism and Institution for the Belt and Road Initiative," 28 June 2018, http://www.xinhuanet.com/politics/2018-06/28/c_1123046444.htm; David Tan, "The Singapore Convention on Mediation to Reinforce the Status of International Mediated Settlement Agreement: Breakthrough or Redundancy?" *Conflict Resolution Quarterly*, Vol. 40, No. 4 (2023), pp. 467–82.

¹⁶ Brantly Womack, "International Crises and China's Rise: Comparing the 2008 Global Financial Crisis and the 2017 Global Political Crisis," *Chinese Journal of International Politics*, Vol. 10, No. 4 (2017), pp. 383–401; Ka Zeng, "China's Free Trade Agreement Diplomacy," *Chinese Journal of International Politics*, Vol. 9, No. 3 (2016), pp. 277–305.

¹⁷ Foreign Affairs Office, "International Commercial Dispute Prevention and Settlement Organization inaugurated in Beijing," 16 October 2020, https://wb.beijing.gov.cn/en/center_for_international_exchanges/events/202103/t20210330_2336399.html; International Commercial Dispute Prevention and Settlement Organization, 23 April 2023, <http://en.icdpaso.org/>.

resolving civil and commercial disputes as a mediation platform. With a network of 750 mediators, 117 mediation offices, and a track record of over 34 000 mediation cases, BNRMC provides essential mediation services and promotes a harmonious mediation culture among enterprises within countries along the BRI.¹⁸ Simply put, the BRI can be regarded as a contracting institution. Equipped with its semi-formal and informal dispute resolution mechanisms, the BRI can effectively compensate for inadequate contract enforcement across borders. Consequently, the BRI has successfully propelled Chinese enterprises to rapidly internationalize their operations and engage more deeply in GVCs.¹⁹

However, not all Chinese firms benefit equally from this economic initiative that facilitates contract enforcement. Firms with political connections are more capable of leveraging the BRI as a contracting institution to reduce opportunism risks, thus being more likely to pursue international expansion and participate in GVCs. These political ties grant Chinese firms preferential access to the support of the BRI's intergovernmental cooperation framework. In particular, such political connections enable firms to more easily overcome weak contract enforcement inherent in transnational activities and engage in complex cross-border exchanges compared to unconnected firms. Specifically, appointing politically tied directors provides networking advantages that facilitate overseas investment and market access.²⁰ In summary, the BRI, as a contracting institution, benefits Chinese firms with political connections by enabling them to mitigate contractual risks and integrate further into GVCs.

To evaluate the effect of state-led economic strategy on firms' participation in the GVCs, this study constructs a panel data set of Chinese listed firms. The policy shock we focus on is the implementation of the BRI in 2013, which exogenously enhances transnational contract enforcement for Chinese firms with political connections. Using multiplicative interaction models, this article finds that firms with politically connected boards exhibit increased GVC participation upon the implementation of the BRI. The results are robust to the inclusion of a series of control variables and alternative measures for GVC participation. These findings suggest that the BRI, as a state-led economic initiative, can indeed serve as a contracting institution thanks to its semi-formal and informal contract enforcement mechanisms. However, its impact is heterogeneous in that only a particular set of firms can benefit from the enhancement in cross-border contract enforcement.

This study contributes to advancing the understanding of contract enforcement in the global economy by revealing an understudied source of contracting institutions. By conceptualizing the BRI as a mixed contracting institution that enhances contract compliance and enforcement, this article offers a novel institutional perspective on how this large-scale infrastructure investment program can facilitate cross-border economic transactions. To our knowledge, this study is the first among the existing literature to shed light on the role of state-led economic strategy in facilitating contract enforcement. Additionally, this paper demonstrates that, unlike formal legal institutions that offer universal protection to firms, only those with political connections can reap benefits from this multifaceted mechanism. This subtlety represents a novel contribution to the existing body of literature.

The paper follows this structure: the next section briefly reviews the literature on the determinants of GVC participation, highlighting some limitations in previous works. It then develops a theoretical framework elaborating on how corporate directors' political connections influence private Chinese firms' participation in GVCs under the BRI's framework by

¹⁸ Beijing Retio Legal and Commercial Service Center for the BRI, "Mediation Rules of International Commercial Mediation Center for the Belt & Road (For Trial Implementation)," 27 April 2021, <http://www.bnrmmediation.com/EN/GuideTnt/542ec98f-2a64-4c6a-9ed9-790293844a8d/909b2068-d56c-42c6-9fac-6544d87bc67e>.

¹⁹ Harryanto Aryodiguno, "The Impact of COVID-19 on the Development of the Belt and Road Initiative and China's Foreign Policy," *KnE Social Sciences*, Vol. 7, No. 4 (2022), pp. 68–90.

²⁰ Hongbin Li et al., "Political Connections, Financing And Firm Performance: Evidence from Chinese Private Firms," *Journal of Development Economics*, Vol. 87, No. 2 (2008), pp. 283–99.

focusing on the importance of contract enforcement in cross-border economic activities. It is then followed by a presentation of the research design, estimation strategy, and empirical results. The paper concludes by summarizing key findings and practical implications for understanding the impact of the BRI as a contract enforcement mechanism.

Literature on Participation of GVCs

Early studies on GVCs focused on measuring GVC participation. GVC participation reflects a country's engagement in global production networks, involving the import of foreign inputs for processing and the export of domestically produced inputs for further processing abroad.²¹ The concept of GVCs has evolved over time, from initial ideas around value chains²² and cross-border production networks,²³ to the specific term "global commodity chains,"²⁴ which was later replaced by "global value chains" as a more encompassing framework.²⁵ GVCs have increasingly organized over the last two decades, transforming the global economy into a system of division of labor.²⁶

The growing interconnectedness of global production networks has sparked increased interest in studying the determinants of GVC participation. Existing literature has offered valuable insights into the causes of GVC engagement, which can be categorized into macro and micro factors. Macro factors, such as a country's level of economic development, trade policies, and institutional quality, shape the overall environment in which firms operate and influence their ability to participate in GVCs.²⁷ On the other hand, micro factors, including firm size, productivity, technological capabilities, and access to resources, explain an industry or a firm's choice of GVC participation.²⁸

While both the macro and micro approaches are widely adopted in existing literature, the former, which heavily relies on country-level data, has apparent limitations. First, the primary participants in GVCs are individual firms, not countries.²⁹ Firms intentionally make individual decisions regarding production fragmentation, outsourcing, and offshoring. However, aggregating data at the country level may obscure this firm-level agency, potentially leading to misleading conclusions about the factors driving GVC engagement.

Second, country-level analysis on GVC participation has largely overlooked the heterogeneity among firms. Firms within a country can vary significantly in terms of their size, productivity, technological capabilities, and access to resources.³⁰ These differences can profoundly impact firms' ability and willingness to engage in GVCs. For instance, larger and more productive firms may be better positioned to overcome the fixed costs associated

²¹ Zhiheng Wu, Guisheng Hou, and Baogui Xin, "Has the Belt and Road Initiative Brought New Opportunities to Countries along the Routes to Participate in Global Value Chains?" *Sage Open*, Vol. 10, No. 1 (2020), pp. 2158244020902088.

²² Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985).

²³ Bruce Kogut, "Designing Global Strategies: Comparative and Competitive Value-Added Chains," *Sloan Management Review*, Vol. 26, No. 4 (1985), p. 15.

²⁴ Gary Gereffi and Miguel Korzeniewicz, eds., *Commodity Chains and Global Capitalism* (New York: Bloomsbury Publishing USA, 1993).

²⁵ Gary Gereffi, "International Trade and Industrial Upgrading in the Apparel Commodity Chain," *Journal of International Economics*, Vol. 48, No. 1 (1999), pp. 37–70.

²⁶ Zhimei Jiang, "Research on Upgrading of China's Manufacturing Industry Based on Global Value Chains," *China-USA Business Review*, Vol. 16, No. 3 (2017), p. 228.

²⁷ Gary Gereffi, Hyun-Chin Lim, and Joonkoo Lee, "Trade Policies, Firm Strategies, and Adaptive Reconfigurations of Global Value Chains," *Journal of International Business Policy*, Vol. 4, No. 4 (2021), p. 506; Fernandes, Kee, and Winkler, "Determinants of Global Value Chain Participation," No. 2 (2022), pp. 329–60.

²⁸ Rawan Elshaarawy and Riham A. Ezzat, "Global Value Chains, Financial Constraints, and Innovation," *Small Business Economics*, Vol. 61, No. 1 (2023), pp. 223–57.

²⁹ Federica Saliola and Antonello Zanfei, "Multinational Firms, Global Value Chains and the Organization of Knowledge Transfer," *Research Policy*, Vol. 38, No. 2 (2009), pp. 369–81.

