

A multidisciplinary analysis of the Belt and Road Initiative

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Abstract

The paper sheds light on and critically analyses the Belt and Road Initiative, the most ambitious financial and infrastructural plan China is promoting, *inter alia*, to reinforce its geopolitical role in the new global governance. After an introductory section on the evolution of the Chinese economy in the past decades, section 2 describes the background of the Initiative, with a focus on infrastructural connectivity, promotion of industrialisation in the involved areas, and collection of the capitals to be allocated for its projects. Section 3 deals with the main challenges and emerging problems, emphasising the geopolitical reactions of China's neighbouring countries to the Initiative, the delicate issues of its financial sustainability in the long term, the connected macroeconomic policies, and the evolution path of the Renminbi toward a wider internationalisation, in addition to comments on the infrastructural development. Several conclusive remarks end the work.

Keywords: Silk Road Economic Belt, Maritime Silk Road of the XXI Century, Belt and Road Initiative, Eurasian infrastructural connectivity, global governance, industrialisation, Asian Infrastructure Investment Bank.

1. Introduction

1.1 The Rise of the New China

After the Reform and Opening-Up Policy promoted by Chairman Deng Xiaoping² in order to gradually establish a Socialist Market Economy with Chinese characteristics,³

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Based on the reflections developed in this paper, the author wrote two articles respectively on Italy's involvement in the BRI published on the online version of *Chinadaily* and on the methodology applied in this paper as forthcoming publication in the Research Insight section of THU - SABRI Magazine. For the former see Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI." *Chinadaily*, September 10, 2018, accessed October 30, 2018. <http://www.chinadaily.com.cn/a/201809/10/WS5b960d30a31033b4f465530a.html>. For the latter see Natan Colombo, "A Multidisciplinary Approach to better understand the Belt and Road Initiative," *SABRI Magazine* 1, (forthcoming December 2018).

This paper is written in memory of the author's father, Paolo A. R. S. Colombo, prematurely passed away, with deep affection and great respect.

² Deng Xiaoping (邓小平) (1904-1997) was a predominant member of the Communist Party of China (CPC) from 1978 until 1992, when he eventually retired. He was the Paramount Leader of China from 1978 until 1989, when he decided to resign from Chairman of the Central Military Commission. During the Cultural Revolution, he was purged twice but, after Chairman Mao Zedong's death, he succeeded in isolating Hua Guofeng and the Maoist faction of the CPC and in promoting structural reforms which eventually led to the fast economic development of the Country. As

foreign companies starting to operate on the Chinese market benefited from a substantial improvement in their financial ratios⁴ and, simultaneously, large amounts of foreign investments began to target Chinese companies. The growth of the internal consumptions, the increasing relationships with foreign business partners, and the investments' diversification in particular on the financial system resulted in an impressive expansion of the Chinese economy.

The Administrations of President Jiang Zemin⁵ and President Hu Jintao,⁶ characterised by the presence of a high number of so-called technocrats, marked a period of centralised leadership, general political stability, and fast macroeconomic growth.⁷ President Jiang was very active in both the domestic and international stages. Domestically, he put forward his doctrine of the Three Represents,⁸ while he promoted a new strong image of China internationally, spending a lot of energies to restore economic stability after the Tiananmen Incidents of 1989. To break the consequent

a very pragmatic leader, he is universally praised by the Chinese People for the economic reforms (the Reform and Opening-Up Policy, *Gaige kaifang*, 改革开放) and for having put the bases for the peaceful handovers of Hong Kong and Macau. According to the Chinese Constitution, his Theory is integral part of the Chinese ideological thoughts.

³ The current economic system adopted in the People's Republic of China (PRC) is the Socialist Market Economy with Chinese characteristics (*Shehuizhuyi Shichang Jingji*, 社会主义市场经济), where the State-owned Enterprises still play a predominant role coexisting with other (experimental) forms of open or mixed market economy.

Article 6, paragraph 2 of the 1982 Chinese Constitution refers directly to it by stating:

«*In the primary stage of socialism, the State upholds the basic economic system in which the public ownership is dominant and diverse forms of ownership develop side by side and keeps to the distribution system in which distribution according to work is dominant and diverse modes of distribution coexist.*»

Zhonghua Renmin Gongheguo Xianfa (中华人民共和国宪法) [Constitution of the People's Republic of China] (adopted at the 5th Session of the 5th National People's Congress and promulgated for implementation by the Announcement of the National People's Congress Dec. 4, 1982 and amended Mar. 14, 2004) (PRC). Full English translation provided by the National People's Congress available at http://www.npc.gov.cn/englishnpc/Law/2007-12/05/content_1381903.htm (Accessed July 10, 2018).

⁴ See Gregory C. Chow, "Economic Reform and Growth in China," *Annals of Economics and Finance* 5, no. 1 (2004): 127–152. See also Clem Tisdell, "Thirty Years of Economic Reform and Openness in China: Retrospect and Prospect," *Economic Theory, Applications and Issues (Working Paper)* 51, (2008): 1-19.

⁵ Jiang Zemin (江泽民, born in 1926) is a retired CPC's Leader, exponent of the "Third generation" of the Chinese Leadership, who covered the highest positions in the Country's establishment between the '90s and the early 2000s. He was chosen to replace Zhao Ziyang, because he showed a more pragmatic and stronger attitude towards the Tiananmen Incidents. During his Administrations, China experienced a strong infrastructural and economic development, due to the positive effects of Chairman Deng Xiaoping's reforms. He is still highly respected and very influential inside the Party.

For a more comprehensive overview of President Jiang's Administrations see Willy Wo-Lap Lam, *The Era of Jiang Zemin* (New York: Prentice Hall, 1999).

⁶ Hu Jintao (胡锦涛, born in 1942) was Paramount Leader of China from 2002 to 2012. He is now retired and was the representative of the so-called technocrats, since, due to his age, he does not have direct revolutionary experience. During his Administrations, China experienced a stable and strong increase in the GDP. He was conservative in internal policy, while in a foreign policy perspective he consolidated China's soft power and increased its influence over African and Latin-American developing countries. He is remembered to have put forward the doctrine of "Scientific Outlook on Development" and "Socialist Harmonious Society."

⁷ For a more comprehensive overview on the Chinese economic transition during the last decades see Barry J. Naughton, *The Chinese Economy: Transition and Growth* (Cambridge: The MIT Press, 2007).

⁸ The important thought of Three Represents ("*San ge daibiao*" *zhongyao sixiang*, “三个代表”重要思想) is the main socio-political theory promoted by President Jiang during his leadership. Its official statement provides that the CPC should represent the advanced social productive forces (economic production), an advanced culture (cultural development), and the interests of the overwhelming majority (political consensus) of the Chinese People, each point expressed by one of the Three Represents. This policy opens up the CPC to "the overwhelming majority of the Chinese people," including but not limited to businessmen and managers.

international trade isolation, he decided to increase the amount of Foreign Direct Investments (FDIs) and to undertake a wide process of modernisation of the Chinese State-owned Enterprises (SOEs). In order to face the new changes occurred in the global governance with the end of the Cold War and the rise of the sole hegemony of the USA, he introduced the "Neighbouring Diplomacy" doctrine (*Zhoubian waijiao*, 周边外交). The peaceful handovers of Hong Kong and Macau, the implementation of the "One Country, Two Systems" doctrine (*Yiguo liangzhi*, 一国两制), and the eventual establishment of the Hong Kong SAR and the Macau SAR, respectively in 1997 and 1999, were considered political and diplomatic masterpieces of the Chinese Government and lighted up a strong sense of unity and proud in all Chinese People. During this period, China started being perceived as "Responsible superpower" (*Fuzeren de daguo*, 负责任的大国), due to the new international responsibilities the Country took since the financial crisis which shook the South-Eastern Asia countries in 1997 and 1998.

In 1996, the supranational organisation Shanghai Five was established between China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, extended to Uzbekistan in June 2001 and then officially renamed Shanghai Cooperation Organization (SCO), underlining a major commitment of the Chinese Government in infrastructural projects in the relevant areas of Central Asia. The year 2001 was particularly significant for China, for two main events: the Sino-Russian Treaty of Friendship and Cooperation was signed by President Jiang and President Vladimir Putin⁹ as a mutually beneficial twenty-year strategic treaty; besides, the access of China to the World Trade Organization (WTO) was eventually formalised.

