

# “BELT AND ROAD INITIATIVE”: CHALLENGES AND OPPORTUNITIES FOR CHINA AND FOR THE WORLD

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## Introduction

It has been more than five years since the leadership of the People’s Republic of China (PRC) put forward initiatives that received the generalized title “The Belt and Road Initiative (BRI)”. The idea of the “Silk Road Economic Belt (hereafter - Economic Belt)” was first announced by Xi Jinping during his visit to Kazakhstan in September 2013. Chinese policy is always based on symbols and reminiscences. This time round parallels were drawn between the two different periods: the current state of affairs, when the European Union is the largest trading partner of China, on the one hand, and the situation that arose during the reign of the Western Han dynasty in China (3rd century B.C. – 1st century A.D.), on the other.

That time the Land Silk Road connected two major powers of the world – the Roman and Chinese empires. But by the early 2010s most of the trade between China and Europe was conducted by sea transport. Xi proposed to create a network of land transport corridors between them. Moreover, the countries on whose territories the relevant routes will be held, were also invited to participate in a giant project of joint development.

In October 2013, during his visit to Indonesia, Xi offered cooperation to the countries along the sea routes that existed in the middle ages. This project was called “21<sup>st</sup> Century Maritime Silk Road (MSR)”. Traditions here

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are not so continuous, as in the case of the Economic Belt. The network of sea ports on the South-Eastern coast of China originated in the Tang dynasty (7th – 10th centuries). A movement of the Chinese to the islands of the Southern seas began during the Song era (10th – 13th centuries). It peaked at the early period of the Ming dynasty in the first half of the 15th century. At that time the ships of the famous admiral Zheng He not only explored the coast of Southeast Asia, but also reached the shores of India, the Persian Gulf and the East coast of Africa. By and large, the configuration of the MSR resembles the routes of Zheng He’s voyages<sup>3</sup>.

Precisely, the BRI can be interpreted as the realization of the accumulated potential, as the conversion of the results of rapid economic growth into strengthening China’s position in the world. But this treatment may be obviously one-sided. In fact, the BRI project could be grasped as the embodiment of the contradictory trends inherent in the modern stage of China’s development. On the one hand, it did appear due to the growth of the quantitative scale of the Chinese economy and the intensification of its interaction with the world, it fits into the overall context of China’s transformation into a real global power.

However, on the other hand, these qualitative changes in China’s position in the global economy and world politics have occurred in the 2010s in parallel with the aggravation of the country’s internal socio-economic problems. And it is not only the obvious slowdown in economic growth (from 10.6% in 2010 to 6.6% in 2018) that matters, for one remains relatively fast. The thing is that the slowdown in the Chinese economy was largely the result of accumulated imbalances that had been generated by the very process of an evolutionary, gradual transition to market mechanisms. Therefore, the BRI project can also be interpreted as an attempt to facilitate further reform of economic institutions in China, and to smooth the acuteness of existing problems through the activation of external expansion. So it seems reasonable to judge the content of the project, using the Chinese economists and political scientists’ favorite formula about combination of *opportunities and challenges*.

Nevertheless, due to extent and the ambition of the initiative, the BRI may not be studied only from the point of view of China. It is clear that it has direct impacts over many countries in the globe, but also potential indirect

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<sup>3</sup> However, there were no significant commercial benefits from his expeditions for China. The Europeans during the era of Great Geographical Discoveries traveled by sea not only for spreading the Christian faith, but also for promotion of trade. For the Chinese in the 15th century the main motive to a long voyage was a demonstration of the power of China and the involvement of other countries in tributary relations with her. In the middle of the 15th century these expeditions ceased, because the sea trade was forbidden by Imperial decree.

effects over many other countries. These indirect effects arise from the easily understandable economic consequences of the projects – e.g. a higher competition with China – but also from the more diffuse, but very concrete potential impacts over the geopolitical arena.

Hence, this paper aims to analyze BRI under this framework of the associated opportunities and challenges for China and for the rest of the world. Besides this Introduction and the Final Remarks, the paper has six sessions. The first one presents the possibilities BRI creates for China; the second one deals with BRI as a response to the non-negligible challenges China is currently facing; session 3 presents what has been done so far within the initiative. Subsequently, we move for the rest of the world, analyzing initially the sentiments prevalent in many countries in the globe regarding BRI (session 4); finally, we debate the most crucial possibilities and threats for some chosen countries.

## **“One Belt, One Road” as an Implementation of Possibilities**

No matter how extensive and unbalanced China’s economic growth is, and no matter what social conflicts it generates, if the economy grows for several decades at an average annual rate close to 10%, the country as a result moves to a very different stage of development. In terms of GDP, calculated on the basis of purchasing power parity, various international organizations since the early 1990s ranked China as the 2nd in the world right after the United States. In 2010, China, ahead of Japan, entered the position of the second largest economy also by the comparison of GDP based on nominal exchange rates. And in 2014, the International Monetary Fund stated that China had surpassed the USA in GDP calculated by PPP. Since then, the gap has increased, as the rate of economic growth of China remains significantly higher than of the USA. Since 2009, China has been the world leader in terms of merchandise exports, and in 2013 it took over the global leadership in terms of a total foreign trade turnover. Since 2006, China has been the holder of the world’s largest foreign exchange reserves.

Even though China still does not have such features of a superpower as multi-technological leadership and a high level of per capita GDP, the impressive absolute size of its economy already makes it a real counterweight to the USA. It can be stated that the long-awaited competition between the two powers for spheres of influence in the 2010s really began. It goes primarily along the perimeter of the Chinese borders: in Vietnam, Myanmar, Pakistan, Taiwan and the Philippines, the American and Chinese presence

can already be considered approximately equal. The long-standing conflicts over the demarcation of water areas and islands in the East China and South China seas escalated in the 2010s, and new content associated with the Sino-American rivalry emerged there.

But competition between China and the USA is also increasing in Africa, Latin America, Central and Southeast Asia. Both powers are interested in the raw materials and markets of those regions. This new bipolarity thus emerging in the world pretty much determines the context and content of the BRI: by offering the so-called developing countries a project of co-development, China pulls them to her side.

This new, offensive, aspiring to global coverage, China’s foreign policy over the past five years has received a clearer ideological basis. During his visit to Indonesia in 2013, Xi Jinping, in addition to the MSR project, put forward another idea – he proposed to neighbouring Asian countries to create a “Community of a shared destiny” with China.