³⁰ Andrew B. Bernard et al., "Firms in International Trade," *Journal of Economic Perspectives*, Vol. 21, No. 3 (2007), pp. 105–30.

with exporting and participating in global production networks.³¹ Similarly, firms with superior technological capabilities may be more attractive partners for multinational corporations seeking to outsource specific tasks or components.³² Neglecting these sources of heterogeneity can result in an incomplete understanding of the factors influencing GVC participation and the distribution of its benefits among firms.

One form of heterogeneity among firms that has been largely overlooked is their political connections. Distinguishing between firms with and without political ties is essential for comprehending the determinants of GVC participation. Politically connected firms may benefit from preferential access to resources, information, and policy support, which influence their decisions to engage in GVCs.³³ For example, politically connected firms may receive subsidies, tax breaks, or preferential financing that aid them in overcoming market and governance failures.³⁴ Additionally, they may have better access to insider information about government policies, regulations, or market opportunities.³⁵ Neglecting the influence of political connections in shaping firms' GVC participation can obscure a pivotal factor driving GVC engagement and lead to a misunderstanding of how its benefits are distributed among different firms.

In conclusion, the existing literature on GVC participation has offered valuable insights into the factors driving countries' involvement in global production networks. However, relying solely on country-level data may yield inadequate results as this macro-level approach disregards firm agency and the heterogeneity among them, particularly in the dimension of political connections. In the subsequent section, we will present a theoretical framework elucidating the significance of political connections in a firm's decision to participate in GVCs.

Explaining GVC Participation of Chinese Firms

This section delves into the pivotal role of political connections in promoting firms' integration into GVCs. Specifically, a firm's political ties enable it to benefit from the protection offered by the BRI, which enhances contract enforcement for transnational economic activities. We commence by examining the significance of contract enforcement in determining GVC participation, emphasizing the hurdles firms commonly encounter when engaging in cross-border transactions. Subsequently, our theory elaborates on how the BRI, as a state-led economic endeavor, can function as a hybrid contracting institution, mitigating risks of opportunism and lowering transaction costs for Chinese firms collaborating with international partners. Lastly, we posit that the advantages of the BRI in terms of contract enforcement are disproportionately accessible to politically connected firms, as they are better positioned to leverage the initiative's mechanisms for contract enforcement and align their interests with the state's global aspirations.

The Importance of Contract Enforcement in GVCs

Contract enforcement plays a crucial role in the operation of GVCs. GVCs have emerged as a defining characteristic of the global economy, with production processes fragmented

³¹ Andrzej Cieślak, Jan Jakub Michalek, and Krzysztof Szczygielski, "What Matters for Firms' Participation in Global Value Chains in Central and East European Countries?" *Equilibrium. Quarterly Journal of Economics and Economic Policy*, Vol. 14, No. 3 (2019), pp. 481–502.

³² Juan Alcacer and Joanne Oxley, "Learning by Supplying," *Strategic Management Journal*, Vol. 35, No. 2 (2014), pp. 204–23.

³³ Abubakr Saeed, Yacine Belghitar, and Ephraim Clark, "Do Political Connections Affect Firm Performance? Evidence from a Developing Country," *Emerging Markets Finance and Trade*, Vol. 52, No. 8 (2016), pp. 1876–91.

³⁴ Li et al., "Political Connections, Financing and Firm Performance," pp. 283–99.

³⁵ Ziliang Deng, Jiayan Yan, and Marc van Essen, "Heterogeneity of Political Connections and Outward Foreign Direct Investment," *International Business Review*, Vol. 27, No. 4 (2018), pp. 893–903.

across countries and firms specialized in specific stages of the value chain.³⁶ Effective contract enforcement is essential for enabling firms to participate in these cross-border production networks. GVCs represent the extent of integration between a firm's upstream suppliers and downstream buyers. This engagement in both upstream and downstream trade requires enforceable contracts to regulate transactions, formalize expectations, ensure commitments, and mitigate hold-up risks.³⁷ For instance, relationship-specific investments, where firms tailor assets for transactions with specific partners, are prevalent in GVCs, underscoring the importance of contract enforcement in safeguarding these investments.³⁸ Simply stated, robust contract enforcement offers essential protections necessary for the fragmented production and exchanges inherent in GVCs.³⁹

Therefore, contract enforcement mechanisms are indispensable for cross-border economic exchanges, where contractual disputes with firms from other countries are likely to arise and potentially impede GVC participation. These contract enforcement mechanisms can manifest in various forms, encompassing formal legal structures, informal agreements, and hybrid approaches that amalgamate elements of both formal and informal enforcement. Formal enforcement relies on coercive institutions, such as courts, while informal enforcement centers on reputation, connections, and social sanctions, manifested by mediation. Semi-formal mechanisms blend features of formal and informal enforcement by providing a structured dispute resolution process outside the traditional court system, such as arbitration.⁴⁰ The existence of semi-formal mechanisms underscores the blurred line between formal and informal enforcement practices in real-world scenarios. All these mechanisms—formal, informal, and semi-formal—are pivotal. In environments where legal frameworks are underdeveloped, informal and semi-formal alternatives can facilitate trade and investment by introducing an impartial third party as a means of resolving disputes.⁴¹

While prior studies on informal and semi-formal contractual arrangements have traditionally concentrated on non-governmental mechanisms such as private third-party arbitration or mediation, the role of government-led economic policies in bolstering contract compliance remains underexplored. According to transaction cost theory, weak contracting institutions heighten transaction risks, escalating costs for firms engaging in cross-border transactions.⁴² Nonetheless, targeted government interventions can help alleviate these institutional deficiencies by offering a blend of formal, semi-formal, and informal enforcement mechanisms.⁴³ The investment assurances extended by home governments can foster trust by shielding firms from unfavorable actions by foreign counterparts, such as breaches of contract. This form of government backing mitigates potential losses that businesses could face, incentivizing engagement even in environments with weaker contracting institutions.

³⁶ Gereffi, Humphrey, and Sturgeon, "The Governance of Global Value Chains," pp. 78–104.

³⁷ Vernon, *Sovereignty at Bay*, pp. 44–59.

³⁸ Oliver E. Williamson, "Transaction-cost Economics: The Governance of Contractual Relations," *The Journal of Law and Economics*, Vol. 22, No. 2 (1979), pp. 233–61.

³⁹ Nathan Nunn, "Relationship-specificity, Incomplete Contracts, and the Pattern of Trade," *The Quarterly Journal of Economics*, Vol. 122, No. 2 (2007), pp. 569–600; Nathan Nunn and Daniel Treffer, "Domestic Institutions as a Source of Comparative Advantage," *Handbook of International Economics*, Vol. 4 (2014), pp. 263–315.

⁴⁰ Weiwen Yin, "Domestic Arbitral Institutions and Foreign Direct Investment," *International Relations of the Asia-Pacific*, Vol. 21, No. 3 (2021), pp. 401–29.

⁴¹ Ronald J. Gilson, Charles F. Sabel, and Robert E. Scott, "Braiding: The Interaction of Formal and Informal Contracting in Theory, Practice, and Doctrine," *Columbia Law Review*, Vol. 110 (2010), pp. 1377–447; Hamish R. Gow, Deborah H. Streeter, and Johan F.M. Swinnen, "How Private Contract Enforcement Mechanisms Can Succeed Where Public Institutions Fail," *Agricultural Economics*, Vol. 23, No. 3 (2000), pp. 253–65; Károly Mike and Gábor Kiss, "Combining Formal and Informal Contract Enforcement in a Developed Legal System: A Latent Class Approach," *Journal of Institutional Economics*, Vol. 15, No. 3 (2019), pp. 521–37.

⁴² Williamson, "Transaction-cost Economics," pp. 233–61.

⁴³ Oliver E. Williamson, "Transaction Cost Economics: How It Works; Where It Is Headed," *De Economist*, Vol. 146 (1998), pp. 23–58.

In conclusion, contract enforcement serves as a cornerstone in the realm of international trade and investment, ensuring the adherence to contractual commitments and the effective resolution of disputes. It is particularly vital for cross-border economic transactions and plays a pivotal role in influencing whether multinational corporations opt to actively participate in GVCs. Strong contract enforcement, encompassing formal, semi-formal, and informal mechanisms, can mitigate contractual risks, lower transaction costs, and offer crucial protections for the fragmented production and exchanges inherent in GVCs.