At the beginning of the XXI century, China was internationally recognised as emerging superpower which applied a new attitude and approach toward diplomacy. In fact, China adopted the theory of the "Pacific rising" (*Heping jueqi*, 和平崛起), which emphasised how the political, economic, and military rising of China did not represent a threat for the USA and the global governance in general, but a great opportunity,¹⁰

⁹ Vladimir Vladimirovich Putin (born in 1952) is the current President of the Russian Federation since May 2012. He served as Prime Minister from 1999 to 2000, President from 2000 to 2008, again Prime Minister from 2008 to 2012 and, then, again President until now. He is characterised by a strong charisma and pragmatism and has deeply influenced the Russian economy, society, politics, and foreign diplomacy, since the beginning of the XXI century. For his substantial power, he is considered as a paramount leader of the Russian Federation or at the level of a modern *Tsar*.

¹⁰ For a deeper analysis of these issues see Avery Goldenstein, "The Diplomatic Face of China's Grand Strategy. A Rising Power's Emerging Choice," *The China Quarterly* 168, (2001): 835-864. See also Quansheng Zhao, *Interpreting Chinese Foreign Policy: The Micro-macro Linkage Approach* (Oxford: Oxford University Press, 1996).

translated into the protection of China's national interests and, at the same time, into the safeguarding of peace.

During the Hu-Wen Administrations,¹¹ China became progressively involved in several economic agreements with African countries, in particular of the Eastern part of the Continent. The increase in the Sino-African commercial transactions¹² is the evident result of the crucial need of the Chinese companies for raw materials (in particular, precious raw materials, such as specific minerals and rare earth which traditionally lack in China, but are extremely important for the production of high-tech goods) counterbalanced by the African Governments' need of structural investments in their infrastructures.

Nevertheless, the Chinese companies were not only economically active in the African developing countries but became main actors also on the developed countries' markets and the Chinese participation in the globalisation consequently exposed the Chinese economy to the influences of the global economy. The years of the Hu-Wen Administrations (with specific regard to their second Administration) were characterised by China's fast economic and infrastructural development, evidently highlighted by a significant growth of the Chinese GDP (with an average 8% *per annum*). In 2008, the Summer Olympic Games were held in Beijing and the opening and closing ceremonies represented an opportunity to proudly show to the World the face of the New China, which stood between the most powerful and influential superpowers.¹³

The first years of the Xi-Li Administration¹⁴ were affected by the core problem of guaranteeing a sustainable GDP's growth and the emerging of serious financial

¹¹ The Administrations led by President Hu Jintao and Premier Wen Jiabao. Wen Jiabao (温家宝, born in 1942) served as Premier of the State Council from 2003 to 2013. He was a *protégée* of former Premier Zhu Rongji and he had a direct influence on China's economic development. His policies were addressed to farm areas of the Country, in order to re-establish a balance between the development of urban and rural areas. As Premier, at the beginning of the 2008 Global Financial Crisis, he exercised his constitutional power and suddenly adopted a large stimulus program to help and protect the Chinese economy from financial damages and infections. He is now retired but still respected and influential both domestically and abroad.

¹² For a more comprehensive overview of Sino-African economic relationships and China's strategy towards African developing countries see Joshua Eisenman, "China's Post-Cold War Strategy in Africa: Examining Beijing's Methods and Objectives," in *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, ed. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (New York: M. E. Sharpe, 2007), 29-59. See also Joshua Eisenman, Eric Heginbotham, and Derek Mitchell, eds, *China and the Developing World: Beijing's Strategy for the Twenty-First Century* (New York: M. E. Sharpe, 2007).

¹³ For a more comprehensive overview of the critical importance of the 2008 Beijing Summer Olympic Games for China see Susan Brownell, *Beijing's Games: What the Olympics mean to China* (New York: Rowman & Littlefield Publishers Inc., 2008).

¹⁴ The Administration led by President Xi Jinping and Premier Li Keqiang. Xi Jinping (习近平, born in 1953), the son of Xi Zhongxun (习仲勋, a famous revolutionary), is the current Paramount Leader of China, exponent of the "Fifth generation" and Party's Core Leader. He covered several political positions and served as Hu Jintao's Vice-president from 2008 to 2013. Since he took office, he vigorously promoted an Anti-Corruption Campaign within the Party and the State Establishment, which was positively appreciated by the Chinese People. He is perceived as strongly charismatic leader, active on both the domestic and international stage. He ideologically supported the

criticalities related to the speculations on the Chinese Stock Exchange markets. As for this second issue, the prompt and direct intervention of the Central People's Government (CPG) to avoid any explosion of financial bubbles has been providential especially on the Shanghai Stock Exchange market where rigid measures have been taken to control the shares' prices and the inflation during the so-called "2015-2016 Chinese Stock Market Turbulence." Moreover, the risk of a real estate bubble is still concrete but, again, the CPG has already intervened to control the increase in the houses' and real estates' prices, which, in the largest and most industrialised cities, reached intolerable high levels. Under an international perspective, what emerged from the last years of the Hu-Wen Administrations and the first years of the Xi-Li Administration (which is expected to last until 2022 and beyond) is the debate on the so-called Chinese Model and on the comparison between the Washington Consensus and the Beijing Consensus.¹⁵

1.2 From Investments' Host Country to Investments' Home Country

Chinese companies are currently investing in the equities of foreign companies not only from developing countries but also from developed ones. This path denotes a deeper integration of the Chinese economy into the global economy. In fact, many developed countries' companies started to be targeted by large direct investment of Chinese corporations, which invested in their equities and eventually acquired their full ownership. These business strategic actions allowed the Chinese companies to invest their high levels of liquidity in order to acquire new technologies, particularly important in the current globalised business environment where innovation plays a more and more significant role.

China has an immense domestic market which can drive the internal demand for decades ahead. Many rural areas of the Country are still to be developed (especially in its Central and Western parts) and infrastructural investments were systematically

concept of "Chinese Dream" and, to revitalise the Chinese economy, he implemented the Belt and Road Initiative, which is the main topic of this paper.

Li Keqiang (李**克**强, born in 1955) is the current Premier of the State Council and, together with President Xi, is the most influential representative of the "Fifth generation" of Chinese Leaders. He was active in the Communist Youth League (as former President Hu Jintao) and covered important positions at provincial level, before being appointed Vice-premier during the Hu-Wen Administrations. He focused the State Council's activity on important issues such as macroeconomic and financial sustainable development, green economy, and climate change. He is also a strong supporter of the process of "comprehensively deepening the reforms."

¹⁵ A description of the debate on the so-called Chinese Model and an analysis of different scholars' contributions on the comparison between the Washington Consensus and the Beijing Consensus go far beyond the aim of this paper.

With regard to debate on the Chinese Model, for a negative position on the issue see Susan L. Shirk, *China: Fragile Superpower* (Oxford: Oxford University Press, 2008), while for a positive perspective see Yun-han Chu, "Sources of Regime Legitimacy and the Debate over the Chinese Model," *China Review* 13, no. 1 (2013): 1-42. With regard to the comparison between the Washington Consensus and the Beijing Consensus, see Joshua Cooper Ramo, *The Beijing Consensus: Notes on the New Physics of Chinese Power* (London: The Foreign Policy Centre, 2004), available at <http://fpc.org.uk/fsblob/244.pdf> (Accessed July 10, 2018).

addressed to this purpose, creating large projects where to employ currently unemployed workers. Furthermore, the consolidation process of the Socialist Market Economy with Chinese characteristics is evident from these two main phases: the past preliminary phase when China was merely an investments' host country and the subsequent phase when China became a major investments' home country.