At the level of declarations, it was, of course, about equal cooperation for the sake of joint prosperity. But the Chinese official press explained the meaning of the concept of “Community of a shared destiny” in the following way. Until the early 2010s, China in relations with her neighbours postponed the resolution of territorial disputes and stabilized the situation, focusing on mutually beneficial economic ties. But by now China has strengthened so much that neighbouring countries perceive economic cooperation with her as a dependence on the regional hegemon. Responding to this, the Chinese side proposes to bring relations to a higher level: not to be limited just to the economy, but to coordinate security policy as well<sup>4</sup>. It is difficult to see this as anything other than an invitation to enter the Chinese sphere of influence.

In his report at the 19th Congress of the CPC in 2017, Xi Jinping proposed to build this “Community of a shared destiny” not only to Asia but also to the entire humanity. Such a community is understood as the one providing long-term peace; dispute resolution through dialogue and consultation; joint economic development; openness and inclusiveness. However, it is necessary to take into account that at the same time Xi declared that China had entered a “new era”. One of its facets is that China is “moving closer to center stage” of the international arena.

So the global project put forward by Xi, if desired, could also be regarded as an ideological alternative to Pax Americana. However, it is unlikely that Xi or someone else seriously hopes that the United States and other Western countries will ever start living according to the Chinese recipes.

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<sup>4</sup> China Daily. 2014, September 23.

Forecasts about the whole world's transition to socialism have not been made in Beijing for a long time. Nevertheless, at the 19th Congress the theme of the international significance of the "socialism with Chinese characteristics" was clearly expressed for the first time in a long while. But it is presented as a successful experience of modernization, which the PRC can share with countries that "want to speed up their development while preserving their independence" (Xi 2017). This, obviously, is about the countries that do not want to be in the Western sphere of influence.

Now, retrospectively, the BRI can apparently be perceived as a concretization of such a general approach. Economic assistance to developing countries under this project should contribute to the promotion of the world order proposed by China. It is positioned as a non-conflict, consensus, rejecting dictatorship and attempts to interfere in the internal affairs of other countries, and to change the political regimes there.

At the same time, not only demonstrating the economic achievements of Chinese reforms but also addressing the country's ancient traditions, including its historical ties with other regions of the world, can all be the elements of China's "soft power" affirming its global influence. After all, if China once managed to establish communication with Europe along the Great Silk Road, now it is all the more able to build a "bridge" connecting the European and East Asian "poles" of the world economy and thereby fulfill a mission of historic significance. In a certain sense, it would bring back the center of gravity of the world economy from the Atlantic Sea to the Eurasian continent again<sup>5</sup>, reinforcing also geopolitical ties within this region.

Indeed, China has impressive financial opportunities for strengthening its geopolitical positions. Not only the huge foreign exchange reserves (3072,7 billion dollars at the end of 2018), but also a steady current account surplus (1,4% of GDP in 2017) indicate that China is a capital-abundant country. It can afford to provide financial assistance and to allocate concessional loans to worse performing developing countries.

Since the mid-1990s, "political" banks ("development institutions" in the more usual terminology) began to provide lending support for merchandise exports and foreign investment of Chinese enterprises. These were the State Development Bank and the Export-Import Bank of China. In 2014-2015, with the beginning of the BRI project implementation, they were joined by:

- The Silk Road Fund (half of its initial capital of 40 billion dollars was formed by the transfer of a part of China's foreign exchange reserves, the rest

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<sup>5</sup> Many historians (e.g. Bairoch 1993) attest that before the Industrial Revolution the wealthier regions of the world were in Asia, particularly in China and India.

was provided by various government entities and banks. In 2017, the fund was additionally capitalized by the government by 100 billion yuan<sup>6</sup>;

- The Asian Infrastructure Investment Bank (China provided 50% of its authorized capital of 100 billion dollars);

- New Development Bank headquartered in Shanghai (it was created by the BRICS countries, its subscribed capital is 50 billion dollars, each members' share makes up 20%).

These financial institutions are primarily aimed at lending for the construction of infrastructure facilities along the routes of Economic Belt and the MSR. According to the estimates of Zhou Xiaochuan, the former head of the People's Bank of China, Chinese “political” banks and internationally created “development institutions” account for a little less than a half of the loan financing under the BRI (up to 2018). The rest is lent by the Chinese banks, which actually remain under the state control, but are formally considered to be commercial, and they do it at higher interest rates<sup>7</sup>.

China's excess domestic savings create conditions for export of capital not only as loans but also as outward direct investment. In the 2000s, the Chinese corporate sector already became mature enough for large-scale direct investment abroad. According to UNCTAD, an annual volume of China's direct investment increased from 0,9 billion dollars in 2000 (UNCTAD 2003, 253) to 68,8 billion dollars in 2010 (UNCTAD 2013, 214). In 2015, it reached 145,7 billion dollars and exceeded for the first time the direct investment inflow to China (135,6 billion) (UNCTAD 2018, 185). In 2018, according to the National Bureau of Statistics of China, whose data do not take investments in the financial sector into account, FDI in the PRC reached 135,0 billion dollars, while ODI by Chinese companies made up 120,5 billion dollars, 15,6 billion of which were investments in the countries covered by the BRI.

Such balancing of direct investments' export and import is consistent with the predictions of the concept of Dunning and Narula about the country's “investment development path” (formulated in the 1990s and almost generally accepted). According to their theory, this happens when a country moves to a higher stage of development and, due to wages growth, loses its attractiveness to foreign investors as a place for concentration of labor-intensive production. Respective industries are transferred to countries where a stock of cheap labor still exists, and it is done by means of export of capital (Dunning and Narula 1996). Obviously, something similar is happening to China right now and the BRI project provides a part of the mechanism for these structural changes.

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6 Around 15 billion dollars at that time.

7 China Daily. 2018, November 17-18.

In theory, with further movement along the “investment development path”, Chinese companies should turn into technology donors for their investments’ recipient countries. So far, the number of China’s own world-class innovative developments is limited: these are high-speed rail transport, long-distance power transmission, mobile communications, alternative (solar and wind) power engineering, and maritime sector technologies. However, these are exactly the technologies that can be involved in the BRI infrastructure facilities’ construction. Hence, the BRI can be potentially used as an efficient way of exporting Chinese technological standards to the countries receiving the investments. According to the official Belt and Road Initiative’s document:

The Chinese government encourages its strong industries to go global, invest in various ways in the B&R countries, introduce their high technological and environmental protection standards, and foster new growth points for bilateral economic cooperation (Steering Group... 2017).

In any case, the ratio of the key production factors (capital and labor) in the Chinese economy has already changed in favor of capital, which means that the country’s comparative advantage is going to change as well. Apparently, so far this process may be expressed in the way that Chinese companies implement investment projects in a wide range of industries in developing countries along the Economic Belt and the MSR routes, using not the most advanced, but average-level technologies.