BRI as a Contracting Institution

State-driven initiatives, when tailored to align with commercial interests, can also function as a substitute for contract enforcement by integrating formal, semi-formal, and informal mechanisms. In the absence of formal enforcement, a blend of informal and semi-formal alternatives facilitates repeated trade through strengthening reciprocity within social networks. The China-initiated BRI exemplifies such a contracting mechanism. The BRI effectively facilitates cooperation between Chinese firms and their international counterparts.⁴⁴ Specifically, it does so through leveraging the perceived backing of the Chinese state, thereby mitigating contractual hazards that are particularly prevalent in trading with foreign entities and investing in developing countries.⁴⁵

Numerous mechanisms enable the BRI to operate effectively as a contracting institution. At a high level, the BRI MOU, established through agreements between the Chinese government and its counterparts over several years, signifies a cooperative intent between governments. These agreements empower Chinese firms to forge relationship-based partnerships overseas.⁴⁶ This relational governance approach, offered by the BRI as an alternative to formal legal contracting institutions, effectively mitigates risks in international trade and investment and addresses the hold-up dilemma.⁴⁷ More specifically, when disputes arise between Chinese and foreign firms, the BRI can facilitate commercial arbitration and mediation to reach mutually acceptable resolutions through a blend of diverse dispute resolution mechanisms, which become available thanks to the implementation of the BRI.⁴⁸ In essence, the multifaceted framework of the BRI ensures compliance with transnational agreements by creating the concern for reputation and future business prospects, thereby encouraging active participation of Chinese firms in GVCs.⁴⁹

Indeed, the BRI has been recognized as a significant catalyst for the GVC participation of Chinese firms in the existing literature. For instance, Peng et al. identify a positive correlation between the implementation of the BRI and increased engagement in GVCs.⁵⁰ Wu, Hou, and Xin propose that the BRI substantially elevated GVC involvement for countries involved

⁴⁴ Cheng King and Jane Du, "Could 'Belt and Road' Be the Last Step in China's Asian Economic Integration?" in Suisheng Zhao, ed., *China's New Global Strategy, 1st Edition* (London: Routledge, 2020), p. 19; Yuan Yang, "Escape Both the 'Thucydides Trap' and the 'Churchill Trap': Finding A Third Type of Great Power Relations under the Bipolar System," *Chinese Journal of International Politics*, Vol. 11, No. 2 (2018), pp. 193–235.

⁴⁵ Zhipeng He and Jianzhou Zhao, "A China-Led Comprehensive Dispute Settlement Mechanism for The Belt and Road Initiative: Is It Too Early?" *Asia Pacific Law Review*, Vol. 29, No. 1 (2021), pp. 86–106.

⁴⁶ Aryodiguno, "The Impact of COVID-19 on the Development of the Belt and Road Initiative and China's Foreign Policy," pp. 68–90.

⁴⁷ Laura Poppo and Todd Zenger, "Do Formal Contracts and Relational Governance Function as Substitutes or Complements?" *Strategic Management Journal*, Vol. 23, No. 8 (2002), pp. 707–25; Aryodiguno, "The Impact of COVID-19 on the Development of the Belt and Road Initiative and China's Foreign Policy," pp. 68–90.

⁴⁸ Ignacio de la Rasilla, "'Sharp Ears to Hear a Thunderclap'? The Rise of Mediation in the International Dispute Prevention and Settlement System of the Belt and Road Initiative," *Asia Pacific Law Review*, Vol. 29, No. 1 (2021), pp. 167–88.

⁴⁹ He and Zhao, "A China-Led Comprehensive Dispute Settlement Mechanism for The Belt and Road Initiative," pp. 86–106.

⁵⁰ Fei Peng et al., "Trade Agreements and Global Value Chains: New Evidence from China's Belt and Road Initiative," *Sustainability*, Vol. 12, No. 4 (2020), p. 1353.

in the initiative.⁵¹ However, these studies are all analyses at the country level, relying on correlational evidence and thus unable to unveil the micro-level mechanisms.⁵² This study aims to advance this scholarship by concentrating on firm-level data. Furthermore, as illustrated below, we discover that the effect of the BRI on GVC participation is heterogeneous, with only firms holding political connections to the government achieving a deeper level of integration following the BRI's implementation. This nuanced observation has not yet been revealed in existing literature. Hence, the insights from this study contribute fresh perspectives to various bodies of literature, including explanations for GVC participation, the economic ramifications of the BRI, and the significance of contract enforcement in the global economy.

In essence, as a substitute for contract enforcement, the BRI nurtures social connections and fosters trust among firms from different nations. By offering a blend of official policies, bilateral agreements, and diverse dispute resolution mechanisms, the BRI furnishes state-backed assurance to Chinese firms navigating foreign markets rife with uncertainties. In other words, the contracting role of the BRI has empowered Chinese firms to seamlessly integrate into GVCs. Consequently, the BRI showcases how state policies can compensate for deficient legal institutions in both home and host countries, facilitating cross-border economic interactions.

How Does Political Connection Matter

While the BRI can enhance GVC participation for Chinese firms by facilitating contract formation and enforcement, we argue that its impact is constrained in scope. Specifically, only firms with political connections to Chinese government officials can realize the positive effects of the BRI, a state-led economic policy that promotes stronger contract enforcement.

Political connections have been well recognized as a pivotal factor influencing firms' engagement in GVCs. The impact of political connections on firms' participation in GVCs is extensively deliberated in rent-seeking theory and resource dependence theory. Rent-seeking theory suggests that firms strive to gain preferential access to scarce resources and economic benefits through political means in imperfect markets.⁵³ By cultivating political connections, firms aim to sway policies in their favor and secure advantages in GVC participation, such as funding, government contracts, subsidies, and tax incentives.⁵⁴ Resource dependence theory further posits that firms depend on relationships with government entities to acquire crucial resources and backing, particularly in foreign settings where institutional frameworks may be underdeveloped.⁵⁵ Combined, these theories posit that political connections confer competitive edges for firms endeavoring to enter GVCs.

Political connections can manifest in formal or informal ways. Formal political connections are obtained when members of a firm's management presently hold or have previously held positions within central or local government agencies, while informal connections arise

⁵¹ Wu, Hou, and Xin, "Has The Belt and Road Initiative Brought New Opportunities."

⁵² Peng et al., "Trade Agreements and Global Value Chains," p. 1353; Wu, Hou, and Xin, "Has The Belt and Road Initiative Brought New Opportunities to Countries along the Routes to Participate in Global Value Chains"; Hui Wang, Jeongcheng Si, and Zhihua Chen, "Does the Belt and Road Initiative Promote China and the Countries along the Route to Reconstruct the Global Value Chain? Evidence from Value-added Trade," *Economic Analysis and Policy*, Vol. 81 (2024), pp. 63–83; Yabo Li, Yan Zhao, and Xuemei Yao, "Does the Belt and Road Initiative Upgrade the Global Value Chain for BRI Countries: Revealing the Substantial Role of Infrastructure," *International Review of Economics & Finance*, Vol. 89 (2024), pp. 832–42.

⁵³ Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *The American Economic Review*, Vol. 64, No. 3 (1974), pp. 291–303.

⁵⁴ Mara Faccio, "Politically Connected Firms," *American Economic Review*, Vol. 96, No. 1 (2006), pp. 369–86; Asim Ijaz Khwaja and Atif Mian, "Do Lenders Favor Politically Connected Firms? Rent Provision in An Emerging Financial Market," *The Quarterly Journal of Economics*, Vol. 120, No. 4 (2005), pp. 1371–411.

⁵⁵ Amy J. Hillman, Michael C. Withers, and Brian J. Collins, "Resource Dependence Theory: A Review," *Journal of Management*, Vol. 35, No. 6 (2009), pp. 1404–27.

from personal ties with government officials at various levels.⁵⁶ Both forms of connections can to some degree influence business operations.⁵⁷ Nonetheless, scholarly discussions indicate that formal political connections tend to exert a greater impact on firms' strategic decisions and performance.⁵⁸ Formal political connections are more stable, visible, and institutionalized, providing firms with a stronger and reliable channel to access government resources and assistance.⁵⁹ Conversely, informal connections, though valuable, may be less enduring and less predictable in terms of the benefits they can offer. Therefore, while acknowledging the potential influence of informal political connections, this study concentrates on the consequences of formal political connections on firms' GVC participation within the context of the BRI.

Political connections can bestow various advantages upon firms, with this article primarily focusing on the assistance provided by the state in contract formation and enforcement. Such assistance can be extended through the implementation of the BRI. Despite not being a formal legal entity, the BRI can operate as a multifaceted contracting institution that diminishes risks of opportunism and transaction costs for Chinese firms engaging with partners in foreign markets. In general, Chinese firms can utilize the prestige and influence of the BRI, along with the support of the Chinese government, to dissuade their foreign business partners from breaching contracts. Consequently, Chinese firms partaking in this initiative, especially those in construction, infrastructure, and finance sectors, develop increased confidence in collaborating with foreign counterparts.⁶⁰ Specifically, as previously mentioned, if conflicts arise between Chinese and foreign firms, the BRI can facilitate commercial arbitration and mediation to reach mutually acceptable resolutions.⁶¹ Simply stated, the BRI can alleviate contractual uncertainties that might otherwise impede investments and trade between Chinese firms and their international partners.