This tendency is clearly observable in the Belt and Road Initiative,¹⁶ currently "the most relevant economic, financial, trade, and infrastructural strategic plan China is promoting in order to revitalise its economic growth,¹⁷ promote new supranational financial institutions, increase Eurasian connectivity, facilitate free flow of goods, capitals, knowledge and people, and strengthen its geopolitical role in the involved regions."¹⁸

This Initiative represents the apex of a thirty-year process which led to the raise of China and it shows direct implications to the Chinese Government's attitude toward the new global order in terms of international legal issues as well as geopolitical and strategic ones. Business relationships between China and the countries involved in the "Belt" (Asian and Eastern Europe countries) and the "Road" (South-eastern Asia countries, the Middle East, and Eastern Africa countries) have been constantly deepening, particularly in terms of interconnectivity projects, financial investments, and bilateral trade agreements.¹⁹ This trend is particularly significant also under a foreign policy perspective. After the first decade of the XXI century, the global governance has been characterised by the evolution of new paradigms, corroborating a significant

¹⁶ In September 2013, President Xi formally proclaimed the institution of the so-called "Belt and Road" strategic plan or, literally, the Silk Road Economic Belt and the Maritime Silk Road of the XXI Century (*Sichou zhi lu jingjidai he ershiyi shiji haishang sichou zhi lu*, 丝绸之路经济带和21世纪海上丝绸之路, hereinafter indicated with the acronym "BRI" or with the generic term "Initiative").

¹⁷ With regard to China's demand function, in accordance with its macroeconomic structure, an increase in specific elements of the GDP can be noticed through the analysis of last years' data (from 2014 until now) and the provisional analysis for the next years. In particular, the effects on the main components of the demand function should be further investigated, firstly by using the Keynesian model and secondly the IS/LM model in a context of open economy.

Given the equation

$$AD = Y = C + I + G + NX$$

it is necessary to observe the variation of each components due to the effects brought about by the currently implemented different policies.

Very briefly, it could be interesting to focus on the hidden variable, which apparently does not show a direct relationship with the implemented policy:

- C (consumption): it could be helpful to examine the psychological effects of the BRI on the Chinese consumers i.e. to verify whether this policy stimulates the consumption of internal goods and whether there is a macroeconomic relationship between the BRI and the variation of the consumption levels.

Anyway, the key components to be analysed are:

- I (investments of private companies): expressed in terms of monetary investments as programmed material investments (such as extension of plants, improvement of machinery, etc.);
- NX (net export): considered as exchanges with other foreign economic systems, composed by Export (X, foreign demand for the economic system's goods, showing a positive relationship with the exchange rate and a positive relationship with the external level of income) and Import (Q, amount of national richness in terms of monetary resources which is spent on international/foreign markets, buying foreign goods or services, characterised by a negative relationship with the exchange rate and a positive relationship with the internal level of income).

¹⁸ See Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI."

¹⁹ See Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI."

turning point in the contest for global influence with a gradual withdrawal and consequent isolationism of the USA from the international arena and the progressive establishment of a period of new Sino-centrism. With this regard, under an ideological perspective, President Xi Jinping's political line is represented by the concept of "Chinese Dream" (*Zhongguo meng*, 中国梦) which includes individual and national ideals commonly shared by the Chinese society and related to the general improvement of the social conditions and welfare of all Chinese People. This concept was developed to cope with the problems that the past decades of hectic industrialisation and fast economic growth brought in terms of social instability, due to more pronounced differences between rich and poor as well as between urban areas and rural areas. In 2012, 50% of the entire Chinese population resided in urban areas: the rapid urbanisation generated huge problems which may seriously affect China's growth in the near future.

The fast development which provided China with a stronger economic and financial power has been translated into military investments, following the general path of pushing the Country's ambitions, particularly in the Asia-Pacific region. In fact, the Xi-Li Administration marked the adoption of a much more incisive foreign policy addressed toward the neighbouring countries in the South China Sea and in the East China Sea. From a diplomatic perspective, China has traditionally maintained a non-interference policy, pursuing an independent foreign policy characterised by an assured and maintained stable peace, common understanding, and mutual recognition of state sovereignty.

However, many speculations have been made on the future approach China will apply to its diplomacy and on the consequent implications for the global governance, considering that the prestige of the USA and the EU is declining and China is arising as major international player. The BRI may partially be interpreted as an effective answer to this question, as it represents the first major international project promoted and financed by the Chinese Government.

1.3 The Structure of the Paper and the Applied Methodology

Due to the fact that this paper deals with a variety of subjects, such as geopolitics, transnational governance, and international economics and business, the analytical model to be followed cannot be derived from one adopted by a single discipline. Without the objective of constituting a theory, conceptual categories belonging to different academic fields will be applied to build a theoretical reference, a paradigm of

interpretation in order to provide a contribution to an accurate understanding of the benefits and criticalities of a complex phenomenon as the Belt and Road Initiative. Therefore, to contribute to the advancement in the relevant literature, the paper offers a multidisciplinary analysis of the BRI by blending aspects of geopolitics, transnational governance, and international economics and business.

The paper is organised as followed. Section 2 starts with a description of the Chinese economy's evolution in the past decades and its implications on international economy and trade. Then, it describes the background and factual characteristics of the Initiative, with a specific focus on infrastructural connectivity, promotion of industrialisation in the involved areas, and the collection of the necessary capitals and financial resources to be allocated for the present and future projects. The core part of the paper is section 3, which deals with the main challenges and emerging problems, emphasising the geopolitical reactions of China's neighbouring countries to the Initiative, the delicate issues of its financial sustainability in the long term, with regard to the solvency and liquidity of the loans provided to the participating countries, and the connected relevant macroeconomic policies which underline the evolution path of the Renminbi (RMB) toward a wider internationalisation, in addition to comments on the infrastructural development. Several conclusive remarks end the work.

2. Description of the Belt and Road Initiative's Background and Characteristics

2.1 The Rationale behind the Belt and Road Initiative

The Silk Road Economic Belt Initiative was first presented by President Xi during a state visit in Kazakhstan, in September 2013. The speech aimed to include Central Asian countries in the development of economic networks connecting the prosperous Eastern Asia economies to Central Asia, Africa, and Europe.²⁰ In his speech, President Xi directly referred to the historical Silk Road connecting Asian and European countries, by mentioning the Northern Silk Road and the Southern Maritime Silk Road. The former was opened during the Han dynasty by Zhang Qian²¹ and linked the Chinese Empire with the Roman Empire, started from Xi'an (Shaanxi province) and

²⁰ For an accurate overview of the main events connected to the B&R in a chronologic perspective, see Shaohui Tian, "Chronology of China's Belt and Road Initiative." *Xinhuanet*, March 28, 2015, accessed July 10, 2018. http://www.xinhuanet.com/english/2015-03/28/c_134105435.htm

²¹ Zhang Qian (张骞, 164 - 113 B.C.) was a Chinese explorer, official, and diplomat, responsible for the imperial envoy which travelled outside the Chinese Empire toward the Central Asia countries. He is currently considered the symbol of the openness of Chinese commercial trade to the World.

passed through Gansu province, Xinjiang province, and other Central Asian countries. The latter was established by Zheng He²² during the Ming dynasty (XVI century), started from Quanzhou (Fujian province) and connected the Chinese Empire to other civilisations in the Indian Ocean, from the coastal cities of South-Eastern Asia to the Arabian countries and to Madagascar and the Eastern part of Africa.

The long history of peaceful exchanges of the Ancient Silk Road proves that interactions and cooperation between countries which do not share the same language, religion, or political system is possible, as long as it is based on mutual understanding and equally shared benefits. According to these two principles, the Chinese Government underlined several proposals for the development of a modern Silk Road. Regarding political interference, China will respect the development path that Central Asia countries have independently chosen for themselves through both domestic and foreign policies and will refrain from intervening in their regional affairs neither directly nor indirectly. In accordance with the traditional Chinese conception of international relations, President Xi proposed to strengthen cooperation aiming at eliminating the "three evil forces" of terrorism, extremism, and separatism, in addition to drug trafficking and international organised crime.²³

Apart from declaring the general principles this cooperation project should have been inspired to, the Chinese proposal indicated the path that the development of the New Silk road should have followed. Firstly, President Xi supported the establishment of a consultation system (in the form of an open and extended forum) to develop common strategies emphasising the development of infrastructures, in order to connect the Pacific Ocean to Europe, and the improvement of the infrastructures in the Indian Ocean. Then, all the involved parties should have promoted trade by issuing measures to facilitate trade and foreign investments. Monetary circulation should have also been improved, through the establishment of exchange settlements. Finally, the parties should have committed to strengthen friendly exchanges between their people, in order to improve general and mutual understanding.