This assumption is supported not only by the high level of diversification of industrial exports from China, but also by the structural shift occurring in the Chinese economy in favor of the tertiary sector. Its share in the country’s GDP increased from 41.3% in 2005 to 44.1% in 2010 and to 52.2% in 2018. China has already gained significant experience in provision of construction services abroad. As the necessary competencies are accumulated, conditions are ripe for the foreign expansion of service industries that use modern information technologies. The BRI also contains this component: it is intended for building financial, trade, logistics and transport networks along the planned routes. For a long time (since 1995), China’s balance of trade in services has been in deficit, but now there are prerequisites for correcting it.

China’s trade and investment expansion is accompanied by the «internationalization» of the yuan (the Chinese use this term to call the creation of conditions for its full convertibility). The scale of cross-border trade transactions carried out in yuans expands rapidly. More and more new types of RMB-nominated financial instruments appear available to non-residents. China is concluding more and more currency swap agreements with other

countries for the events of a liquidity deficit. And the BRI also fits well into this logic: it uses the already achieved successes of «internationalization», and at the same time acts as its accelerator, since the loans to countries involved in the project are issued mainly in RMB. The official BRI’s document is very clear on this aim:

China has signed currency swap agreements with 22 B&R countries and regions, with a total value of RMB 982.2 billion. Local currency settlement agreements were signed between China and Vietnam, Mongolia, Laos, and Kyrgyzstan in border trade, and agreements on general trade and local currency settlement in investment were signed between China and Russia, Kazakhstan, Belarus, and Nepal. Of the 23 Renminbi clearing banks, six are located along the B&R routes (Steering Group... 2017).

## “One Belt, One Road” as a Response to Challenges

However, the context in which the BRI appeared can be taken for comfortable only if one does not know the “back” sides of the drivers of China’s «economic miracle». From the 1980s to 2000s, the Chinese economy did not just grow at a high rate, but with cyclical periodicity it fell into a state of inflationary “overheating”. The astronomical saving rate can be treated as an evidence of underdevelopment of basic social security systems in the country, and at the same time as one of the reasons for a relative narrowness of the domestic consumer market (another reason is the low-income level of the majority of population).

China has therefore abundant financial resources for a capital formation. But investment processes in China even nowadays are often based on the logic of “soft budget constraints”: there are not only public enterprises, but also many semi-private companies that are provided with subsidies. As a result, irrational capital expenses lead to an excess production capacity and an accumulation of “bad debts” in the banking system. Foreign trade expansion can be treated not only as a reflection of China’s growing competitiveness, but also as an indicator of a bias towards the export sector, and of an inability to fully utilize the potential of domestic demand.

The aggravation of these imbalances in the late 2000s coincided with the global financial crisis. That time the unfavorable trends were stopped by mitigating fiscal and monetary policy, i.e. the crisis was essentially “flooded with money”. But, as expected, the problems were not resolved, but, on the contrary, they worsened. Since 2011, the Chinese economy has been slowing down again, and the main reason for this is the enormous excess of production

capacity, which has increased even more as a result of the anti-crisis policy of 2008-2010.

Chinese economists Zhang Shaohua and Jiang Weijie say that provided with a current state of consumption in China, and the specifics of organizational structures in enterprises and the technologies used, the optimal rate of utilization of production capacity is by an average of 72-74%. But, according to their calculations, the real value of this indicator for the economy as a whole in 2000-2011 was only 60.7%. And during the implementation of the anti-crisis program in 2008-2011, it decreased from 62.0 to 59.7% (Zhang Shaohua and Jiang Weije 2017, 94)<sup>8</sup>.

Overcapacity and huge pile of inventories are peculiar to a lot of light industries and production of durable goods, despite their active saturating export markets. But this problem is especially painful for a heavy industry. Their investment cycles are longer and the equipment used is more specialized. Therefore, enterprises usually cannot quickly withdraw production capacity from turnover in an event of contraction of demand in the domestic market, and they have fewer opportunities to quickly increase their exports than enterprises of light industries do.

It was in 2013-2014, when the BRI was initiated, that the Chinese authorities issued a series of regulations on administrative cuts in production capacity in the most problematic sectors: steel, cement, aluminum and glass industries, shipbuilding, etc. Since 2015, this line has been developed within the framework of Xi Jinping proclaimed “structural reform on the supply-side” (designed to unload the economy from both overcapacity and accumulated debt at the corporate and municipal levels). Particular attention was paid to the steel and the coal industry<sup>9</sup>. For them the XIII five-years plan (2016-2020) outlines annual cuts for production and employment. The authorities also have to regulate the real estate market with administrative measures: in many cities there is an excess of both residential and office buildings.

The growth rate of domestic investment in fixed assets slowed from 23.8% in 2011 to 5.9% in 2018. This means that there are also big problems with the load on the construction sector. In the near future, it is not expected to restore the former demand for the products of heavy industries. Domestic investment will not grow at the same rate as in the past due to the fall in marginal returns to capital, and due to the fact that enterprises are overleveraged (at the end of 2017, the share of total corporate debt in GDP

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<sup>8</sup> For further details about the idle capacity in China, see European Chamber (2017, 2016, 2009).

<sup>9</sup> Some steel plants with higher production costs are being closed in China.

was 155.8%, while in international practice a critical figure is considered to be at 90%). Other reasons are the critical state of the environment in China, and the shortage of agricultural lands due to their use for the needs of industrial and infrastructural construction.

All of these result in more mundane and “problematic” meanings of the BRI. Production facilities can be simply eliminated, but also they can be brought abroad through direct investment. Thereby, it is possible to win back external demand for enterprises remaining in China, first of all, for manufacturers of investment goods and construction service providers. Fortunately, China does have financial resources for this. But it turns out that they are used not only for the “development of success”, but also for relieving the tension that threatens the Chinese economy with even greater deceleration<sup>10</sup>.

Generally speaking, the most desirable option for the future is to compensate for weakening domestic investment demand by expanding demand of consumers. The share of final consumption in Chinese GDP has been growing, but quite slowly. It increased from a historic low of 48.5% in 2010 to 53.6% in 2017 and remains substantially lower than in most of the world. This means that in the nearest future the export dependence of the Chinese economy will not be overcome.

Meanwhile, over the past ten years, the growth of Chinese exports was replaced by a fall twice. If in 2009 the reason for this was the global crisis, then in relation to 2015–2016 this explanation is clearly not suitable. That time the slump was caused with the achieved natural limits of export expansion on the existing technological basis due to the saturation of markets; with the deterioration of a price competitiveness of Chinese goods due to the long-term revaluation of the yuan, as well as the growth of wages and other factor prices within the Chinese economy.