Nevertheless, access to the benefits of enhanced contract enforcement under the BRI is not uniform across all private Chinese enterprises. Instead, firms with political connections are better positioned to reap the rewards of this state-led initiative. Particularly, politically connected private enterprises can strategically align their interests with the state's global aspirations, showcasing their dedication and alignment with the development objectives set by the state.⁶² In return, they gain privileged access to state-managed resources, government backing, and risk mitigation measures that facilitate their global expansion and integration into GVCs. When disputes arise with foreign counterparts, politically connected firms can promptly leverage the support of the Chinese government to safeguard their interests

⁵⁶ Julie Juan Li, Kevin Zheng Zhou, and Alan T. Shao, "Competitive Position, Managerial Ties, and Profitability of Foreign Firms in China: An Interactive Perspective," *Journal of International Business Studies*, Vol. 40 (2009), pp. 339–52; Mike W. Peng and Yadong Luo, "Managerial Ties and Firm Performance in a Transition Economy: The Nature of a Micro-Macro Link," pp. 486–501.

⁵⁷ Shibin Sheng, Kevin Zheng Zhou, and Julie Juan Li, "The Effects of Business and Political Ties on Firm Performance: Evidence from China," *Journal of Marketing*, Vol. 75, No. 1 (2011), pp. 1–15.

⁵⁸ Faccio, "Politically Connected Firms," pp. 369–86; Julie Juan Li, Laura Poppo, and Kevin Zheng Zhou, "Do Managerial Ties in China Always Produce Value? Competition, Uncertainty, and Domestic vs. Foreign Firms," *Strategic Management Journal*, Vol. 29, No. 4 (2008), pp. 383–400.

⁵⁹ Qun Wang, "Multilevel Political Connections and Nonprofit Revenues under Authoritarianism: Evidence from Chinese Foundations," *Governance*, Vol. 35, No. 4 (2022), pp. 1205–28.

⁶⁰ Henrik Andersen, "Rule of Law Gaps and the Chinese Belt and Road Initiative: Legal Certainty for International Businesses?," in Giuseppe Martinico and Xueyan Wu, eds., *A Legal Analysis of the Belt and Road Initiative: Towards a New Silk Road?* (Cham: Palgrave Macmillan, 2020), pp. 103–29; Holger Görg and Haiou Mao, "Does The Belt and Road Initiative Stimulate Chinese Exports? Evidence from Micro Data," *The World Economy*, Vol. 45, No. 7 (2022), pp. 2084–100.

⁶¹ Rasilla, "Sharp Ears to Hear a Thunderclap?" pp. 167–88; Tan, "The Singapore Convention on Mediation to Reinforce the Status of International Mediated Settlement Agreement," pp. 467–82.

⁶² Jing Li et al., "Have a Go or Lay Low? Predicting Firms' Rhetorical Commitment versus Avoidance in Response to Polyethnic Governmental Pressures," *Journal of Management Studies*, Vol. 61, No. 2 (2024), pp. 307–35; Yoon Ah Oh and Suyeon No, "The Patterns of State-Firm Coordination in China's Private Sector Internationalization: China's Mergers And Acquisitions in Southeast Asia," *The Pacific Review*, Vol. 33, No. 6 (2020), pp. 873–99.

and uphold contractual obligations. Their entrenched connections with the state serve as a potent bargaining tool, effectively deterring opportunistic actions by overseas collaborators.

In contrast, unconnected firms have limited access to support from the Chinese government through the BRI. Without political alignment and cultivated government relationships, unconnected firms lack leverage when faced with contractual disputes with their partners, thereby encountering a more pronounced hold-up dilemma.⁶³ While the Chinese government encourages private enterprises to venture overseas, not all private enterprises can enjoy equal protection. For example, Huawei, a prominent Chinese technology company with strong political connections, is likely to receive more support and safeguarding compared to its non-connected counterparts. This underscores the significance of political connections in accessing the advantages of the BRI. Put simply, the BRI disproportionately benefits politically affiliated Chinese firms by mitigating risks and expenses associated with international expansion and integration into GVCs, enabling them to navigate foreign terrains more effectively amidst various uncertainties.

In summary, the BRI can function as a contracting institution for Chinese firms engaging in foreign markets. However, only politically connected firms can readily access the advantages of the BRI to minimize risks and transaction costs when expanding abroad. Therefore, this study puts forth the following hypothesis:

Hypothesis

Chinese firms with politically connected boards of directors demonstrate a greater inclination to participate in the GVC subsequent to the implementation of the BRI.

Research Design

Model

To evaluate the impact of BRI on firms' participation in GVCs, we construct a panel data set in which BRI is the treatment variable that represents the policy shock of its launch in 2013, while political connection acts as the moderator, measured by directors' current or prior government positions.

Regarding the estimation approach, we employ a multiplicative interaction model to investigate whether political connections can moderate the influence of the BRI on firms' participation in GVCs. The primary equation to be estimated is specified as follows:

$$GVC_{i,t} = \alpha + \gamma PC_i + \lambda BRI_t + \delta PC_i * BRI_t + \beta' X + \varepsilon_{i,t} \quad (1)$$

In Model 1, index i denotes the firm, and index t denotes year-specific information. *GVC* represents the extent of a firm's integration into GVCs, the measurement of which will be elucidated below. The explanatory side of this regression encompasses the subsequent variables at the firm level: the variable *PC* is a binary variable that categorizes firms based on their board's political connections. It assumes a value of 1 when the firm's board directors possess political connections, and 0 otherwise. The treatment variable *BRI* encapsulates the policy shock of BRI and takes the value of 1 if an observation is from 2013 or after. The interaction term is $PC * BRI$, which captures the moderating function of political connections in the relationship between BRI and GVC participation. The vector X symbolizes the control variables to be utilized in the analysis. Finally, ε represents the error term.

It is important to note that this framework does NOT equate to a traditional difference-in-difference (DID) approach due to the potential scenario where a firm may lose its political

⁶³ Ki-Hoon Lee, Beom Cheol Cin, and Eui Young Lee, "Environmental Responsibility and Firm Performance: The Application of An Environmental, Social and Governance Model," *Business Strategy and the Environment*, Vol. 25, No. 1 (2016), pp. 40–53; Du and Zhang, "Does One Belt One Road Initiative Promote Chinese Overseas Direct Investment?" pp. 189–205.

connection (i.e., treatment group status) following changes in board membership. For ease of implementation and interpretation, we concentrate on the estimation of heterogeneous treatment effects. While this approach only permits a partial identification of causal effects, the incorporation of industry, firm, and year fixed-effects in the estimation, alongside the control variables, largely mitigates concerns regarding confounding variables. Through the inclusion of firm fixed-effects, the constituent terms for BRI and political connection are automatically omitted in the estimation process. This omission has no impact on the coefficient estimates for all covariates, including the interaction term, as the effects of the constituent terms are fully captured by the fixed-effects.

Data and Variables

The empirical investigation will be conducted utilizing firm-level panel data spanning from 2008 to 2016.⁶⁴ The data for this study have been procured from two primary sources. Financial data pertaining to companies, encompassing metrics such as total profit and operating cost ratio, have been sourced from the China Stock Market and Accounting Research (CSMAR) database. Additionally, CSMAR provides comprehensive director-level information including directors' political backgrounds. To calculate the firms' level of participation in GVCs, this analysis utilizes the China Commerce Data compiled by the General Administration of Customs of China (GACC). This database provides comprehensive transaction-level information for all Chinese importing and exporting entities, encompassing information on transaction volume, price, destination, among other variables. With this meticulous dataset, the extent of GVC participation for each firm can be systematically quantified. The dataset comprises 1312 Chinese *private* enterprises, totaling 6045 observations.⁶⁵

Response Variable

A firm's degree of GVC participation is regarded as the response variable in this analysis.⁶⁶ Pioneering work by Upward, Wang, and Zheng constructs a measure based on the vertical specialization (VS) index to evaluate a firm's involvement in GVC activities.⁶⁷ Their study, which utilizes import/export data, presents a methodologically sound approach for identifying firms' positioning within global production networks. This methodology has been widely adopted in existing literature examining the factors influencing GVC participation.⁶⁸ A parallel approach is adopted in this study to define the dependent variable for the empirical analysis.

⁶⁴ Chinese customs data after 2016 are unavailable. Nonetheless, this limitation is not expected to adversely affect the causal inference in this study, as the influence of the BRI is anticipated to grow with time. Hence, the focus on the 2008 to 2016 timeframe for this analysis represents a conservative approach. Put simply, should a positive effect of the BRI using this restricted sample, it suggests that the actual impact of the BRI in more recent years could be even more substantial.