The BRI is inevitably connected by causality with the Reform and Opening-up policy which started China's rapid economic development, transforming its economy from domestic-centred to export-oriented with the stimulation of the exports and foreign

²² Zheng He (郑和, 1371 - 1433 A.D.) was a mariner, explorer, and fleet admiral during the early years of Ming dynasty. He is particularly famous for his expeditions which reached the Eastern part of the African continent.

²³ For a more exhaustive analysis of President Xi's speech delivered at Nazarbayev University see Ministry of Foreign Affairs of the People's Republic of China, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries." September 7, 2013, accessed July 10, 2018. http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjitfshzzfh_665686/t1076334.shtml

investments producing a fast development, especially in the coastal areas. The Initiative constitutes a development and infrastructure project for inland areas of the Central and Western Chinese provinces, which were less affected by the economic development in the past decades. Nowadays, China is the largest trading nation all over the World, with a diversified industrial system. The Chinese Government is implementing different strategic projects to develop a moderately prosperous society in 2020. The middle class of consumers is going to enlarge, originating new opportunities for the growth of the internal demand. Under a macroeconomic perspective, the BRI has been also promoted to avoid stagnation and to support the GDP's growth.

President Xi's choice of announcing the BRI in Kazakhstan should not be surprising at all. Kazakhstan is a member of the SCO, whose main purpose, *inter alia*, is to contrast terrorism, separatism, and extremism by supporting military cooperation between its members. Along with counterterrorism, intelligence, and conjunct military training, the SCO countries cooperate also under an economic and cultural perspective. President Xi's speech at Nazarbayev University was followed by a wide expansion of the project's scope and of its practical consequences. In October 2013, President Xi visited Indonesia and several South-Eastern Asia countries. During his visits, he directly addressed these countries' Governments and invited them to join China in the development of a Maritime Silk Road. The participation of several South-Eastern Asia countries to the BRI would have also represented the opportunity to strengthen cooperation between China and the Association of South East Asian Nations (ASEAN).²⁴ In March 2015, the Chinese Government issued an operative plan mainly focused on the principles, framework, cooperation priorities, and mechanisms of the Belt and Road Initiative. The Action Plan states:

"Countries along the Belt and Road should improve the connectivity of their infrastructure construction plans and technical standard systems, jointly push forward the construction of international trunk passageways, and form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step."²⁵

²⁴ The ASEAN is a regional organisation made up of ten South-Eastern Asia countries, with the aim of supporting intergovernmental cooperation and promoting economic, political, military, educational, and cultural integration amongst its members and other Asian countries. Since its formation on 8 August 1967, by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, then, Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam joined it as members. ASEAN is one of China's biggest trading partners, with bilateral exchanges reaching a value of USD 400 billion.

²⁵ See National Development and Reform Commission (NDRC), *Vision and proposed actions outlined on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, March 28, 2015.

Part of the Western media has bashed the BRI for competing with existing investment programs, such as the Asian Development Bank (ADB) backed by the USA and Japan. In fact, the ADB itself noted how, in order to keep up with the global development, Asian countries will need USD 8 trillion in infrastructure investments in the decade lasting from 2010 to 2020.²⁶ Nonetheless, these countries cannot meet those enormous financial needs without international financial support, as their ability to do so is hampered by lack of funds, expertise, and technology. China, on the other hand, has acquired a noteworthy expertise while developing its own infrastructure and is able to effectively finance these projects.²⁷ Furthermore, China needs to diversify its investment portfolio, as it has been excessively reliant on US Treasury Bonds.

China's commitment to the BRI will be beneficial for Chinese companies and provinces. On the one hand, companies in relatively stagnating sectors, such as railway equipment supply and constructions and building materials supply, may find new opportunities in the development of infrastructure in other countries, while on the other hand, the development of infrastructures in Central Asia may give poorer Chinese provinces in the Western and Central regions of the Country an opportunity to compete with the richer provinces of the coastal areas.

Registering a huge trade surplus with both developing and developed importing countries, China is implementing the BRI in order to: first, reinvigorate its economic growth (reaching a new normal²⁸ as stabilisation of a sustainable growth) with overseas investments; second, to fill the high gap of development between coastal areas and the Western part of the Country, developing infrastructural plans which constitute huge opportunities for the Chinese construction companies; third, to establish a new (or a new stage of) Opening-up policy focused on the emerging and developing countries to gain more benefits and profits in the medium and long term. In addition, the Initiative works as a bridge to promote the internationalisation of the RMB, contrasting the USA's accusation against the Chinese Government to heavily manipulate the RMB through the Chinese Central Bank's macroeconomic manoeuvres; to address Chinese

²⁶ See Mark Rathbone and Oliver Redrup. *Developing Infrastructure in Asia Pacific: Outlook, Challenges and Solutions*. PricewaterhouseCoopers Services LLP, 2014. Accessed July 10, 2018. Available at <https://www.pwc.com/sq/en/capital-projects-infrastructure/assets/cpi-develop-infrastructure-in-ap-201405.pdf>

²⁷ See Tai W. Lim et al., *China's One Belt One Road Initiative* (London: Imperial College Press, 2016), 154.

²⁸ "New normal" is term introduced by President Xi to indicate the current economic scenario China is operating in, characterised by a gradual and lower stabilisation of the GDP's growth, compared with the rapid one registered during the past decades.

investments directly to the involved countries, which are not ready for high standard FTA, designed on the TPP;²⁹ and, to strengthen China's diplomacy.

2.2 Building Infrastructural Connectivity and Promoting Industrialisation

"Adopting a general oversimplification, the BRI can be considered, *mutatis mutandis*, as a sort of China-driven Marshall Plan addressed to Central and South-Eastern Asian countries, mainly focused on reinforcing domestic and international connectivity, improving a process of rapid industrialisation, and establishing efficient platforms,"³⁰ as thoroughly described in the following paragraphs.

With regard to connectivity, the BRI aims to reduce logistic costs and to share profits with the involved trade partners by developing key infrastructural projects³¹ in the Central Asian countries, such as streets, railways, ports, airports, and bridges. On-sea transportation is still more convenient and widely used, but the combination of railway and on-sea transportations³² will fast improve the Initiative's general efficiency.

The BRI is shaping the current and future trends of development for Asia, Europe, and Africa, with China (and, more extensively, Asia) playing the core role in the new international interconnectivity. It will produce various effects on the Chinese economy as well as on the involved countries' economies, and on the global governance, especially in Eastern Asia, through mutual economic complementarities based on transfer of resources and cooperation to improve transportation, preserving the principle of every country's sovereignty and respecting the relevant security policies.

As far as industrialisation is concerned, the BRI promotes trade, but it is evident that trade cannot represent the sole engine of a country's economic development. In fact, the countries engaging in the Initiative are developing ones and are experiencing their early state of industrialisation. Their industrial base is passing through a temporary

²⁹ For a deeper overview on this issue see infra paragraph 3.4 of this paper.

³⁰ See Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI."

³¹ To create a convenient and comprehensive pathway and to reduce the time in transportation, the most relevant infrastructural projects of the BRI are:

- the Uzbekistan Kamchik Tunnel, the longest tunnel in Central Asia, built by the China Tunnel Group;
- the Moscow-Kazan high speed train, with seven hundred and seventy kilometres of top standard high speed railway;
- the Yiwu-Madrid railway, passing through seven countries for a total length of 13 thousand kilometres;
- the China Railway Expressed lines aimed to reinforce the connectivity between China and the European countries;
- the China-Pakistan Karakoram Highway, a three thousand kilometres long economic corridor.