The traditional formats of trade liberalization and regional integration still provide insufficient support for China’s export expansion. China still has relatively few bilateral free trade agreements (FTAs), and her partners in such agreements are mainly remote and relatively insignificant countries (Iceland, New Zealand, Switzerland, Georgia, Costa Rica, Maldives, Pakistan, Peru, etc.).

China’s integration project (FTA) with the Association of Southeast

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<sup>10</sup> On May 16, 2015, the State Council of the People’s Republic of China issued a document entitled “Guiding Opinion on Stimulating International Cooperation in the Use of Production Capacities and the Development of Mechanical Engineering”. It listed 12 industries in which China has an overcapacity or has technological advantages that can be realized in other developing countries.

Asian Nations has not yet fully met expectations. At many markets China and the ASEAN countries act as direct competitors. According to available research, the effect of “trade distortion” associated with the functioning of this FTA so far outweighs the effect of “trade creation” between its participants (Chen Hanlin and Tu Yan 2007, Li Xuan 2011). Negotiations on the Comprehensive Regional Economic Partnership promoted by China and the ASEAN countries and an FTA within the framework of the Organization of Asia-Pacific economic cooperation (APEC) are far from being completed.

Against this background, the BRI project is needed to find additional segments of external demand, to create new channels for sales by tying the countries participating in the project to Chinese technological standards. This is especially important because until now, Chinese exporting enterprises in the global value chains (GVCs) have acted mainly as subordinates, as users of technologies generated in developed countries. The share of value added associated with a processing of imported materials and components in China has remained relatively low.

By the end of the 2010s, such a model of participation in the GVCs has become even more vulnerable – initially because of the re-industrialization carried out by Western countries (reshoring), and then because of the “trade war” between the US and China. Some Chinese economists note that one of the tasks of the BRI project is to format such GVCs, where Chinese companies themselves will be leaders<sup>11</sup>.

However, the modern Chinese economy is highly dependent not only on export but also on import. The BRI project is also an attempt of effective management of corresponding risks. Raw materials support of economic growth in China is largely carried out from foreign sources. For example, the import of oil currently covers at least 60% of the total consumption in the country. For reasons of economic security, the authorities in the late 1990s decided that if the Chinese economy required large volumes of raw materials imports, it should receive them from the fields controlled by Chinese companies. BRI is designed to provide more opportunities for the Chinese to do so: developing countries receiving loans from Beijing will obviously be more accommodating and more willing to give Chinese investors a share in

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<sup>11</sup> China in the mid-2010s has faced with the “double removal” of production abroad. The relatively high value-added units of the GVCs are “returning” to developed countries, and low value-added labour-intensive production is moving to countries that are poorer than China. Chinese enterprises are left with the “middle” links of the GVCs, but they lack competitiveness, and as a result the problem of overcapacity is exacerbated in the relevant sectors of the Chinese economy. The way out for China is to form such GVCs, which will combine Chinese middle-level technology, on the one hand, and cheap labor and raw materials of developing countries covered by the BRI project, on the other (Shen Minghui and Zhang Zhongyuan 2017).

their mining enterprises and infrastructure facilities. Moreover, it is already possible to find cases in which countries with non-performing loans (or asking for debt reliefs) sign agreements with long term commitments for the provision of natural resources to China - e.g. long-term oil contracts<sup>12</sup>.

But the prevailing commodity groups of Chinese imports are not only raw materials, but also equipment, semi-finished products and components for the Chinese enterprises involved in the GVCs.

Hence, the construction of land transport corridors within the framework of the Economic Belt, i.e. across the Western borders of China, is necessary at least to stabilize the provision of Chinese economy with raw materials. Several ways of transportation in any case are better than one (maritime), not least because of the geopolitical reasons. Facing growing rivalry with the USA, the Chinese are seriously thinking about the risks of blocking the waterway through the Strait of Malacca, which connects the Indian and Pacific oceans. By the way, through it, China now receives up to 80% of its imported oil (mainly from the Middle East and Africa).

It is more difficult to calculate the costs and benefits of land transportation of manufactured goods. In principle, sea transportation is, of course, cheaper. But many Chinese ports are operating at the limits of their capacity, and goods shipped or ordered by enterprises from the interior provinces have to travel a long way inside China to a port or from a port. Railway fares are higher than the maritime ones. But, as the practice of existing railway routes from China to Europe shows, a delivery time when using them is reduced to an average of two weeks – compared to 40-45 days in a case of transportation by sea.

Having such an alternative, though relatively expensive, is important for Chinese companies that sell their goods through E-commerce, as well as for suppliers of medicines and goods that require special temperature regimes. In other words, by paying higher railway tariffs, such companies will be able to compensate for this by saving on “iceberg” transportation costs<sup>13</sup>.

The macroeconomic and structural imbalances of the Chinese economy also have a regional reflection. A level of development and involvement in foreign economic cooperation for individual provinces decreases as you move from the coast to inland, so that the Western provinces are relatively backward. This also applies to the Xinjiang Uyghur autonomous region (XUAR), through which routes of the Silk Road Economic Belt pass.

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12 E.g. Djibouti, Laos, Tajikistan, Kyrgyzstan and Montenegro (Stratfor, 2018).

13 Samuelson (1952) introduced the concept of “iceberg” transport costs, alluding to the losses (costs) related to the transportation of goods.

In XUAR, the situation is exacerbated by ethnic and religious tensions. The risks are amplified by the fact that extremist groups operating in XUAR can interact with their like-minded fellows from Afghanistan and Central Asia.

Since 1999, China has been pursuing the state program “Go West”, aimed at smoothing interregional imbalances. The BRI is obviously important as an additional lever for its implementation: investment in infrastructure and foreign economic cooperation should create new sources of economic growth in XUAR and other outlying provinces. And the acceleration of development, according to this logic, will contribute to the stabilization of domestic situation, and bring a calm on the Western borders of China<sup>14</sup>.

But one can say that the need for such a “success story” is now very relevant at the national level as well. The current leadership of the PRC not only changed the country’s foreign policy, but also carried out the transformation of its political regime. And this was done against the background of the general deterioration of the economic situation in China in the 2010s. Therefore, the real impact of the BRI, and the demonstration of its economic and foreign policy benefits are important to confirm the legitimacy of the government and to prove the correctness of its chosen course.

## What Has Been Done?

When the project of the BRI had only been launched, it was said about five of its routes. It was assumed that three transit corridors would be created within the framework of the Economic Belt:

- 1) from Xinjiang through Central Asia and Russia to Europe;
- 2) from Xinjiang through Central Asia, by passing the Caspian Sea from the South, to the countries of the Persian Gulf and to the Mediterranean;
- 3) from the Western and South-Eastern provinces of China to South Asia, to the coast of the Indian ocean and South-East Asia.