⁶⁵ We focus on private instead of public firms in China, as the directors of public firms are in general appointed by the government or the Party, thus there is no variation in political connections for public firms.

⁶⁶ The response variables in this article capture backward GVC participation, as it more accurately reflects China's involvement in the middle and low ends of the value chain, which is the primary focus of cooperation between China and developing countries under the BRI framework. Since a significant portion of the assembly process takes place in China, with components imported from various countries and the final products exported globally, most existing literature on China's GVC participation focuses on backward GVC involvement as well. See Ling Feng, Zhiyuan Li, and Deborah L. Swenson, "The Connection between Imported Intermediate Inputs and Exports: Evidence from Chinese Firms," *Journal of International Economics*, Vol. 101 (2016), pp. 86–101; Yue Lu et al., "Productivity, Financial Constraints, and Firms' Global Value Chain Participation: Evidence from China," *Economic Modelling*, Vol. 73 (2018), pp. 184–94.

⁶⁷ Richard Upward, Zheng Wang, and Jinghai Zheng, "Weighing China's Export Basket: The Domestic Content and Technology Intensity of Chinese Exports," *Journal of Comparative Economics*, Vol. 41, No. 2 (2013), pp. 527–43.

⁶⁸ Yue Hua, Yue Lu, and Ruili Zhao, "Global Value Chain Engagement and Air Pollution: Evidence from Chinese Firms," *Journal of Economic Surveys*, Vol. 36, No. 3 (2022), pp. 708–27.

Generally, empirical researchers utilize the foreign value-added share of exports as a metric for assessing GVC integration. A higher value of this metric indicates a deeper level of GVC involvement. Formally, this metric is computed as follows:

$$GVC = \frac{V^F}{X} = \frac{M^P + X^o \left[\frac{M^o}{D+X^o} \right]}{X} \quad (2)$$

V^F represents the foreign value-added integrated into a firm's exported products. X represents the total exports of the firm, and D represents the domestic sales value. The superscripts P and o are utilized to distinguish between processing trade and ordinary trade, respectively.⁶⁹ M pertains to the imports of a firm. Specifically, M^P captures the inputs imported for processing trade, whereas M^o accounts for the inputs associated with the firm's ordinary trade activities. The term X^o represents the value of the firm's exports resulting from ordinary trading.

To put it in non-technical terms, this measure of GVC embeddedness showcases the proportion of a firm's exported goods or services that include foreign inputs. Essentially, it gauges the degree to which a company relies on international suppliers for its exports. It is noteworthy that this measure distinguishes between processing and ordinary trade. Specifically, it operates under the assumption that the import value in processing trade wholly contributes to the value of exported goods, whereas for ordinary trade, the import value is proportionally allocated to both exported products and those sold domestically.

Nonetheless, the assumption underlying Formula 2 that all imported goods serve as intermediate inputs may not hold true, as some imported goods actually function as final products intended for domestic sales. Therefore, Upward, Wang, and Zheng propose an alternative measure of GVC participation as outlined below:⁷⁰

$$GVC_{\text{measured by BEC product codes}} = \frac{V^F}{X} = \frac{M^P + X^o \left[\frac{M_m^o}{D+X^o} \right]}{X} \quad (3)$$

Formula 3 used to calculate the GVC participation measure is the same as in Formula 2, except that total inputs related to a firm's ordinary trade, M^o , is now replaced by M_m^o , which stands for imported intermediate goods in ordinary trade. Formula 2 implicitly assumes that enterprises import products entirely for reproduction, implying that all imported products are intermediate goods. This assumption holds validity for processing trade imports; however, for ordinary trade imports, a portion of imported products are directly marketed to the domestic sector as final goods rather than utilized as inputs for further production. Conversely, Formula 3 enables the identification and exclusion of consumer goods and capital goods within imported products in ordinary trade, yielding a more precise calculation of imported intermediate goods. The identification and exclusion of these products executed through aligning BEC codes with HS codes. Therefore, adhering to the conventional practice in the literature, this indicator is named as $GVC_{\text{measured by BEC product codes}}$.

Finally, while Formula 3 relaxes the assumption regarding the utilization of imported goods in ordinary trade, it has not yet factored in the involvement of intermediary traders. Hence, in line with the established practice in scholarly discourse, this study develops an alternative measure of GVC embeddedness in Formula 4:

$$GVC_{\text{measured by intermediary traders}} = \frac{V_a^F}{X} = \frac{M_a^P + X^o \left[\frac{M_{am}^o}{D+X^o} \right]}{X} \quad (4)$$

⁶⁹ Processing trade refers to the import of raw materials and components that are assembled or processed and then re-exported. Ordinary trade involves the import of goods that are not processed but sold directly in the domestic market or re-exported.

⁷⁰ Upward, Wang, and Zheng, "Weighing China's Export Basket," pp. 527–43.

In Formula 4, the variable V_a^F denotes the actual foreign value-added incorporated in a firm's exports. M_a^P denotes the actual imported inputs for processing trade by the firm, and M_{am}^O signifies the actual imported value of intermediate goods utilized in ordinary trade. By integrating inputs provided by intermediary firms, the imports for both processing and ordinary trade better reflect the firm's real GVC engagement.

The $GVC_{measured\ by\ intermediary\ traders}$ index, computed according to Formula 4, is regarded as the most accurate indicator of firms' engagement in GVCs. It avoids certain key constraints of prior measurement methodologies. Notably, factors such as policy regulations and firm size may lead companies to engage in importing and exporting indirectly via intermediaries rather than handling these activities directly. By acknowledging the pivotal role of intermediary traders in facilitating these transactions, the approach outlined in Formula 4 offers a more authentic depiction of an individual firm's integration into GVCs. Thus, it stands as the primary response variable in this analysis. The $GVC_{measured\ by\ BEC\ product\ codes}$ index, as represented in Formula 3, is also widely used as a measure for firms' actual GVC status, due to the fact that it can also capture the general trend in GVC participation. To ensure the robustness of the findings, the following analysis will use $GVC_{measured\ by\ intermediary\ traders}$ as the primary outcome variable given its greater accuracy, and use $GVC_{measured\ by\ BEC\ product\ codes}$ as a supplementary measure for robustness checks.

Explanatory Variable

The pivotal explanatory variable in estimation is the interaction term between firms' board political connections and a time dummy denoting the years during which the BRI is operational, denoted as $BRI * PC$. Specifically: (1) The board's political connection (PC) is measured following Wu et al.⁷¹ and Guo et al.⁷² It assumes a value of 1 if the firm's chairperson or general manager holds/held a position within the central government agencies, encompassing administrative branches, courts, procuratorates, or serves/served as a deputy to People's Congress, or as a member of the Committee of Chinese People's Political Consultative Conference, at any levels, and 0 otherwise. (2) Since the BRI was announced in 2013, the time dummy BRI is coded as 1 for 2013–16, representing the post-treatment period, and 0 for 2008–12, representing the pre-treatment period. (3) The coefficient on the interaction term captures how political connections influence the effect of BRI on GVC participation. A positive and significant coefficient would suggest that political connections bolster firms' capacity to utilize the BRI as a mechanism for contract enforcement, thereby fostering greater engagement in GVCs.

While there is a variation in the joining time of BRI partners, the year 2013 remains a viable threshold for these countries, and for Chinese firms that aspire to integrate into the GVCs. Notably, several countries had already displayed keen interest in the BRI shortly following its announcement in 2013.⁷³ More importantly, some Chinese companies also anticipated the potential benefits of the BRI and began to enhance their GVC participation

⁷¹ Wenfeng Wu et al., "Political Connections, Tax Benefits and Firm Performance: Evidence from China," *Journal of Accounting and Public Policy*, Vol. 31, No. 3 (2012), pp. 277–300.

⁷² Guangyuan Guo et al., "Political Connection, Contract Intensity, and OFDI: Evidence from China," *Journal of Economic Surveys*, Vol. 36, No. 3 (2022), pp. 534–57.