³² Other strategic projects related to in-land, on-air and on-sea connection are:

- Africa's first electrified railway, Addis Ababa-Djibouti, financed by the Chinese Government and active since April 2017;
- the extension of the Hungary-Serbia railway to Athens' Piraeus port, a seaway express for Central and Eastern Europe countries and a significant connection to the Mediterranean;
- the opening of new air routes from Chinese cities to European ones.

phase of transformation and is not yet solid, therefore, they offer profitable business opportunities characterised by high risks: high returns (not only economic and financial, but also strategic) of the investments' loans connected with high risks in terms of insolvency. These developing countries' attitude of over-relying on resources keeps them in a relatively backward position which may be profitable in the short term, but it will not be sustainable in the long term.

Through international cooperation, these countries' process of industrialisation has to be power-driven, requesting large amounts of energy resources (natural gas, oil, and electricity). The required export of energy equipments can represent very profitable opportunities for the Chinese companies and factories whose core business is producing and selling green energy (nuclear, hydropower, solar and photovoltaic, thermal, and wind-power) products.³³ Moreover, under the Silk Road Economic Belt, energy sources are hidden and are currently object of excavation and exploitation.³⁴ Energy is literally flowing through the BRI and the power transmission projects will boost the development of the countries along the way.

The Economic Development Zones (EDZs)³⁵ are a symbol of the Reform and Opening-up Policy and one of the keys to the success of China's economic development. The Chinese Government is replicating this model in the BRI, at an international level, with the implementation of specific platforms for companies, manpower, policies, and funds, creating new job opportunities and profits for the local areas. Until 2016, 56 Economic and Trade Cooperation Zones,³⁶ in the form of industrial parks and cooperation platforms, were established with the cooperation of 20 countries around the World, through USD 18.5 billion of investments allocated by China. However, the BRI aims to

³³ Significant examples of the Chinese commitment to the provision of energetic equipment to the BRI countries are:

- the Sino-Pakistan Karachi nuclear power project and the Dasu hydropower plant to solve the problem of Pakistan's limited access to electric power;
- the Northern Power Grid built in Laos by Chinese companies;
- along the Mekong river, the Mekong Power Grid built together by China, Laos, Vietnam, Thailand whose citizens will directly benefit from the projects;
- the under-construction station of Caculo Cabaca, Africa's largest hydropower station;
- Africa's "Three Gorges Project" in Ethiopia, operative since 2016.

³⁴ For instance, the oil pipelines of Iran's Yada Varan Oilfield and, in Turkmenistan, the longest natural gas pipeline in the World, addressed toward China.

³⁵ In 1988, the first EDZ was established in Dalian (Liaoning province). Since then, more that 200 EDZs were set up in suburban areas of large cities in China as models of urban management aimed to develop new economic opportunities in underdeveloped areas of these cities.

³⁶ Successful examples of these international Economic and Trade Cooperation Zones are:

- the China-Belarus Industrial Park, modelled on the Suzhou Industrial Park;
- the China-Egypt Suez Economic and Trade Cooperation Zone;
- the China-Oman Industrial Park, currently under construction;
- the China Rayong Industrial Park in the Southeast of Thailand, with an allocation of USD 2.5 billion and an expected development of twenty thousand jobs for the local community;
- the China-Cambodia Sihanouk Special Economic Zone;
- the China-Malaysia Qinzhou Industrial Park and the Malaysia Kuantan Industrial Park, connecting the industrial parks to the maritime harbours.

develop also several Chinese domestic areas in the forms of regional production and transportation networks, such as:

- the Western part of Xinjiang province, the central link of the Silk Road Economic Belt and a strategic location where to develop cooperation zones, as natural door for Central Asia, in particular the cities of Kashgar in the South and Horgos in the North which will soon become Special Economic Zones;
- Quanzhou (Fujian province) in the coastal area, which was the starting point of the Ancient Maritime Silk Road and now is an international harbour for the Maritime Silk Road of the XXI Century, characterised by an efficient railway system and port logistic base;
- Hangzhou Cross-Border E-Commerce Industrial Park (Zhejiang province), as pilot free trade zone and duty free zone, with the application of specific tax rebates;
- Pingtan (Fujian province), Shenzhen, and Zhuhai (Guangdong province), as development areas directly interconnected with the two Chinese Special Administrative Regions (Hong Kong SAR and Macau SAR) and Chinese Taiwan;
- the areas on the path of development of Yunnan province toward Southern Asia and Guansi province toward South-Eastern Asia, which were not heavily involved in the development of the past decades, but are becoming certainly strategic under a logistic and shipping perspective because of their geographical position respectively in front of the Gulf of Tonkin and the South China Sea.

2.3 The Capital and Financial Bases and the Role of the AIIB

The BRI, as very ambitious plan, needs fast-disposable, high amounts of capitals and financial resources to sustain the development of all the related projects. Main global financial institutions such as the World Bank, the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD) cannot meet the needs of every developing country all over the World. It has been calculated that Asia requires USD 800 billion a year to be invested in infrastructures. Since the World Bank can allocate only USD 60 billion in loans, the Asian Development Bank evidently cannot supply the rest USD 740 billion. In December 2014, a substantial contribution to this strong financial need was the allocation of USD 40 billion from the Silk Road Fund

(SRF)³⁷ addressed by China to the BRI countries to support the development of infrastructures and of industrial and financial cooperation. This short-term operative decision is connected with a wider and profitable long-term strategy China has undergoing. The Silk Road Fund is a Chinese Government's state owned investment fund aimed to promote investments in the BRI countries, primarily covering the Eurasian region. Although USD 40 billion might not seem enough to realise all the ambitious projects set out by the Initiative, what really matters is the size of the Fund's shareholders.³⁸

There are different ways of financing the projects promoted in the BRI. The first of these channels is through the Asian Infrastructure and Investment Bank (AIIB)³⁹ and the BRICS Development Bank (also known as New Development Bank). These two development banks, established in 2015, own a capital of USD 100 million and USD 10 billion, respectively. However, they were not expressly conceived as instrumental to the BRI. Their greatest advantage is that they were established as multilateral investment banks, which means that, although the Chinese influence is relevant within these institutions, they are not directly controlled by the Chinese Government. Consequently, in case China will have diplomatic turbulences with its neighbours, this will not necessarily affect the investments supported by the AIIB and the BRICS Development Bank, even if, theoretically, China has a veto power on the AIIB's decisions.

Before the promotion of the Silk Road Fund, in October 2013, President Xi put the bases for the creation of the AIIB, officially established on 16 January 2016. It represents a large financial multilateral entity promoted by China and supported by 57 funding members from all over the World. Until now, 13 new members took part in it,

³⁷ More than 100 projects were supported by this fund, especially in Russia, Central Asia, Bangladesh, India, and South-Eastern Asia.

³⁸ China foreign exchange reserve (State Administration of Foreign Exchange, SAFE) holds 65% of the shares, China Exim Bank 15%, China Investment Corporation 15%, China Development Bank 5%. These four stockholders' combination of assets amounts to USD 7 trillion. See Tai W. Lim et al., *China's One Belt One Road Initiative*.

³⁹ The AIIB is a multilateral development and investment bank whose aim is to finance infrastructural projects in the Asia-Pacific region. Its establishment was promoted by a Chinese Government's direct initiative. The scope of the AIIB is set out in Article 1 of the Articles of Agreement, which states that:

«The purpose of the Bank shall be to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.»

These purposes will be achieved by promoting public and private investments and by utilising the resources at its disposal, in order to contribute to the harmonious economic growth of the involved region, as stated in article 2. These provisions seem to imply that the AIIB will take into account the sustainability of each project in relation with the conditions of the whole geographic areas involved in these investments. The AIIB governance structure is based on a Board of Governors in which each country is represented and which meets once a year and a Board of Directors, composed of nine members. The Board of Governors exercises the fundamental functions within the bank, as listed in Article 25. See Asian Infrastructure and Investment Bank, "Articles of Agreement." Available at https://www.aiib.org/en/about-aiib/basic-documents/download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf (Accessed July 10, 2018).

for a total amount of 70 countries-members. The AIIB became the second largest multilateral development institution after the World Bank. In 2016, it provided USD 1.73 billion in loans, addressed to nine infrastructural projects in Pakistan, Indonesia, Bangladesh, Tajikistan, Myanmar (Burma), and Yemen, jointly financed with the World Bank, the ADB, and the EBRD. Then, its financial support has been extended to more than 600 projects, with the provision of USD 110 billion in loans.

