

The Investment Opportunities and Risks of the Belt and Road Initiative

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By

Fan Zhang and Lisa Zhang

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CONTENTS

Preface	viii
List of Illustrations	x
List of Tables	xi
Abbreviations	xiii
Introduction	xiv
Acknowledgements	xvii
1	1
The Historical Origins of the BRI, Motivations of the Chinese Government, and Strategic Design of the Programme	
1.1 Ancient Silk Road	1
1.2 Modern Silk Road	7
1.3 Motivation and Strategic Design	9
2	12
The Chinese Model and the BRI	
2.1 A Brief Review of the History of Modern China	12
2.2 The Chinese Model: Styles of Design and Implementation of the BRI	15
2.3 China's Foreign Aid in General	19
3	22
Scale and Scope of the BRI Programme	
3.1 Organisation	22
3.2 Scope and Scale of the BRI	23
3.3 Administration of the Programme	29
3.4 Implementation of the Programme	32

3.5 BRI Projects: An Overview	35
3.6 Major SOEs and Non-SOEs Involved in the BRI	38
4	41
Progress and Current Conditions of BRI Programmes	
4.1 Investments	41
4.2 Trade	42
4.3 Major Problems of the BRI	46
4.4 Effects of the BRI.....	53
5	55
Economic Opportunities: Trade and Investment	
5.1 Growth Theory	55
5.2 A Theory of Infrastructure Investment	56
5.3 Unbalanced Global Production	61
5.4 Unbalanced World Trade.....	66
5.5 Unbalanced Global Investment	68
5.6 An Input-Output Analysis of the BRI.....	71
Appendix.....	77
6	86
Funding the BRI	
6.1 The Nature of State-Guaranteed Finance	86
6.2 Financial Institutions Involved	87
6.3 Financial Tools	92
6.4 Renminbi Internationalisation	96
7	97
Advantages and Risks of Government-Financed/Guaranteed Programmes	
7.1 Advantages.....	97
7.2 Risks.....	100
8	116
BRI Projects	
8.1 A Sample of BRI Projects	116
8.2 A Statistical Analysis of the BRI Database	117

9	124
Development of the BRI in Different Regions and Countries	
9.1 South-East Asia, East Asia, and Oceania.....	124
9.2 South Asia	143
9.3 Central Asia.....	154
9.4 The Middle East	162
9.5 Former Soviet Union Countries (Except Five Central Asian Countries).....	172
9.6 Eastern and Southern Europe	184
9.7 Africa	199
9.8 Latin America.....	228
10	246
BRI and the Chinese Domestic Economy	
10.1 Overall Impacts on the Chinese Domestic Economy	246
10.2 Impacts of Competition Among Chinese Local Economies	248
11	255
Implications on the World	
11.1 US Wary About China's New Role As Aid-and-Loan Provider.....	255
11.2 Europe Aligns with the US and Creates Mirroring Plans.....	260
11.3 "Asia-Pacific" Becomes "Indo-Pacific" to Counterbalance China in the Region.....	261
11.4 Africa Becomes Major Stage for Competition	264
11.5 China's Entry into Latin America Puts US on Edge.....	265
12	268
Conclusion: Will the BRI Succeed in the Long Run?	
Bibliography	271
Appendix	330
Index.....	335

PREFACE

The Belt and Road Initiative (BRI) is an ambitious strategic plan that the Chinese leadership has undertaken based on global geopolitical and economic considerations. The unbalanced trade and investment around the world provide opportunities for China to carry out its BRI programmes. The BRI is a natural spillover of the rapid economic growth within China over the past 40 years, an international version of China's domestic development model, supported by state-guaranteed finance, jointly provided by the Chinese government and the recipient countries' governments. This book provides a complete picture and detailed information about the BRI's working procedure and structure, and performs an economic analysis using the world input-output models. This book explores the institutional roots of the problems of the BRI and discusses the redesign and reorganising of any future versions of foreign aid worldwide.

The Chinese model has both advantages and disadvantages. It can accumulate resources to support the BRI activities, has a low labour cost advantage, and the government's direct support benefits firms. There is a risk that the government may change the priority of the programmes based on non-economic considerations, and the government may over-interfere with firms' operations. Many of the problems with the BRI are the conflicts between the Chinese model and the political-economic environments of the recipient countries, which also provide an opportunity for China and the rest of the world to learn from each other. The debt burden results from the governments' incentive to choose large programmes for political influence without carefully considering the economic cost. It is a self-fulfilling, international version of the soft budget problem. Learning from the debt problem, being open to accepting some losses on loans, and renegotiating debt will be part of the future adjustments of the updated version of the BRI. The BRI will change the world production chains and structure of trade fundamentally and will initiate a new round of competition among developed countries in their aid of poorer countries. In the long run, the success of the BRI depends on the changing world order, the stability of Chinese society, the development of the Chinese economy, the stable relationship of the major country groups in the region, and the attitude of the non-participant countries.