⁷³ Heping He, "Yidaiyilu Yu Zhongfei Hezuo: Jingzhun Duijie Gaozhiliang Fazhan" ("The Belt and Road Initiative and China-Africa Cooperation: Precision Alignment and High-Quality Development"), *Renmingwang (People's Daily Online)*, 2 July 2019, <http://world.people.com.cn/n1/2019/0702/c1002-31209206.html>; Paulo Afonso B. Duarte, Francisco José B.S. Leandro, and Enrique Martínez Galán, eds., *The Palgrave Handbook of Globalization with Chinese Characteristics: The Case of the Belt and Road Initiative* (Cham: Springer Nature, 2023); Yu Lou, "Zhongguo Yu Lamei Gongjian 'Yidaiyilu': Jinzhan, Tiaozhan Ji Qianjing Zhanwang" ("The Belt and Road Initiative and China-Latin America Cooperation: Progress, Challenges, and Prospects"), *Guoji Hezuo Zhongxin (International Cooperation Center)*, 17 June 2024, <https://www.icc.org.cn/publications/policies/2307.html>.

prior to its official implementation in many countries.⁷⁴ For example, the Great Wall Motor Company Limited expanded its overseas operations in 2013, particularly in the Eurasian and South African regions. This strategic expansion aimed at deeper integration into GVCs and was spurred by the anticipated support that could be extended through the newly established BRI.⁷⁵ This incentive for Chinese firms is similar to that of stock market investors who begin to invest before the announcement of an interest rate cut when they anticipate one. Therefore, while the 2013 threshold dummy may not fully capture the variation in BRI participation, it serves as a reasonable proxy for the impact of BRI, given its tangible effects on BRI partners and Chinese firms shortly after its declaration in 2013.

Control Variables

Drawing upon the scholarly insights of Wu et al.,⁷⁶ Menozzi, Gutiérrez Urriaga, and Vannoni,⁷⁷ and Deng, Yan, and Essen,⁷⁸ the control variables included in the estimation include firm-level characteristics and performance indicators that can significantly impact a firm's internationalization strategy. Specifically, the regression model incorporates variables such as the operating cycle, total profits, operating costs ratio, return on assets, total revenue, board size, equity turnover, working capital turnover rate, and industry classification on the right-hand side.

Financial variables are integrated to encapsulate various dimensions of a firm's financial health, resources, and efficiency. Total profits and return on assets are included to control for a firm's profitability and overall financial performance, as these factors can influence its capacity to engage in GVC activities. The working capital turnover rate, defined as the ratio of net sales to working capital, is incorporated to account for a firm's liquidity and short-term financial health, which in turn can impact its involvement in GVC activities. Additionally, the operating costs ratio, calculated as the ratio of operating costs to net sales, is included to account for a firm's cost structure and efficiency. The operating cycle, representing the average number of days needed to convert raw materials into cash from sales, is included to capture a firm's operational effectiveness.

Furthermore, variables related to firm size and corporate governance are also controlled for in the analysis. Total revenue, as a measure of firm size, is included to capture the potential effects of economies of scale on a firm's GVC participation. Equity turnover, calculated as the ratio of net sales to total shareholders' equity, is incorporated to assess a firm's efficiency in generating revenue utilizing investors' equity. Lastly, board size, quantified by the total number of directors on a firm's board, is incorporated to consider the potential influence of corporate governance on internationalization strategies.

To address the potential presence of unobservable confounding factors and ensure the robustness of the findings, this study adopts a comprehensive set of fixed-effects. First, year-fixed effects are included to control for any temporary shocks that may affect all firms in a

⁷⁴ Luiza Kostecka-Tomaszewska and Monika Krukowska, "China's Economic Statecraft: The Role of the Belt and Road Initiative," *European Research Studies Journal*, Vol. 24, No. 2 (2021), pp. 1019–36.

⁷⁵ Chairman Wei Jianjun of Great Wall Motor Company Limited has formal political connections, who was a deputy for the 9th and 10th sessions of the Hebei Provincial People's Congress. This aligns with our definition of political connection. See China Association for Public Companies, "Changcheng Qiche Shiru 'Yidaiyilu' Guoji Kuaichedao" ("Great Wall Motors: Riding the Fast Track of the Belt and Road Initiative"), *China Association for Public Companies*, 19 September 2022, https://www.capco.org.cn/gjhz/ydyl/202209/20220919f_2022091909403100016758393071574425.html; China Automotive Forum Organizing Committee, "Zhangminquan: Changcheng Qiche Haiwai FaZhan Zhilu" ("Zhang Minquan: Great Wall Motors' Overseas Development Path"), *Qiche Zongheng (Auto Review)*, 12 June 2019, https://www.autoreview.com.cn/m/show_article-1176.html.

⁷⁶ Wu et al., "Political Connections, Tax Benefits and Firm Performance," pp. 277–300.

⁷⁷ Anna Menozzi, Maria Gutiérrez Urriaga, and Davide Vannoni, "Board Composition, Political Connections, and Performance in State-Owned Enterprises," *Industrial and Corporate Change*, Vol. 21, No. 3 (2012), pp. 671–98.

⁷⁸ Ziliang Deng, Jiayan Yan, and Marc van Essen, "Heterogeneity of Political Connections and Outward Foreign Direct Investment," *International Business Review*, Vol. 27, No. 4 (2018), pp. 893–903.

Table 1. Summary Statistics of Variables

Variable	Observations	Mean	Std	Min	Max
<i>GVC</i> measured by intermediary traders	6045	0.1912853	0.3562225	0	1
<i>GVC</i> measured by BEC production codes	6045	0.1842553	0.3512009	0	1
BRI	6045	0.5546733	0.497043	0	1
PC	6045	0.4315964	0.4953398	0	1
Operating cycle	6045	0.2547426	0.2047266	0.0031596	4.101538
Total profit	6045	0.0201285	0.0515083	-0.4925683	1.248306
Operating costs ratio	6045	0.7194719	0.1491957	0.037026	1.53861
Return on assets	6045	0.0565355	0.0762697	-1.13457	2.933009
Total revenue	6045	2.472233	5.942725	0.020616	103.47
Board size	6045	9.558809	2.175169	4	23
Equity turnover	6033	1.250676	3.297969	0.055787	198.3049
Working capital turnover ratio	5402	0.0086531	0.1647662	0.0000659	8.529344
Industry classification	6045	3.372705	1.785267	1	17

given year, such as macroeconomic fluctuations or alterations in international trade policies. Second, firm fixed-effects are incorporated to account for time-invariant firm characteristics, such as a firm's geographical location, that may influence its ability to participate in GVCs. Finally, industry-fixed effects are embedded in all model specifications to control for industry-specific factors that could influence a firm's internationalization strategy. This approach guarantees that comparisons are made within the same industry, thereby mitigating the impact of technological intensity, regulatory frameworks, and other industry-specific factors on firm behavior.

The inclusion of these control variables and fixed-effects helps to isolate the causal impact of the BRI on firms' GVC participation by addressing a broad spectrum of potential confounding factors. This approach strengthens the internal validity of the study and enables a more precise estimation of the moderating effect of political connections. The summary statistics of the variables are detailed in Table 1. For comprehensive definitions and data sources of all variables utilized in the empirical analysis, please refer to the Appendix. The replication data and codes for the empirical analysis are available at Harvard Dataverse, <https://doi.org/10.7910/DVN/EVIQCK>.

Empirical Results

In this section, we will examine whether a firm's political connections can moderate the relationship between BRI implementation and GVC participation. The first subsection will present the baseline outcomes of the multiplicative interaction models. Subsequently, placebo tests and robustness checks using an alternative GVC measure further confirm the main results. Finally, the last subsection explores the mechanism of moderation by differentiating political connections based on the official ranking of the connected directors.

Baseline Analysis

Multiplicative interaction models are estimated to examine the impact of BRI on GVC participation, with a focus on how the effect of BRI is moderated by the status of political connections. The baseline results are presented in Figure 1, which plots the coefficient estimates and their confidence intervals based on a model with the full set of controls and year, firm, and industry fixed-effects.⁷⁹ The response variable in Figure 1 is

⁷⁹ Note that the constituent terms of BRI and political connection are absorbed in the year and firm-fixed effects, respectively.

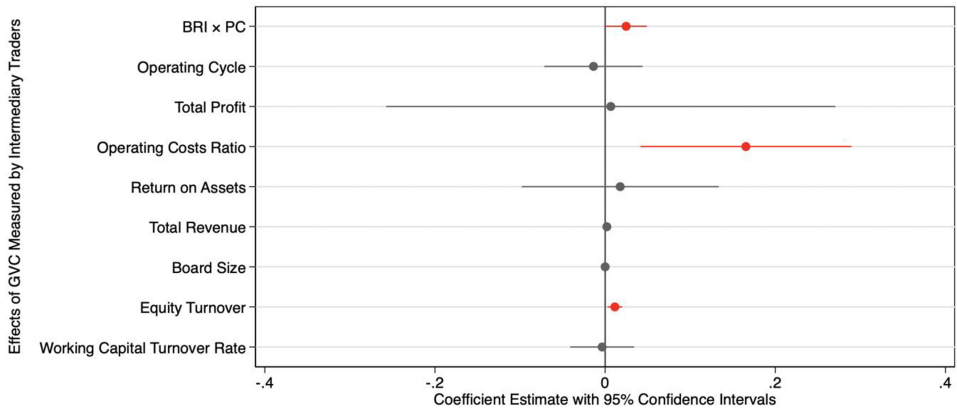


Fig. 1. The Effect of BRI on GVC Moderated by Political Connections

Notes: The figure plots the coefficients and 95% confidence intervals for Model 9, [Supplementary Table SA.4](#) in the Appendix.