The establishment of the AIIB, "as fundamental step in the development of the BRI, is certainly part of a wider strategy China has implemented to promote its active role in the new global governance. The AIIB represents the BRI's main financial engine and financing network"⁴⁰ and its constitution gained the enthusiastic support of many European countries,⁴¹ while the official position of the USA was clearly against their participation, apparently because there was a tangible fear that the AIIB could have become a direct competitor to the World Bank, undermined the WTO's activities, and weakened the US political, strategic and economic interests. With this regard, the AIIB will lead to a substantial growth of the Chinese leverage over strategic countries in Asia (traditionally partners and allies to the USA, such as The Philippines, for instance). In 2015, the Governments of several European countries⁴² officially announced to join the AIIB as funding members, contributing with a substantial amount of financial resources and obtaining the proportionate amount of shares. This choice resulted in the attempt, on the one hand, to reinforce Eurasian logistic connectivity and, on the other hand, to facilitate the penetration of the Chinese internal markets by public and private European companies. "This decision marked an unusual diplomatic approach for many of the involved European countries which have traditionally been US-oriented, Atlanticism-based, and Europeanist."⁴³ In fact, their participation in the AIIB underlined a new attitude characterised by anti-Atlanticism (against the US official request not to take part in the institution) and, in general, anti-Europeanism (due to the individual participation of the single European countries' Governments, not as EU-level participation of all the European countries as a single group of shareholders).

⁴⁰ See Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI."

⁴¹ See Xinhua, "More European Countries to join AIIB." *Chinadaily*, March 17, 2015, accessed July 10, 2018. http://www.chinadaily.com.cn/business/2015-03/17/content_19833236_2.htm.
See also Yelin Hong, "The AIIB Is Seen Very Differently in the US, Europe, and China." *The Diplomat*, May 8, 2015, accessed July 10, 2018. <https://thediplomat.com/2015/05/the-aib-is-seen-very-differently-in-the-us-europe-and-china> and Zhongying Pang, "What Does Europe's AIIB Entry Mean for China and U.S.?" *ChinaUsFocus*, April 1, 2015, accessed July 10, 2018. <https://www.chinausfocus.com/foreign-policy/what-does-europes-aib-entry-mean-for-china-and-u-s>

⁴² Including but not limited to the major European economies Germany, France, Italy, and the UK. See Asian Infrastructure and Investment Bank, "Articles of Agreement." Art.4.

⁴³ See Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI."

It is possible to make further predictions on the AIIB's future *modus operandi* by analysing its operating principles, set out in article 13 of the Articles of Agreement.⁴⁴ Apart from provisions that are quite generic and correspond to common banking practices, the article affirms the following principles: unavailability of financing resources to projects in the territory of a State which does not agree with the project (doctrine of non interference in a sovereign state's internal affairs); consideration of the environmental and social impact of each project; no restriction upon the procurement of services from any country; and, no disproportionate amount of resources to be used for the benefit of a sole country. Furthermore, the AIIB is required to stick to sound banking principles, including assuring that loan recipients meet their obligations under the agreed terms in the financing contracts; evaluating the appropriateness of the interests to the risk of the investment; taking the necessary measures in order to ensure that the funds are used for the purposes for which the financing was granted; maintaining diversification of investments; and, in case of equity investments, not assuming responsibility for managing any entity.

While the USA refrained from joining the AIIB and criticised both its purpose and its governance mechanism, the AIIB has declared that it aims to achieve a successful cooperation with the World Bank. This intention seems to be supported by the first investments of the AIIB. In particular, one of its major investments as of June 2017 is the allocation of USD 216 million to redevelop poor districts in Indonesia, a project joined by the World Bank. The AIIB already promoted and launched a series of investments for a total of USD 1.25 billion, mostly in infrastructures related to transportation and energy.⁴⁵

3. Discussion on the Initiative's Main Challenges and Emerging Problems

Structural challenges in the BRI may arise (and are arising) with specific regard to the geopolitical reactions of China's neighbouring countries to the recently-shaped new global governance, the delicate matters of the Initiative's financial sustainability in the long run, in terms of solvency and liquidity of the loans provided to the participating countries (relatively weak under an economic perspective and characterised by political instability), and the relevant macroeconomic policies underlining a clear evolution path

⁴⁴ See Asian Infrastructure and Investment Bank, "Articles of Agreement." Art.13.

⁴⁵ For an analysis of the approved projects, see Asian Infrastructure and Investment Bank, "Approved Projects." Available at <https://www.aiib.org/en/projects/approved/index.html> (Accessed July 10, 2018).

of the Renminbi. The infrastructural development produced by the Initiative is also a sensitive issue.

3.1 The Reactions to the Rise of China as Leading Country in the New Global Governance

After the end of the Cold War, in the current multi-polarised World driven by the globalisation where different countries are inevitably more and more economically and commercially interconnected, the implementation of the BRI highlights significant changes not only from an international relations perspective, but also in terms of redistribution of powers at a geopolitical level, due to its intrinsic supranational nature. Because of that, the roles played by the USA, Russia, India, and the South-Eastern Asia countries is certainly worth to be concisely addressed in this section.

If, on the one hand, the Sino-EU relations were and are still based on their strategic partnership institutionalised through several bilateral agreements, on the other hand, the Sino-US relations represent the most relevant bilateral dialogue between the two largest superpowers in the World for their economic and strategic implications with regard to their commercial balance. The election of Donald J. Trump to the Presidency, a symptom of a new American atmosphere, marked a substantial point of discontinuity in the US policy toward Eastern Asia on many key issues. Under a trade and economic perspective, from the American side, the TPP⁴⁶ seems dead and impossible to be further developed through a far deeper game which has been playing between the USA and China. Based on the current situation, China enjoys a large space of manoeuvre and will play a more relevant role in international trade. On this issue, the Chinese Leaders were and are not afraid of President Trump's *boutade*, when, not yet been inaugurated in office, he solemnly declared to impose a 45% tariff on any Chinese imported goods to re-boost the USA internal production, with the consequent rise of a strong, autarchic protectionism. As far as the South China Sea's issues are concerned, former President Obama's approach based on the respect of international legal tools appears to be completely overturned. On the climate change, the decision to withdraw from the Paris Agreements on the environment protection underlines again a new attitude of the US Government, which can be interpreted under three lens. This approach can be the products of a non-governmental, atypical administration as never experienced in two centuries of American history; it can be explained by the personal character of President Trump and to his business-based background, more concerned

⁴⁶ See supra note 29.

on short-term objectives than on the long term; lastly, it can represent something much more deeply rooted in the American People's *forma mentis* and related to several aspects which characterised the so-called *flamboyant* Trumpism. No matter the choice of lens to use to interpret this situation, what is evident is that the American hegemony and the American Dream are in decline and China's influence and the Chinese Dream are replacing them, shaping a new World's order with important implications for the future which can neither be underestimated nor overlooked.

Concerning the Sino-Russian relations, Kazakhstan unquestionably plays a central role. Post-soviet Kazakhstan has managed to develop an independent foreign policy, trading natural gas with Russia, signing peace agreements with NATO but not allowing Western powers to establish military bases on its territory, and most importantly, becoming China's main gas provider. The Central Asia region has therefore found a diplomatic balance, which some observers fear might be jeopardised by the increased Chinese investments.⁴⁷ However, while the BRI interferes with the Russian hegemony over the Region, Russia is an active partner of the Initiative. At the same time, considering that Russia's core interest in the Central Asia area is military and focused on denying access to Western powers, the wider inclusion of the Central Asia countries in the global trading network through the BRI might clash against this policy. As Russia has maintained a tangible influence over these ex-USSR countries, it will be hard for China to contrast it, without compromising its wish to refrain from intervening in the internal decision-making process of other countries.