The book uses a wealth of documents, cases, and statistics to provide a detailed analysis of the BRI. The authors created a BRI project database with over 2,000 samples, which provides details on the size, fields, contractors, and financial supporters of individual projects. We presented the statistical analysis of this database in Chapter 8. The book introduces China's investment in individual BRI countries as well as BRI-related activities in Chinese provinces. The book discusses the impact of the BRI on countries worldwide and the reactions within these countries. Although some key facts are updated as of May 2023, the central part of the analysis of this book is based on the facts as of November 2022.

The book is designed for policymakers, investors, researchers, and students in political science, economics, and country-specific research, in developed and developing countries, especially the countries along the BRI.

LIST OF ILLUSTRATIONS

Figure 1.1 Ancient Silk Road	4
Figure 3.1 Countries That Have Signed BRI Agreements	27
Figure 4.1 GDP Growth, China, 2000-2021	50
Figure 5.1 Infrastructure Investment and GDP, Annual Growth Rate, China, 1990-2019.....	58
Figure 5.2 World Infrastructure and Per Capita GDP, 2018	60
Figure 10.1 Production Capacities Utilisation, China, %	247
Figure 10.2 Capacity Utilisation, China, Four Industries, %.....	247
Figure 10.3 China-Europe Railway Express.....	250

LIST OF TABLES

Table 1.1 A Time-Line Chart of the Ancient Silk Road.....	7
Table 2.1 Distribution of Disposable Income, China, %	14
Table 3.1 Countries Included in the BRI Region, An Unofficial List (Narrowly Defined List)	24
Table 3.2 Official List of the BRI Countries, as of November 2022 (Broadly Defined List).....	25
Table 3.3 Population and GDP, BRI Countries as a Percentage of the World	29
Table 3.4 General Steps of Implementation, the BRI Projects	33
Table 3.5 Non-Financial Direct Investments and Foreign Contracted Projects, China, 2014-2021	36
Table 3.6 Number and Value of BRI Projects, Refinitiv BRI Database....	37
Table 3.7 Number of BRI Projects Estimated by Hong Kong Trade Development Council, as of December 2019.....	38
Table 4.1 China's International Trade.....	43
Table 4.2 Percentage Decrease in Trade Costs Due to the BRI, Mean	44
Table 4.3 Per Capita GDP Annual Growth	54
Table 5.1 Population and Percentage of the World Population of Groups of Countries, 1960, 1990, 2010 and 2019	62
Table 5.2 GDP by Groups of Countries, Million Constant 2010 USD and %	64
Table 5.3 GDP Per Capita and Percentage of the U.S., Constant 2010 USD and %	65
Table 5.4 Growth Rates of GDP and GDP Per Capita	66
Table 5.5 Imports and Percentage of the World Imports by Country Groups.....	67
Table 5.6 Exports and Percentage of the World Exports by Country Groups.....	67
Table 5.7 Exports and Percentage of the Exports, the BRI Countries	68
Table 5.8 Gross Capital Formation by Country Groups, Million Constant 2010 USD	69
Table 5.9 Gross Capital Formation, Countries Groups within the BRI	70
Table 5.10 World Input-Output Relations, 2015, % of World Output	72
Table 5.11 Coefficient of Supply, 2015	74

Table 5.12 Coefficient of Influence, 2015	76
Table 5.13 Country Group Code.....	79
Table 5.14 Manufacturing-I and Manufacturing-II, and Other Industries	84
Table 6.1 Number of BRI Projects and Loan Balance, Exim	89
Table 6.2 Loans Issued by CDB to the BRI Countries	90
Table 6.3 AIIB Investments	91
Table 7.1 Income Distribution Among Different Groups in Chinese Society, %	98
Table 8.1 Number and Percentage of Projects by Region.....	117
Table 8.2 Number and Percentage of Projects by Sectors	118
Table 8.3 Types of Contractors	119
Table 8.4 Types of Project Finance.....	119
Table 8.5 Total Costs, Loans and Grants	120
Table 8.6 Failures and Problems of the Projects.....	120
Table 8.7 Summary Statistics of the World Bank Projects and the BRI Projects	121
Table 8.8 Comparison of Regional Distribution of World Bank Projects and BRI Projects	121
Table 8.9 Comparison of Country Risks of the World Bank Projects and the BRI Projects	122
Table 8.10 Comparison of Sector Distribution of the World Bank Projects and the BRI Projects	122
Table 8.11 Percentage of Co-financed Projects of the World Bank Projects and the BRI Projects	123
Table 10.1 Foreign Trade of Chinese Provinces	253

ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
BRI	Belt and Road Initiative
CCCC	China Communications Construction Company
CDB	China Development Bank
CNPC	China National Petroleum Corporation
COSCO	China Ocean Shipping Company
CRCC	China Railway Construction Corporation Limited
EUR	Euro
Exim	China Export and Import Bank
ICBC	Industrial and Commercial Bank of China
FDI	Foreign Direct Investment
MOFCOM	Chinese Ministry of Commerce
MOU	Memorandum of Understanding
PPP	Public-Private Partnership
PRC	People's Republic of China
RMB	Ren Min Bi (Chinese Currency)
SOE	State-Owned Enterprise
USD	US Dollar
ROW	Rest of the World

INTRODUCTION

The Belt and Road Initiative (BRI) is a global economic development programme initiated by the Chinese government targeting a large group of developing countries, mainly in Eurasia.¹ The BRI is a vast government-led investment project through which the Chinese government plans to deliver trillions of dollars in infrastructure financing to a large number of countries. The BRI is implemented using the experience and working style of Chinese domestic economic development over the past four decades. It is the largest global development financial project in history.² It is expected that the total investment in the BRI will be over USD1 trillion.³

The programme was formally announced by Chinese President Xi Jinping in 2013 during his official visit to Indonesia and Kazakhstan. “Belt,” or “the Silk Road Economic Belt,” refers to road transportation; while “road,” or “the 21st Century Maritime Silk Road,” refers to sea routes. The BRI is part of China’s strategic plan for global expansion for the first half of the 21st century.⁴ ⁵ Much like the Chinese government’s approach to other areas “with Chinese characteristics,” the BRI is implemented based on the experience and working style of Chinese domestic economic development

¹ The Nicholas Institute for Energy, “Belt and Road Initiative”, n.d., retrieved October 2022 at <https://nicholasinstitute.duke.edu/project/belt-and-road-initiative>.

² Rafiq Dossani, Jennifer Bouey, and Keren Zhu, “Demystifying the Belt and Road Initiative”, Rand Working Paper, 2020, p.1, retrieved April 2022 at https://www.rand.org/pubs/working_papers/WR1338.html.

³ Daniel R. Russel and Blake Berger, “Navigating the Belt and Road Initiative”, Asian Society, June 2019, p.7, retrieved April 2022 at https://asiasociety.org/sites/default/files/2019-06/Navigating%20the%20Belt%20and%20Road%20Initiative_2.pdf.

⁴ BRI appears to have been an extension of the China-ASEAN Investment Cooperation Fund established by Wen Jiabao in 2009. The term was first used during the administration started in 2013 by Premier Li Keqiang in early September 2013 at a trade show in Guangxi province.

⁵ Jinping Xi, “Xi Jinping’s BRI Speech at Bo’ao Forum for Asia Reveals CCP’s Global Ambitions”, April 27, 2021, retrieved October 2022 at https://www.theepochtimes.com/xi-jinpings-bri-speech-at-boao-forum-for-asia-reveals-ccps-global-ambitions_3790835.html.

over the past four decades.

The “belt” builds on the old trade routes connecting China, West Asian and East European countries. The “Maritime Silk Road” expanded the connection from the Chinese coast to the ports in Southeast Asia, India, the Middle East, and Africa.

The Asian Development Bank (ADB) estimates that Developing Asia will need to invest USD26 trillion in infrastructure from 2016 to 2030, or USD1.7 trillion per year, if the region is to maintain its growth momentum.⁶

⁷ The BRI is supposed to solve the infrastructure gap in low-income countries in the area, and to potentially accelerate the regional economic development.

The narrowly-defined BRI covers more than 60 countries in the world.⁸

⁹ The broadly defined BRI includes about 150 countries in Asia, Africa, Europe, and Latin America, that signed BRI agreements with China and produced more than one third of the world GDP. (See Chapter 3 for details.)

The BRI is an important part of the Chinese government’s global expansion strategy in the long run. This “westward expansion” will build economic and political cooperation between China and low- and middle-income countries in Asia, Africa, and Latin America. It is an alternative strategy to the Sino-US cooperation for China, especially in an era of new geopolitical tensions between the US and China.

The development gap worldwide provides enormous investment opportunities, but the political situations and less developed economies in the BRI coverage area create significant risks for the programme. The project involves lending to sovereign borrowers raising debt distress in some countries. The BRI is a huge government-guaranteed investment programme, and its success depends on political and economic stability in China as well as the countries in the region. Most BRI problems come from applying the Chinese model to a foreign environment without carefully considering the situation of the recipient countries. The debt burden and

⁶ Asian Development Bank (ADB), *Meeting Asia’s Infrastructure Needs*, Manila: ADB, 2017, xvi.