And for the MSR two directions were provided:

- 1) from Chinese ports across the South China sea to the Indian ocean and further to Africa and Europe;
- 2) from Chinese ports through the South China sea to the southern

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<sup>14</sup> Some researchers even put this motive to the first place in the aggregate goals of the BRI (Li Xing and Nu Yicheng 2017, Chubarov 2017). But Safronova rightly notes that interethnic tension can exist not only because of poverty. It may increase with an acceleration of economic growth due to an uneven distribution of its fruits. Relevant risks should be considered when predicting the consequences of the construction of the Economic Belt for both the XUAR and the Central Asian countries (Safronova 2018).

part of the Pacific basin.

The list has increased over the years. Various Chinese sources mention about a dozen of routes, including access to the Russian Trans-Siberian railway through Mongolia and the Chinese North-East (Manchuria), as well as communication with Europe via the Northern sea route, i.e. through the Russian Arctic waters.

By the end of March 2019, China had signed 173 cooperation agreements with 125 countries and 29 international organizations in the framework of the BRI. Among already built or currently under construction transport facilities are: Addis Ababa – Djibouti and Mombasa – Nairobi railways; Budapest – Belgrade, Tehran – Isfahan and Ankara – Istanbul high speed railways; China – Kyrgyzstan – Uzbekistan highway, and highway route from Kashgar in Xinjiang to the Pakistani deepwater Gwadar port etc. Besides, railway lines connecting China with Central Asian states and further with Russia and Iran, as well as China – Mongolia – Russia, China – Vietnam, China – Thailand railways are being modernized.

According to the report of the Steering Group on construction of the BRI at the State Council of China (2019), at the end of 2018, Euro-Asian rail routes in the framework of the Economic Belt connected 108 cities of 16 countries. Over five years of the BRI implementation, 1239 new airlines were opened between China and the countries involved in the project. 42 ports in 34 countries are being built along the MSR. Transport projects of the BRI also include some pipelines: new branches of the gas pipeline Turkmenistan – China, the oil pipeline Myanmar – the southern provinces of China. Here some Chinese analysts also mention the Sino-Russian gas pipeline “Power of Siberia”. Power lines and fiber-optic communication lines are also being built with Chinese participation.

By the end of 2018, 113 trade and economic cooperation zones were established in 46 countries, where Chinese direct and loan investments are being made, and 290,000 jobs were created there. The number of countries that joined the Asian Infrastructure Investment Bank as founders reached 93 by March 2019. In 2018, the AIIB financed 35 projects in 13 countries, its loan portfolio reached \$ 7.5 billion. By the end of 2018, the Silk Road Fund had invested a total of \$ 7.7 billion in various countries. And the total Chinese investment in the partner countries of the BRI amounted to about \$ 35 billion for five years.

For 2013–2018 the turnover of China’s trade with the countries involved in the BRI, was more than 6 trillion dollars. It was 27.4% of the total Chinese foreign trade in goods for that period. In 2018, trade with these countries reached \$ 1.3 trillion, its increase for the year by 16.4% was

more significant than the growth rate of China's total foreign trade turnover (+12.9%) (Steering group... 2019).

As for its institutional design, Chinese leaders have always talked about the desirability of switching to duty-free regime among the countries participating in the BRI. In December 2015, the State Council of China by a special resolution noted the need to accelerate China's conclusion of as many free trade agreements as possible, primarily with neighbouring countries and with states located on the BRI routes (Sun Chuzhen et al. 2017, 84).

But this is not a prerequisite for a country to join the BRI project. Moreover, the Chinese side is ready to cooperate within the framework of the BRI with existing regional economic associations, which have their own liberalization agenda, including the EAEU. The Chinese are more insistent in their proposals for monetary and financial cooperation: the participating countries are invited not to limit themselves to loans from Chinese banks, but to issue yuan-denominated bonds and derivatives as well. It is also said about the desirability of a transition in mutual settlements from the dollar to national currencies (in fact, of course, the use of the yuan is meant).

Thus, the BRI does not look like an integration group with a fixed membership and strict liberalization commitments of participating countries. Anyway it is difficult to imagine a single FTA, which would involve dozens of countries located on different continents, with very different levels of development. The BRI is rather a broad and flexible format within which a large number of bilateral and multilateral projects can exist. Although there are certain integration ingredients in the BRI, these are mainly elements of a "positive integration" (implementation of joint infrastructure projects, poverty reduction by international efforts, financial innovations), rather than of a "negative integration" (removal of restrictions on movement of goods, services and factors of production among countries). But most of all, the BRI reminds (and this is mentioned by both Russian and Western analysts) Marshall Plan, implemented at the turn of the 1940s–1950s (Sanin 2018, Stratfor 2018). Then the USA invested heavily in rebuilding war-torn Europe, cementing foundations of the transatlantic Alliance under its auspices and securing markets for American firms.

It is widely believed that Chinese loans granted in the framework of the BRI, are more attractive to developing countries than the loans of IMF or the World Bank, since they are given without conditions of macroeconomic nature (such as a balanced budget of a borrower, a liberalization of prices and exchange rate, etc.). In addition, lending by Chinese banks is not sensitive to a nature of political regime in a borrowing country: the Chinese involve in the BRI project a variety of countries – from democratic to authoritarian

and theocratic. However, the Chinese do put forward conditions, but different ones.

From the experience of many countries participating in the BRI, it is known that not only debt financing, but also direct investment is provided under the obligation of the host country to attract Chinese companies for a design and construction of enterprises and infrastructure facilities; to use Chinese technology, equipment and materials in their activities; to hire Chinese specialists for an operation and maintenance of facilities.

No wonder, it is for this aim that the BRI was started. What's more, this is very consistent with the stereotypes of industrial policy, which is carried out within China herself. It aims to support national producers in competition with imports, to stimulate their interaction with each other, to spread the positive external effects of foreign economic cooperation throughout the economy. Now, with the help of the BRI, such industrial policy extends beyond China to the economies involved in her sphere of influence.

But, like any protectionism, it cannot be conflict-free. In some countries (in particular, Kyrgyzstan and Kazakhstan) there have already been protests by the local population against hiring of Chinese builders and non-compliance by Chinese investors with environmental requirements. In a number of states (Bangladesh, Malaysia, Myanmar, Nepal), local governments refused infrastructure projects already agreed with China, considering their conditions unacceptable. There are also illustrative examples of what the Chinese investment expansion can result in if it develops incrementally. To such countries as Djibouti, Kyrgyzstan, Laos, Tajikistan, Montenegro, the Chinese wrote off part of their debt on loans in exchange for introducing of Chinese control over the local deposits of natural resources – as mentioned above. Difficulties in servicing loans led to the long-term lease of port of Gwadar (Pakistan) and port of Hambantota (Sri Lanka) to the Chinese.