India's trade with the USA is intense, from which it has acquired high-tech patents and warfare material. China seems to have partly overcome its traditional hostility to India by launching some conjunct trading projects, as well as explorations of the Himalaya region. Furthermore, Indian high-tech companies acquired hardware from China and realised in China their most relevant outsourcing projects. At the same time, building a buffer zone around India has been a central strategic objective for China and the perception of conflicts between the two Asian giants is strongly arising, especially on borders' delimitation. India is becoming a major player in the World economy. Its high-tech companies became one of the main outsourcing providers for Western internet service operators. The financial market is vibrant and the smoothness of financial investments has seen the rise of a generation of millionaires. The BRI promotes China as a major power in the Indian Ocean and might represent the perfect accomplishment of its needs. Besides, the fact that India aside from China is the largest participant to

⁴⁷ See Tai W. Lim et al., *China's One Belt One Road Initiative*.

the AIIB could represent a useful opportunity to deepen the relations between the two Countries. While participating to the AIIB, India has not yet joined the BRI.

On the South-Eastern Asia's stage, further advantages that China can receive from developing and implementing infrastructures in the Indian Ocean are geopolitical. First of all, by investing huge amounts of money in that area, it can improve its relations with the neighbouring countries, especially in the South China Sea. Moreover, the creation of China-led international organisations can reduce the hazard of geopolitical isolation. The development of the BRI is even less shocking if we take into account that it started only a few years after President Obama launched the negotiations for the TPP in 2009, without including China.

3.2 Financial Sustainability in the Long-term: Solvency Problems of the Provided Loans

The large scale circulation of money originated by the massive construction of infrastructures related to the Initiative is drawing attention to monetary and financial issues, in particular, the raise in the transaction costs, which consequently increases the risk in trade and investment transactions. A central problem which cannot be undervalued lies on whether the countries which received the provided loans will effectively be able to honour them in the due time.

The BRI can be generally considered as a Free Trade Agreement (FTA)⁴⁸, focused on the potential buyers in the involved countries, whose payments are guaranteed by future loans with a low interest provided by the Chinese banks,⁴⁹ first of all the People's bank of China (PBOC), the Chinese Central Bank. Those loans are secured with insurance companies' contracts to cover the possible losses in case the buyers could not pay back and they are indeed characterised by problems of liquidity and solvency.

⁴⁸ The BRI can theoretically be compared to the FTA successful experiences of the European Economic Community (EEC) in 1958, the European Union (EU) in 1992, and the North American Free Trade Agreement (NAFTA) in 1994.

⁴⁹ Other investment funds that might be potentially decisive for the BRI are the ones owned by China Development Bank (CDB) and Exim Bank. CDB was established in 1994 with the aim of supporting the Chinese Government's development policies. CDB raises funds through the issuance of domestic bonds with a risk-free assets status assigned by the Chinese banking authority. The bank is the second largest bond issuer in China, right after the PBOC and the Ministry of Finance. In 2014, CDB raised RMB 1.175 billion in bonds on the domestic market and, at the end of 2014, its total assets were RMB 10.32 trillion. Exim Bank is a similar but smaller and more foreign-oriented policy bank. The two banks are expected to become major players in the Chinese infrastructures' development, as they already acquired a certain expertise in the field. China's four state owned banks are also likely to play a major role in the BRI. These are Bank of China (BOC), Agricultural Bank of China (ABC), Industrial and Commercial Bank of China (ICBC), and China Construction Banks (CCB). These entities are quite inexperienced in terms of international projects, as only 3% of their investments are addressed outside China. However, given that this percentage is extremely low, compared with those of developed countries, it is likely that it will increase through the BRI. In a comparative perspective, BOC has more experience in overseas banking business and its decision of allocating USD 100 billion in the next three years will constitute the main basin of commercial bank loans to the Initiative. It also finances 420 projects overseas, provides USD 60 billion in loans and leverages an investment of USD 400 billion (considering the returns on the investments and the related interests). Further investments might come from the private sector and their amount is likely to depend not only on the economic success of the BRI, but also on the degree of transparency it will be characterised by.

As public institution directly under the Central Government, the PBOC can offer loans with non-commercial adjusted interests, practice which may be considered as a state subsidy, in other international macroeconomic and financial contexts.

Therefore, the most delicate issue is related to the high risk of lending non-commercial adjusted loans to developing countries which may not be able to repay them, for their intrinsic problems of liquidity. Without a serious control over the Initiative from the Central Government and the Premier, the BRI will come across serious challenges of sustainability in the medium and long term. Moreover, there is an urgency of codifying unified rules to be respected by the central banks of the countries involved in the Initiative related to budgeting, investment policies, and inflation control as well as to the delimitation of the jurisdiction of the Chinese investments addressed to the specific involved infrastructural projects. Without that, the BRI cannot pursue the ambition of becoming a competitor to the International Monetary Fund.

3.3 Macroeconomic Monetary Policies: the Evolving Role of the RMB

The Initiative highlights also macroeconomic matters which cannot be underestimated, especially in the long term, with specific regard to the institutional role of the PBOC. The Chinese Government formally represented by the Premier and the State Council has a direct influence on the PBOC in the decision of increasing the Country's liquidity. This advantageous mechanism resulted in robust macroeconomic monetary policies which supported the Chinese companies' business strategy to acquire European companies and, in particular, strategic Western companies, through available high amounts of cash and liquidity.

On the international stage, a significant expansion of the use of the RMB as reference currency was noticed from the increase of the commercial and financial transactions related to the BRI and its infrastructural and financial projects. This wider currency circulation brought to a stronger expansion of China's financial markets with the objective of protecting the investments and the containment of the Chinese currency's exchange rate risk became a central issue. In this circumstance, the monetary risk can be minimised only with the stabilisation of the RMB through tailored monetary policies of the PBOC, to avoid any depreciation process aimed to artificially fine-tune the Chinese GDP's growth, as it happened not so long ago, in August 2015 with a strong depreciation of the RMB to bring the GDP's growth to the expected levels.⁵⁰

⁵⁰ For a more in-depth description of this issue, see Jia Chen, "New yuan rate 'fixes distortions'." *Chinadaily*, August 12, 2015, accessed July 10, 2018. http://www.chinadaily.com.cn/business/2015-08/12/content_21570260.htm

Under an international monetary differentiation policy, the RMB will be more and more widely used but the USD will still represent the standard currency reference. In comparison with the USD, the more institutionalised and independent role of the US Central Bank, the Federal Reserve, makes the American currency more stable and less affected by the exchange rate risk. However, currency swap agreements were signed by China and other 22 BRI countries for a total amount of RMB 982 billion and cross-border RMB payment systems were implemented to provide currency services to the financial institutions whose business are RMB-based.⁵¹

Moreover, on 30 November 2015, the RMB became one of the currencies related to the Special Drawing Rights (SDRs) together with the USD, EUR, GBP, and JPY, underling the evolution of the Chinese currency from trading currency to financing currency and from financing currency to reserve currency.

3.4 Considerations on the Infrastructural Development

The aim of the Silk Economic Road is not only to connect Europe to China via railway, but also to create a network of pipelines and energy production facilities. In fact, China is facing a huge dilemma regarding its ability to produce energy for domestic purposes and it will be soon unable to produce sufficient energy for its needs.⁵² Therefore, outsourcing parts of its energy production from the neighbouring countries may constitute a valid solution to this problem. The Central Asia countries are already China's main oil and natural gas providers and, with the improvement of their infrastructures, China's ability to import oil, gas, rare earth, and other resources will increase.

One of the Initiative's main goal is to improve interconnectivity between the involved countries, but their development cannot be based only on new infrastructures, since it should be supported by substantial macroeconomic and trade-oriented policies.⁵³ In other words, there is a need for long-term and sustainable industrialisation plans. Yet, the real question is how to efficiently and effectively implement them. Firstly, these policies must be legally approved by each countries' relevant state organs and cannot

⁵¹ The following are examples of attempts to reinforce the internationalisation of the RMB:

- the direct conversion of the RMB in Zimbabwe;
- the establishment of the Silk Road International Bank in Djibouti, in January 2017;
- the issuing of Africa RMB Bonds Rainbow Debt in South Africa, in April 2017;
- the issuing of Panda Bonds / Dim Sum Bonds (characterised by very cute names, but maybe not so solid as they want to appear);
- the establishment of offshore RMB centres.