$GVC_{measured\ by\ intermediary\ traders}$, which offers a more precise evaluation of a firm's GVC integration. Of particular interest is the interaction term, which captures the varying effect of BRI on GVC participation for firms with and without political connections. Despite the inclusion of all control variables in the model specification, as displayed in [Figure 1](#), the interaction term remains statistically significant at 95% level, with a p -value of 0.049. This outcome suggests that even after adjusting for a wide array of firm-level attributes and fixed effects, the moderating role of political connections in the relationship between BRI and GVC participation persists. The detailed estimation results are presented in [Supplementary Table SA.4](#) of the Appendix.⁸⁰

Among the control variables, both operating costs ratio and equity turnover exhibit statistical significance, indicating that firms with higher operating costs relative to their net sales, as well as those with greater equity turnover, are more inclined to participate in GVCs. These findings align with the efficiency-seeking motive of firms engaging in GVCs.⁸¹ Most firm-level covariates, however, remain statistically insignificant in the baseline models. The insignificance of these variables is consistent with the existing literature, suggesting that not all facets of firm-level financial performance and corporate governance serve as the primary drivers of GVC participation.⁸²

In the baseline analysis, the standard errors are not clustered by firm as the comprehensive inclusion of year, firm, and industry fixed-effects is designed to control for a wide range

⁸⁰ The substantive magnitude of effect also remains stable as we progressively introduce control variables, suggesting that the likelihood of bias due to omitted variables is minimal.

⁸¹ Liena Kano, Eric W.K. Tsang, and Henry Wai-chung Yeung, "Global Value Chains: A Review of the Multi-Disciplinary Literature," *Journal of International Business Studies*, Vol. 51, No. 4 (2020), pp. 577–622.

⁸² Deng, Yan, and Essen, "Heterogeneity of Political Connections and Outward Foreign Direct Investment," pp. 893–903; Jinlong Wu, Yuanhao Bian, and Junhong Bai, "Global Value Chain Upgrading Effect of Foreign Capital Withdrawal: Evidence from Chinese Firms," *Journal of Asian Economics*, Vol. 89 (2023), pp. 101672. <https://doi.org/10.1016/j.asieco.2023.101672>; Haiyue Liu, et al. "Global Value Chain Embeddedness and Chinese Firms' Cross-Border Mergers & Acquisitions," *Structural Change and Economic Dynamics*, Vol. 68 (2024), pp. 393–411; Suling Feng et al., "Does Digital Transformation Promote Global Value Chain Upgrading? Evidence from Chinese Manufacturing Firms," *Economic Modelling*, Vol. 139 (2024), p. 106810. <https://doi.org/10.1016/j.econmod.2024.106810>; Wenxiao Wang, Shandre Thangavelu, and Faqin Lin, "Global Value Chains, Firms, and Wage Inequality: Evidence from China," *China Economic Review*, Vol. 66 (2021), p. 101585, <https://doi.org/10.1016/j.chieco.2021.101585>; Yue Lu et al., "Does Global Value Chain Engagement Improve Firms' Wages: Evidence from China," *The World Economy*, Vol. 42, No. 10 (2019), pp. 3065–85.

of potential unobservable confounders that could be correlated within groups over time. Estimation results with standard errors clustered by firm are presented in the Appendix, with results remaining largely unchanged albeit at a slightly reduced level of statistical significance. To address the potential concern for time-varying unobservable confounders, we include year trends in the model specifications. The findings, presented in the Appendix, closely mirror our baseline findings.

Placebo Test

To address the potential concern that the 2013 year dummy captures the effects of shocks unrelated to the BRI, this study employs a placebo test. We hypothetically consider the scenario where the BRI was implemented in alternative years, specifically 2011, 2012, 2014, 2015, and 2016, to assess the impact of these placebo treatments on GVC participation. The placebo test involves re-estimating the baseline models with these hypothetical implementation years. If the observed influence of the BRI on GVC participation in the initial analysis is indeed attributed to the actual policy enactment in 2013, one would anticipate the coefficients of the interaction terms to be statistically insignificant in the placebo test results.

The results of this placebo test are detailed in [Table 2](#), affirming our expectations. Across all models, the coefficients of the interaction terms exhibit statistical insignificance at conventional levels, with p -values greater than 0.10. This finding suggests that the significant impact observed in the baseline analysis is unlikely to result from some extraneous factors, but rather a genuine effect of the BRI policy implemented in 2013. The placebo test provides strong evidence supporting our hypothesis.

Robustness Check

To further fortify the robustness of the findings, the subsequent analysis incorporates an alternative measure of GVC participation based on the BEC codes as the response variable. This variable can capture the general trend in GVC participation for a firm. [Figure 2](#) presents the coefficient estimates and their corresponding 95% confidence intervals for the interaction term and other covariates utilizing this alternative measure of GVC participation. The results depicted in [Figure 2](#) underscore that the baseline finding is robust when utilizing this alternative response variable. The full results are presented in [Supplementary Table SA.8](#) of the Appendix.

Exploration of Mechanism

Moving beyond a binary measure of political connections, we examine the specific governmental experiences that drive the moderating effects. We categorize the highest political positions held by board directors into four different levels, including: (1) branch-level cadre (*Ke Ji*), (2) section chief cadre (*Chu Ji*), (3) hall level cadre (*Ting Ji*), (4) ministerial cadre (*Bu Ji*), and creates four binary variables to denote their respective statuses. The hierarchy ranges from the lowest branch level to the highest ministerial level, with firms lacking political connections serving as the base category for comparison. Each of these categories is interacted with the BRI variable.

The estimation results are detailed in [Table 3](#). Across all four models, the interaction term involving BRI and section chief level (*Chu Ji*) experience emerges as positive and statistically significant at the 95% confidence level. The result suggests that the section chief experience is most influential in harnessing the effect of BRI for GVC expansion. It is imperative to highlight that in this study, political connections pertain to experience within the central government, where section chiefs (*Chu Ji*) wield considerable power and influence surpassing that of their counterparts at the local level. This discovery resonates with the phenomenon known as “section chiefs rule the country,” commonly observed in East Asian

Table 2. The Effect of BRI on GVC Moderated by Political Connections, Placebo Test

Response variable	(1) GVC inter- mediary traders	(2) GVC inter- mediary traders	(3) GVC inter- mediary traders	(4) GVC inter- mediary traders	(5) GVC inter- mediary traders
BRI (2011) *PC	0.0191 (0.0156)				
BRI (2012) *PC		0.0210 (0.0133)			
BRI (2014) *PC			0.0193 (0.0130)		
BRI (2015) *PC				0.0170 (0.0152)	
BRI (2016) *PC					0.0191 (0.0181)
Constant	0.0616 (0.1808)	0.0532 (0.1807)	0.0574 (0.1807)	0.0596 (0.1807)	0.0594 (0.1807)
Control	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes
Entity fixed effect	Yes	Yes	Yes	Yes	Yes
No. of observations	5402	5402	5402	5402	5402
No. of firms	1260	1260	1260	1260	1260
R ²	0.0359	0.0361	0.0361	0.0358	0.0358

The table displays OLS estimates and standard errors (in parentheses). Two-tail tests. All control variables are included in estimation but not reported here. See the Appendix for the full results.

* $p < 0.10$,
** $p < 0.05$,
*** $p < 0.01$.

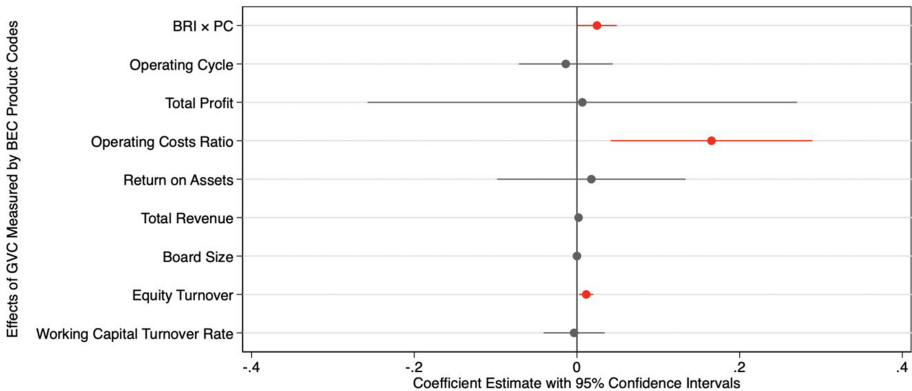


Fig. 2. The Effect of BRI on GVC Moderated by Political Connections, Robustness Checks

Notes: The figure plots the coefficients and 95% confidence intervals for Model 9, [Supplementary Table SA.8](#) in the Appendix.

developmental states. As mid-level officials, section chiefs hold substantial power within the Chinese bureaucratic framework, as they are entrusted with designing and executing national policies at the grassroots level, thereby significantly shaping policy outcomes. Simply put, section chiefs wield significant influence within the bureaucratic system, even in comparison to their superiors.