Is it bad or good – in each case it is necessary to judge separately. It is not always a question of real threats to the economic security of countries that attract Chinese money. But, in any case, it is clear that involvement in the BRI does not automatically create incentives to diversify an economy and exports of participating countries, and this should be taken into account when assessing the prospects of a country's participation in this project.

## The Perception of BRI in the World Arena

For clear reasons, BRI is being attentively followed in the whole world. Some governments are expressing their contentment with the initiative, some

others are manifesting their worries. The media is exploring the subject, sometimes in a quite exaggerated way (notably in the Western countries). Scholars are involved in the effort of filtering the true information, compiling the existing data and deepening the analysis over this very interesting and sensitive topic. Hence, once having discussed the proposal of BRI by the Chinese government and how it creates opportunities but also responds to challenges faced by this country, it is also important to inquire the perception of BRI in the world arena and the reactions to this project.

To initiate this investigation, it is interesting to construe the results of a big-data analysis regarding the media coverage of BRI in 132 countries. Herrero and Xu (2019) show that the average sentiment of the world media concerning the initiative is positive, but with extreme differences in the various countries and regions. First of all, the study indicates that the region where this positive sentiment is dominant is Central Asia. Due to its strategic position in Eurasia, but also to its abundant reserves of oil and gas, this is a core region for BRI, being also – as discussed above – the place where the initiative has been announced. Hence, it is one of the regions where the investment projects started being implemented, benefiting from the economic dynamism that they may generate.

The next region with a high positive sentiment regarding BRI is Sub-Saharan Africa, which comprehends notably low-income countries, where the investment projects tend to be welcome. Moreover, many of these countries have already constructed deep economic connections with China in the last decades. Finally, in East-Asia and Pacific the positive sentiment is also dominant, but with an important and illustrative divergence: in Australia, the average sentiment is negative, showing that the center countries are normally more reluctant in considering the project as positive for the world community. Further, Australia may fear that the increasing investments of China in the region will loosen its own influence over it. In the other side of the spectrum, Laos and Vietnam are the countries in the region where the positive sentiment is more dominant.

In Europe, the average sentiments are also very diverse. Interestingly, in some countries which are not part of BRI the positive sentiment is high, like in the Netherlands and in Portugal. On the other hand, in some non-EU countries that are part of BRI – some of them already receiving investments related to this initiative – a negative sentiment is dominant, like in Bosnia-Herzegovina and Poland. In the USA, the positive and negative allusions to BRI are somehow counterbalanced and the average sentiment is close to zero (the neutral point). In Latin America and the Caribbean most of the countries are concentrated around this neutral average sentiment, which may be related

to the fact that in these countries the discussions regarding BRI – as well as the possibility of joining this initiative – is recent.

Finally, in South Asia although there are also divergences, some countries show a predominant negative sentiment. Many of these countries are directly implicated in the BRI projects and the risk of debt trap and an excessive dependence on China are the probable explanations for this result. Moreover, in India – which is among the 10 countries with higher negative sentiments – there are historic disputes involved, as we are going to discuss in the next section.

Herrero and Xu (2019) also show that the positive sentiments are normally related to the investments in infrastructure and the trade opportunities potentially created by BRI. On the other hand, the reasons behind the negative sentiments are much more diversified, including the risk of debt traps, land grabbing and Chinese military expansion and complaints against the alleged unlawfulness, insecurity for workers and disrespect to the environment within BRI projects.

## The Challenges for the Countries Participating or Not in the BRI

In the USA, many analysts claim that the BRI lacks transparency, has no strong commitment to sustainability, ignores the practices of good governance and will lead some countries to “debt traps”. Even if one cannot integrally refuse these statements, it is more than obvious that this effort of the USA to blemish the international image of BRI is deeply rooted in its economic and geopolitical rivalry with China which has gone out of the shadows in Trump’s administration. As discussed above, the BRI started as a plan to integrate Eurasia through land, but it has been gradually extended to include the Pacific Islands, Africa and even Latin America. At the end of the day, the ironic result is that the initiative is prone to include all the world but North America. Daring to work for the reallocation of the center of gravity of the world economy, from the Atlantic Ocean to Eurasia, this project is clearly opposed to the American leadership of the world economy. An open letter signed by 16 American Senators is quite eloquent to show the tensions arising in the USA due to BRI: “the goal for BRI is the creation of an economic world order ultimately dominated by China. It is imperative that the USA counters China’s attempts to hold other countries financially hostage and force ransoms that further its strategic goals”<sup>15</sup>. Besides criticizing the initiative, the USA has

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<sup>15</sup> Letter addressed to the Secretaries of the Department of Treasury, State and Defense and

been pushed by the BRI to provide also some international cooperation to the countries potentially involved in the initiative<sup>16</sup>.

For Europe, the infrastructure planned by the BRI will bring a clear benefit for its trade which China, by reducing the costs and the time length for the transportation of goods. Nevertheless, if it represents a benefit for the consumers, it will also increase the competition for the European productive sector, inside Europe but also in third markets. Indeed, some official documents (e.g. BDI 2019) have been already expressing their worries about the competition with China in other countries. Hence, one of the main concerns of the European Union is related to its industrial sector. The European most powerful country has openly declared that its industrial policy involves now a kind of retaliation to the Chinese appetite to purchase German companies, notably in high-tech or strategic sectors. In the Atlantic side, Europe has been simultaneously pressed by Trump's administration to raise its guard regarding the world's economic competition. This whole picture somehow shows the sentiment of EU regarding the two most important countries in the world nowadays. Geopolitically, Europe has also kept important influence over its former colonies, notably in Africa and the BRI will probably loosen it by enhancing the connection between many African countries and China. However, EU is not a monolithic group and some countries some countries (e.g. Italy, Greece and Switzerland) have already signed a Memorandum of Understanding with China related to the project.

Australia and Japan are not directly involved in the projects, but due to their geographical positions it is obvious that BRI may have important influences over these countries. On one hand, they may also benefit from a better infrastructure for the transportation of goods, which tend to deepen and create more efficiency in the Asian GVCs (the so-called "Asian Industry"). Nevertheless, their roles as regional leaders may be relativized due to the increasing importance of China. As a reaction, both countries got involved in the development of (other) infrastructure projects in South Asia and Africa. Additionally, the impressive catching up process verified in the Chinese industry allied to the outcomes of BRI may result in the near future in a tough competition for Japan, not only related to goods, but also to technological standards.