⁵² See Tianyong Zhou, *The China Dream and the China Path* (Singapore: World Scientific Publishing Company Pte Ltd., 2013), 125.

⁵³ For a more accurate analysis on this issue, see *supra* paragraph 3.3.

be imposed by China, *ex machina*. China will certainly increase its power and influence through the Initiative, but it is evident that it cannot directly intervene in another country's governmental decisions. Secondly, Europe and the USA will not stay motionless while China is reshaping the World's trade order. Soon, tariffs will logically be established by the European countries' Governments and the US Government to safeguard their internal, domestic production against the Chinese exports. Finally, China will reinforce its role of leading nation for the implementation and support of green economy and sustainability. The almost sure, not yet formalised withdrawal from the Paris Agreement of the USA is a further opportunity for China to reinforce its soft power and its global governance status of responsible superpower.⁵⁴

As China is still developing parts of its own infrastructure, and will continue to do so at least until 2040,⁵⁵ the demand for raw materials will keep growing and is expected to reach *per capita* levels comparable to those of developed countries. This condition highlights how China will be strongly reliant on a functioning infrastructure in order to meet its need for raw materials. As previously underlined, the energetic issue stands out between the many ones to be further investigated.

4. Conclusion

From the goal set at the beginning of the analysis, the results consequently emerged through a rationalisation procedure showed that the examined elements and issues of the Initiative are strongly coherent and interdependent. Therefore, an analysis based on one single discipline could have not been sufficient to produce a comprehensive output, confirming the validity and consistency of a multidisciplinary architecture able to unify different paradigms.

This ad hoc analysis allowed the observation of the following important points: through the BRI, China is putting the basis for a new model of global governance; China is developing and deepening its international relations with the countries involved in the Initiative; and, China is making extensive use of its macroeconomic strengths to develop a substantial international economic and financial competitive advantage.

Considered as a whole, these points underline a general tendency and an intrinsic strength (as an internal push factor) of the Initiative which require additional analyses under a geopolitical, transnational, and global governance perspective. In particular,

⁵⁴ For comments on the current political situation in the USA and its implications on the global governance and China's interests, see *supra* paragraph 3.1.

⁵⁵ See Tianyong Zhou, *China Dream and China Path*.

issues to be further investigated are China's geopolitical and business presence in Africa as well as the role of relatively weak European economies (the ones of Italy, Greece, and Portugal) which joined the Initiative in search of possible engines of profitable opportunities for their macroeconomic growth.

How the BRI will develop in the future and its influence on the shaping of the new global governance are very hot issues, at the centre of analyses and studies carried on by both Chinese and foreign scholars and analysts.

The commonly shared perspective is that the relationships between China and the involved Asian, African, and European countries have certainly been deepened and consolidated by the decision of these countries' Governments to join the Initiative and to contribute to its development, in particular by reinforcing the logistic platforms. It is evident that China is steadily arising under a global governance perspective, putting forward specifically targeted strategic actions which, *inter alia*, will confirm the legitimacy of the CPC as political, strategic, economic, and legal engine for the Country's reforms.

Under a macroeconomic perspective, China has the massive competitive advantage to have a central bank directly under the control of the Central Government. In terms of liquidity policy and artificial depreciation of the RMB (which occurred in the past and now reached a general stabilisation), the PBOC has a wide margin of action in comparison with the European Central Bank and the US Federal Reserve. Moreover, the Chinese Government has a strong financial leverage on the European countries and on the USA and invested significant financial resources not only to penetrate the European and US markets, but also to acquire strategic assets. This financial leverage will surely play a decisive role in the structure of the future global governance and the World's order.

In the next decade, the relationships between China and the BRI countries will be principally based on economic and trade cooperation. The economic cooperation will be reinforced through mutual exchanges of goods, as flow-ins and flow-outs of goods addressed from and to China. Furthermore, considering the current situation of the EU, China is paying attention to countries such as Italy, Greece, and Portugal, which need infrastructural and financial investments and are quite weak in the EU, both economically and politically. Among all the other European countries, there is a race to

become the Chinese best partner in the EU. Under this perspective, Italy⁵⁶ and Greece⁵⁷ can effectively cover this role since they can facilitate Sino-European relationships as well as provide great benefits for the Initiative in terms of logistic connection between Asia and Europe through their strategic infrastructures in the Mediterranean Sea which link Southern Europe to Central and Northern Europe.

The BRI gains momentum in a historic period in which the USA seem to be more concentrated on “*making themselves great again*”, rather than completing the projects they had started under the previous Administrations. Interestingly, the Initiative gives an outlook on what a future China-led World might look like. The Chinese Government is promoting a win-win strategy for all the involved parties and has assured not to interfere with their internal affairs. Potential competitors, such as the EU, the USA, India, Japan, and Russia have also been involved in the Initiative or invited to do so. These premises are a reflection of the traditional Chinese conception of foreign affairs. Some of these pledges, however, raise critical questions, such as how China would react in case a foreign power interfered with the internal politics of a BRI member. Would it break the promise not to intervene? Part of China's success in developing the BRI depends on the fact that it pledged not to intervene. However, if it did not intervene, it could lose its investments and its credibility as a World leader.

Although the primary aim of this paper was reached, unavoidable limitations of the adopted analysis emerged. Firstly, while geopolitical and global governance issues and related business opportunities were described and discussed, the juridical aspects of the Initiative were not addressed directly. Since the BRI countries have different legal traditions and systems, the following questions (and related challenges) arise strongly: how to manage international disputes related to the Initiative? Is there space for harmonisation between the involved countries' different legal systems? Considering the simultaneous lack and abundance of rules of the institutional bodies already directly or indirectly involved in the Initiative, which are the applicable rules? May a hierarchical structure of the legal and judicial applicable practices related to the Initiative be organised? Can a BRI tribunal or an effective ad hoc dispute settlement body (exclusively dedicated to the Initiative) be established? Each of these questions is

⁵⁶ In May 2017, Italy's involvement in the Initiative was confirmed by the state visit to China of the Italian President of the Republic, Sergio Mattarella, when he underlined the willingness and enthusiasm of the Italian Government in taking part in the BRI, also confirmed by the participation of Prime Minister Paolo Gentiloni in the first BRI Watch, held in Beijing in the same month.

For a brief overview of Italy's involvement in the BRI see Natan Colombo, "Italy can facilitate closer China, Europe ties on BRI."

⁵⁷ The Greek Government represented by Prime Minister Alexis Tsipras expressed its commitment to the Initiative by participating in the first BRI Watch, organised in Beijing in May 2017.

indeed deeply attractive and certainly worth to be further examined. To do so, an extension of the analysis applied to this paper with the inclusion of a juridical-oriented perspective⁵⁸ represents a suggestion for supplementary researches.

Secondly, in the next years, trade and commercial transactions will be more and more ICT-based. Internet Technology will play a crucial role as supporting tool of e-commerce and cross-border internet trading, facilitating the provision of goods to different customers in different geographic locations. With this regard, Alibaba.com and Taobao deal with great opportunities in terms of delivery channels.

Thirdly and finally, it is necessary to further analyse whether Chinese-led financing institutions will be able to acquire governance procedures that are in line with Western standards. This will be essential to drive more and more European and US public and private investors to join the Initiative.

As already emphasised, China rapidly changed from investments' host country to a strategic major World investor, allocating internationally more than USD 10 billion, helping the creation of seven million jobs globally, and importing goods for USD 2 trillion, with an expected average import of USD 17 trillion by 2020. International cooperation, under China's leadership, can support the BRI countries to develop their economic and trade systems, to reinforce their competitive advantages and, ideally, to fulfil their dreams.

Due to the harmonisation process of the Chinese economy with the World economy which is progressively more Chinese-oriented, it is evident how further researches and studies, additional articles and papers are required to analyse more in depth the BRI, whose aim is producing benefits for China and the involved countries, to investigate its economic and commercial implications not only for China, but for the entire World as well, and to give suitable answers to the problems of its operational implementation having deep repercussions on the new global governance's structure.

⁵⁸ Additional works by the author providing answers to these specific issues are to be developed in the near future.

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