Table 3. The Effect of BRI on GVC Moderated by Various Levels of Political Connection

Response variable	(6) GVC inter- mediary traders	(7) GVC inter- mediary traders	(8) GVC BEC codes	(9) GVC BEC codes
BRI*PC (<i>Ke Ji</i>)	0.0268 (0.0379)	0.0231 (0.0417)	0.0289 (0.0370)	0.0274 (0.0408)
BRI*PC (<i>Chu Ji</i>)	0.0579 ^{**} (0.0231)	0.0589 ^{**} (0.0242)	0.0483 ^{**} (0.0226)	0.0492 ^{**} (0.0237)
BRI*PC (<i>Ting Ji</i>)	0.0117 (0.0170)	0.0134 (0.0176)	0.0097 (0.0167)	0.0122 (0.0172)
BRI*PC (<i>Bu Ji</i>)	0.0243 (0.0156)	0.0201 (0.0163)	0.0270 [*] (0.0152)	0.0231 (0.0159)
Constant	0.0121 (0.1183)	0.0514 (0.1807)	0.0018 (0.1156)	0.0548 (0.1768)
Control	No	Yes	No	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes
Year Fixed effect	Yes	Yes	Yes	Yes
Entity Fixed Effect	Yes	Yes	Yes	Yes
<i>No. of observations</i>	6045	5402	6045	5402
<i>No. of firms</i>	1312	1260	1312	1260
R ²	0.0346	0.0375	0.0342	0.0374

The table displays OLS estimates and standard errors (in parentheses). Two-tailed tests.

* $p < 0.10$,

** $p < 0.05$,

*** $p < 0.01$.

There is limited evidence suggesting that ministerial level (*Bu Ji*) experiences also demonstrate a positive moderating effect, albeit weaker than that of section chief experiences. As the top echelon with decision-making authority, ministerial officials possess the greatest leverage in their policy domain. Therefore, board directors who have ministerial experience may enhance their firms' capacity to capitalize on the strategic prospects presented by the BRI as well.

The case of China Fangda Group Co., Ltd, and its chairman, Mr Xiong Jianming, provides a compelling illustration of the substantial impact that politically connected directors can have in assisting private enterprises to navigate intricate international markets, resolve contractual challenges, and surmount legal hurdles. Xiong Jianming's previous experience as a former section chief (*Chu Ji*) official who previously served as the Director of the Office of the Shekou District People's Government Management Bureau of Shenzhen Municipality and was a deputy of the 13th National People's Congress. Following his departure from governmental duties in 1991, Xiong Jianming assumed leadership at China Fangda Group Co., Ltd, steering the company towards notable success and rapid expansion. Under his leadership, China Fangda Group emerged as China's leading new material high-tech enterprise, pioneering industry advancements and garnering prestigious accolades.

Strategically positioning China Fangda Group at the forefront of the BRI, Xiong Jianming actively engaged in projects along the Initiative's route. Through his influence in the government, Xiong Jianming successfully secured contracts for his company in various Belt and Road countries, including Qatar, Mongolia, Angola, and Bangladesh. These projects spanned diverse sectors such as hotels, airports, office buildings, and metro platform door systems.⁸³ Specifically, Xiong Jianming demonstrated his skill in securing government support for contract enforcement by collaborating with the Dalian Arbitration Commission and

⁸³ China Association for Public Companies, "Fangda Jituan: Zhuli Gaozhiliang Gongjian Yidayilu" ("Fangda Group: Assisting in the High-quality Construction of the Belt and Road Initiative"), 21 September 2022, https://www.capco.org.cn/gjhz/ydy/202209/20220921/j_2022092113453000016758393070414415.html.

the Dalian International Arbitration Court. This partnership effectively safeguarded China Fangda Group's interests in the international market through government-backed arbitration mechanisms.⁸⁴ Politically connected directors by leveraging their political influence and connection, these executives obtain invaluable support to their companies, empowering them to secure contracts, protect their interests, and thrive within the GVC.

Conclusion

This study delves into the impact of the BRI on Chinese companies' integration into GVCs. The findings reveal that politically connected firms are more inclined than their non-connected counterparts to enhance their participation in GVCs following the BRI's implementation in 2013. The BRI, serving as a contracting institution with both semi-formal and informal mechanisms, offers a reliable framework for enforcing contracts in cross-border transactions. These results shed light on how the BRI, as a state-driven initiative, can facilitate a firm's internationalization, with varying effects contingent upon the level of political connection. Notably, such heterogeneity is largely driven by a director's experience as a mid-level government official.

This study not only contributes to the understanding of contract enforcement in GVC participation but also enriches existing literature in multiple dimensions. First, it explores how a state-led economic endeavor like the BRI, which focuses on infrastructure investments, can indirectly promote international transactions, providing fresh insights into the BRI's impact. Second, it underscores the crucial role of political connections in shaping the BRI's effects, revealing the nuanced benefits of this specialized contracting institution. By elucidating how the BRI influences GVC integration for politically connected firms, this research advances comprehension of the origins, accessibility, and consequences of contracting institutions in the global economy.

Moreover, the study aligns with the broader literature on the role of international initiatives in promoting firms' participation in GVCs. Similar to the BRI, other regional economic strategies and initiatives, such as the Pacific Alliance (comprising Chile, Colombia, Mexico, and Peru) and Indo-Pacific Strategy, have been found to encourage firms to engage more actively in GVCs by fostering an environment conducive to cross-border transactions and investment. These initiatives emphasize progressive regulations, private sector involvement, and digital connectivity, which are crucial factors in facilitating GVC participation.⁸⁵ Nevertheless, the BRI distinguishes itself through its scale and emphasis on contract enforcement, which indirectly bolsters economic integration by reducing transaction costs and fostering trust. By spotlighting the contracting aspect of the BRI, this study contributes to a more holistic grasp of how state-led strategies shape the global economy and impact firms' internationalization endeavors.

A limitation of this research lies in the exclusive focus on firm directors with political ties to the central, rather than local, government. Consequently, the study does not explore the potential impact of political connections with local government entities on GVC participation. Nevertheless, we have reasons to believe that ties with the central government are more relevant than those with local governments. Given that the BRI is a state-led initiative, firms connected to the central government are better positioned to align their interests

⁸⁴ Dalian International Arbitration Court, "Disanjie Gongbei Qiye Fazhi Luntan Chenggong Juban" ("The 3rd Northeast Enterprise Rule of Law Forum Was Successfully Held"), 26 May 2024, <https://www.diac.org.cn/News/Content.aspx?NewsID=1772>.

⁸⁵ Iza Lejárraga, "The Pacific Alliance as an Instrument for Insertion into Global Value Chains: Lessons from a Progressive and Pragmatic Approach," in Pierre Sauvé, P. R. Lazo, and J. Alvarez Zarate, eds., *The Pacific Alliance in a World of Preferential Trade Agreements* (Switzerland: Springer International Publishing AG, 2019), pp. 83–98; Masataka Fujita, "Can ASEAN Retain Centrality in Indo-Pacific Region?—From a GVC Point of View," *Journal of Contemporary East Asia Studies*, Vol. 10, No. 1 (2021), pp. 108–22.

with national goals and gain access to the resources and support needed for overseas expansion. On the other hand, local governments may have less capacity, power, and resources to support firms' international activities under the BRI framework. Future studies could delve into the influence of connections with local governments on a firm's internationalization strategy.

Political connections could be a double-edged sword for MNCs. The findings suggest that political affiliations potentially facilitate deeper integration of Chinese firms into GVCs through the BRI's contract assurance mechanisms. Politically connected enterprises can leverage state-led infrastructure initiatives to showcase government backing and deter potential non-compliance by foreign partners. However, the benefits of the BRI in facilitating cross-border economic transactions are not universally applicable but rather limited to specific firms. Consequently, companies may be incentivized to prioritize relationship-building over fostering competitive advantages, potentially resulting in insufficient investments in innovation.⁸⁶ Subsequent research could explore how reliance on political connections impacts a firm's long-term competitiveness within GVCs.

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Supplementary data

[Supplementary data](#) is available at *The Chinese Journal of International Politics* online.

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⁸⁶ Krueger, "The Political Economy of the Rent-seeking Society," pp. 291–303.