Hence, if initiatives for free trade have been part of the rhetoric of the center countries for the last decades, it is interesting to see how China is currently not only playing the role of the most important advocate of free

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signed by 16 USA Senators on August 8, 2018.

<sup>16</sup> As a response to BRI, the Americans are developing a program for infrastructure in Africa in collaboration with Japan and India (Stratfor 2018).

trade in the world, but it is also the country which is more deeply concerned in concrete projects to revitalize the international trade, after the deceleration it suffered after 2008. On the other hand, many of the center countries seem apprehensive with this movement and notably with BRI, which has indeed much more objectives than just fostering the international trade.

Moving the analysis for other groups of countries, the challenges tend to be different. Starting with BRICS countries, the main concern is that the group as a whole has lost importance in the framework of the Chinese foreign policy. BRICS and BRI are obviously not contradictory – in theory, they may be also complementary –, but some representants from Brazil, Russia, India and South Africa have been expressing the sentiment that BRI is somehow eclipsing the centrality BRICS had not so long ago. Nevertheless, it is crucial to understand that a relevant reason for this declining importance of BRICS comes from the economic and political crises in some of these countries – notably Brazil and South Africa – and, more importantly, from the new orientation of the Brazilian governments after the impeachment of Dilma Rousseff, since the new president radically changed the foreign policy, giving explicit priority to the relations with the USA<sup>17</sup>. Yet, the challenges are different for each of the BRICS countries.

For Russia, one may not ignore that there are some tensions regarding the Central Asian countries, historically connected to Russia and very important for Moscow for both economic and security reasons. In this sense, Russia does not want BRI to undermine the Eurasian Economic Union (EAEU). In spite of that, a participation in BRI may be fruitful for Russia, since in such a way she will be able to apply her potential as a transit country. Furthermore, the very character of that project provides her with a space to manoeuvre. By now, Russian exports to China consist primarily of fuels and other commodities. More active industrial policy is needed to correct this situation. A flexible framework of the BRI is more suitable for this objective to be achieved, rather than traditional forms of regional integration, such as a free trade area. It is so not least because Russia will be able to cite examples of Chinese protectionism in order to justify her own measures to promote exports of manufactured goods and to localize a provision of intermediaries for both export-oriented and import-substituting sectors of her economy. More importantly, Russia is attentive to do not fall into excessive Chinese debt and to require joint ventures with Russian control in projects developed inside its territory.

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<sup>17</sup> During the Worker's party governments in Brazil, the foreign policy was deeply oriented to the development of BRICS. After the impeachment – considered by many analysts as a “coup d'état” –, Michel Temer's government has explicitly declared a change in the foreign policy.

India is one of the countries expressing more suspicions regarding the BRI. Besides its historical tensions with China, the most important element to understand it is the plan for the construction of a China-Pakistan Corridor within BRI that would cross the disputed area of Kashmir. The Indian government has therefore declared that it consists a violation to its national sovereignty. Consequently, India has not attended the BRI Forums and is openly criticizing the initiative for its lack of transparency and its incitation to debts. Moreover, its prime minister Narendra Modi has been raising public concerns about the project, even claiming that it may be used by China in the future for military purposes. Interestingly, India is also responding by launching or reviving some initiatives for regional cooperation outside the framework of the BRI.

Due to its geographical position, Brazil was initially not part of BRI. Nevertheless, since the initiative has been widened to include also Latin American countries, dialogues about a possible participation of Brazil were initiated. Actually, Brazil has already been receiving Chinese investments related to infrastructure (notably energy) during the last years. Its official participation in the initiative would mean the inclusion of these investments under the umbrella of BRI, but also a possible expansion of these investments to other fields (e.g. the infrastructure related to the transportation of goods). The political tensions between the two countries may be seen as an obstacle, since the Brazilian current president Jair Bolsonaro is very deeply connected to the USA<sup>18</sup>. Indeed, under his government, an autonomous foreign policy was abandoned in favor of a USA-oriented policy. However, in spite of all this discourse, the Brazilian government is step by step re-establishing pragmatic relations with China. This role is being played by the Vice-President Hamilton Mourão, who has recently declared that Brazil is “open to discuss” its participation at BRI<sup>19</sup>. Since 2009, China is the main trade partner for Brazil and since 2013 Chinese investments in Brazil are increasing substantially. Entering into a real dispute with China would be therefore harmful for the Brazilian economy and notably to the agrobusiness sector, whose exports are enormously depended on China. Since this sector composes an important group supporting Bolsonaro’s government, it would bring also political damages for the president.

South Africa is still under the effects of a critical political and economic crises. In 2018, its GDP growth has been one of the lowest in the whole continent. In this sense, the investments related to BRI may appear as an

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<sup>18</sup> Following the example of Trump, he made some violent declarations against China during the electoral race.

<sup>19</sup> Xinhua Agency in May 2019.

important source of dynamism for this weakened economy. Yet, the imperative problem is the probable maintenance of the country’s role as solely a supplier of mineral goods and energy to China. According to Monyae (2019), South Africa has to search for a more prominent role in BRI. Within BRICS, this country has presented itself as the representative of Africa in the discussions and as a gateway to the continent. Differently, some debates regarding BRI have been done within the African Union<sup>20</sup> and the more concrete measures are bilaterally negotiated, creating the risk of undermining the South African leadership in the region.

Among the Southern Asian countries, Pakistan is the one where the immediate impacts of BRI are higher. The above-mentioned China-Pakistan Economic Corridor involves around \$ 18 billions (around 6% of the country’s 2018 GDP) and is linked also to investments in the Port of Gwadar and the new Gwadar airport. Besides the transportation network, massive investments are also planned for power projects, which may strongly alleviate the chronic problem of power shortages. The obvious problem comes from the risk of excessive indebtedness and the example of the non-performing loans related to the Gwadar Port – mentioned above – is quite illustrative<sup>21</sup>. Besides, the tensions with India are getting deeper, as previously discussed.

To conclude, it is important to understand that there are also some benefits and challenges that are common to almost all peripheral countries. The most important benefit arises from the effective (in some cases dramatic) lack of infrastructure. Specially, in many countries the transportation network is quite inefficient, resulting in non-negligible extra-costs for both exported and imported goods. Therefore, the BRI may indeed give a contribution to these countries trade and to the international trade as a whole. Furthermore, these investments will certainly contribute to the economic dynamism of these countries. Nevertheless, some important problems arise. First of all, these whole transportation network will be external-oriented, i.e. its construction is related to the purpose of fostering the external trade; more precisely, to foster the commerce with China. Hence, it would not deal with the problem of integrating the national space of the involved countries; or to create regional connections (e.g. inside the African continent). In this sense, it would reinforce the historical tendency of the peripheral countries to have an external-oriented economy, with immense – sometimes perverse – ties to the industrial countries.

Another general benefit for the peripheral countries comes from their

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20 A MoU regarding BRI was signed between the African Union and China.

21 For details, see Stratfor (2018).

handicap in raising reasonable amounts of funds – notably in international currencies – in the private markets. For some countries, the only possibility is getting credit lines at the World Bank (or any other western multilateral institution), which may be very costly due to the conditionalities imposed by this institution – normally austerity policies, political and/or neoliberal economic reforms. BRI creates therefore an alternative source of international funds for these countries, exempted of these traditional western conditionalities. Indeed, China provides funds for many countries regardless of its political or economic regime. Nonetheless, it is already clear that some of the Chinese loans are provided for hiring Chinese companies. Moreover, one may also not ignore that being indebted with China creates a higher dependence on this country – notably when it results in non-performing loans, as discussed above.

Finally, the most important challenge for the peripheral countries is the classical problem arising from the economic integration in a world with so heterogeneous economies. All over the last century, many economists, from List (1909) and Prebisch (1949) to Chang (2002) have raised points about the problems related to a specialized (non-diversified) economy, to the necessity of industrial development, to the defense of the *enfant industries*, to the urgency of a catching up process related to the development of high-tech industry, and so on. By strengthening the integration of many underdeveloped countries to a powerful industrial economy as China, the tendency will be the intensification of a division of labour in which these countries produce agricultural/mineral goods or intermediate goods with very low value-added – i.e., they will perpetuate their positions in the less profitable parts of the GVCs. In other words, by heightening the connection between so asymmetric countries, BRI creates the serious risk of a magnification of these asymmetries.

## Final Remarks

From the analysis developed in this paper, the first important confirmation is that BRI is indeed quite impressive. Given the amount of resources, the number of involved countries, the variety of projects, but mostly the ambition of changing the center of gravity of the world economy, it is an initiative that justifies all kind of researches intending to analyze it and prospect its – economic and geopolitical – impacts. Due to the quantity and diversity of related initiatives, to the lack of organized data and information, and to the exaggeration of the media it is still not easy to establish the boundaries between the ideas and the concrete projects. Nevertheless, by showing what

has been done so far, this paper clearly shows that after 6 years, the initiative is much more than an abstract plan. Involving already 125 countries and 29 international organizations, BRI is still in its initial steps, but it mobilizes already a considerable group of projects and also an increasing number of free-trade agreements.

Following the general strategy launched in 2013, the projects are concentrated in transportation and energy, so it is unquestionable that they will have important effects on the amelioration of the infrastructure in many countries. Hence, they tend to have a double economic effect: in the short-term, they provide economic dynamism; in the long-term, they effectively tend to facilitate the international trade, which is one of the main aims of BRI.

These two effects have to be however analyzed in more details to avoid superficial conclusions. Concerning the first one, it is undoubtful that investments heat the economies in the short-term. Nonetheless, we have to check where this dynamism is (or will be) created and it depends on the actors that are taking part in this investment process. Hence, it is important to analyze if the companies, suppliers and workers involved in the investment projects are national or if they are Chinese. The responses have to come in case-by-case studies, which constitute a very important field for researches.

Concerning the second potential effect, i.e. the intensification of the world trade, it is also unquestionable that better infrastructure, by lowering the transportation costs tend to facilitate the exports and imports. Yet, within a political economy framework it is absolutely necessary to understand that transportation costs are important for the international commerce, but there is another crucial component that may never be ignored: the attitude of nation-states, which arise also from political decisions. After the outbreak of the international crises in 2008, protective policies have been adopted in some countries, having its paroxysm in the Trade War engendered by Trump's administration. In this sense, BRI is very coherent with the new role played by China in the world arena as the new advocate of free trade. Its implementation depends however on the acceptance by other countries, which involves always political calculations.

It is therefore clear that being a so vast initiative, with so diversified economic and political implications, BRI requires very complex investigations. Trying to give a contribution for the discussions, this paper showed initially that the plan created indeed some important possibilities for China. After all, it is a Chinese initiative and besides the discourse of universal benefits it is obvious that it envisages mostly benefits for this country. These benefits may come from the strengthening of the Chinese international trade, the dynamization of its economy, the dissemination of Chinese technological

standards worldwide, the internationalization of its banks and currency. Moreover, it comes from the extension of the Chinese political influence in the world arena.

Notwithstanding, BRI is not only an indication of China's economic and political strengths, but it responds also to some of its weaknesses. In this sense, the paper discussed the importance of BRI to counter the important deterioration of Chinese trade balance since 2008. Moreover, the investment projects worldwide may be a very important source of demand for some industrial sectors who are facing huge idle capacity in the recent period. In sum, even if most of the investments are (will be) made abroad, they may give a contribution to slow the pace of the deceleration in the Chinese economic growth. Moreover, certain projects involve investments inside Chinese territory and besides the obvious benefits for the economic dynamism they will be also important to reduce one crucial problem: the regional inequalities. By investing in infrastructure in the Western part of the country, BRI will foster the economic growth in this region, but will also pave the way to a deeper integration of the whole national territory.

Finalizing the analysis, it has been necessary to investigate how the rest of the world is dealing with BRI. Although the Chinese government uses the discourse of a win-win initiative, some researches show that the sentiment regarding BRI is very diverse in the different countries. Interestingly, we notice that the countries who demonstrate more resistance to the initiative are those who fear a loss of geopolitical influence in the world or in their regions. It reveals therefore that the apprehensions arise more from geopolitical issues than from economic ones. The most important economic risk is the debt trap, but in many countries the lack of long-term funds (notably in international currencies) and the deficiency in infrastructure is so harsh that they are prone to adhere to the projects. However, BRI brings also some challenges, as we have discussed above. Along with the more specific challenges, that have been analyzed in the article, there is one common threat for all peripheral countries: by heightening the commercial integration with China, these countries may perpetuate their roles in the International Division of Labour, as suppliers of mineral/agricultural goods and/or low value-added intermediate goods for the Chinese manufacture.

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## **ABSTRACT**

The “Belt and Road Initiative” (BRI) is quite impressive in the amount of resources and the number of countries involved, but also in the diversity of intentions it reveals. In one hand, it is a demonstration of strength for China in the international arena; in the other hand, it is an effort of the Chinese government to face important economic problems. Nevertheless, it may not be studied only from the point of view of China, since it has direct and indirect impacts over the whole globe. This paper aims therefore to analyze BRI under the framework of associated opportunities and challenges for China and for the rest of the world.

## **KEYWORDS**

Belt and Road Initiative; China; Infrastructure.

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