⁷ Monan Zhang, “AIIB Will Embrace Diversified Investment and Financing Cooperation”, China US Focus, January 5, 2015, retrieved October 2022 at <https://www.chinausfocus.com/finance-economy/the-asian-infrastructure-investment-bank-will-embrace-diversified-investment-and-financing-cooperation/>.

⁸ Time, “What to Know About China’s Belt and Road Initiative Summit”, archived from the original on 28 January 2018, retrieved 30 January 2018.

⁹ Wikipedia, “Belt and Road Initiative”, retrieved October 2022 at https://en.wikipedia.org/wiki/Belt_and_Road_Initiative.

other problems set a constraint on the size of the BRI and require an adjustment of the BRI projects. The organisers of the BRI need to give more consideration to the recipient countries' social, economic, and environmental conditions.

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THE HISTORICAL ORIGINS OF THE BRI, MOTIVATIONS OF THE CHINESE GOVERNMENT, AND STRATEGIC DESIGN OF THE PROGRAMME

The name “modern Silk Road” comes directly from the ancient Silk Road. Some similarities exist between the two in their geographical environments and institutional characteristics. To understand the modern BRI, we need to know the ancient Silk Road. Therefore, we provide a brief review of the ancient Silk Road before our discussions on the modern BRI.

1.1 Ancient Silk Road

The eponymous silk in “Silk Road” was a luxury textile first produced in China and traded with the countries to its west on land and via water passages from the 2nd century BCE to the 18th century CE.¹ For some of these countries, silk was the most critical commodity imported from China in ancient times, and one of the primary reasons for the trade with China. The term “Silk Road” was first popularised in 1877 by German geographer Ferdinand von Richthofen.²

In the past 2000 years, China’s commercial relationships with the rest of the world, especially Central and Western Asia, have been represented by the ancient Silk Road. The ancient Silk Road was initially developed by traders in the area and then supported and globalised by the governments of

¹ Vadime Elisseeff, “The Silk Roads: Highways of Culture and Commerce”, UNESCO Publishing, 2001, Berghahn Books, ISBN 978-92-3-103652-1.

² The German Way, “German Geographer Ferdinand von Richthofen and The Silk Road”, n.d., retrieved April 2022 at <https://www.german-way.com/notable-people/featured-bios/german-geographer-ferdinand-von-richthofen-and-the-silk-road/>.

the countries in the region, including the Chinese dynastic governments. The Silk Road connected China, a relatively isolated developed area in East Asia, to the civilisations in the Middle East and Europe, across a vast, less developed area. The ancient Silk Road includes the land portion of the Silk Road and the Maritime Silk Road.

The East-West transcontinental communication, trade, and migration have been a phenomenon on the Eurasian continent for as long as humans have occupied this vast expanse. Trade between China, Middle Eastern, and European countries can be traced back to long before the Silk Road. Remnants of silk (probably Chinese) have been found in Egypt dating from 1070 BCE.³ Efforts to expand trade relations were made from both the west and the east, with the west reaching eastward earlier. The Roman Empire controlled the eastern trade routes, which were part of the Silk Road, and encouraged trade with the east. The Greeks extended their contacts to the east during the Macedonian empire of Alexander the Great through the establishment of the Greco-Bactrian Kingdom (250-125 BCE) and Indo-Greek Kingdom (180 BCE-10 CE) in the region of modern Afghanistan, Tajikistan, and Pakistan.⁴ ⁵ The Persian Empire built and protected the Royal Road from the city of Susa to the port of Smyrna around 500-330 BCE.⁶ In the east, the Chinese government played a most important role in creating links with the areas to the west of China, initially for political and military reasons. Zhang Qian, a Han dynasty (202 BCE-220 CE) government official, and diplomat, was sent by the government to obtain an alliance with the countries in the west to fight against the Huns. He made reports on countries in the area. He suggested that China should expand westward and build roads to connect China and the countries in the west at around 130 BCE.⁷ Emperor Wu (141-87 BCE), who was busy fighting Huns in the north and needed allies, read these reports and made the decision to develop relations with the countries in the area. After winning some of these

³ Elizabeth Pollard, Clifford Rosenberg, and Robert Tignor, *Worlds Together Worlds Apart*, New York: Norton, p. 278, ISBN 978-0-393-91847-2.

⁴ Nicholas Doumanis, *A History of Greece*, Palgrave Macmillan, Red Globe Press, 2009, ISBN 978-1137013675 p. 64.

⁵ Alexander the Great Organization, "Greco-Bactrian Kingdom", n.d., retrieved October 2022 at <https://alexander-the-great.org/cultures/greco-bactrian-kingdom>.

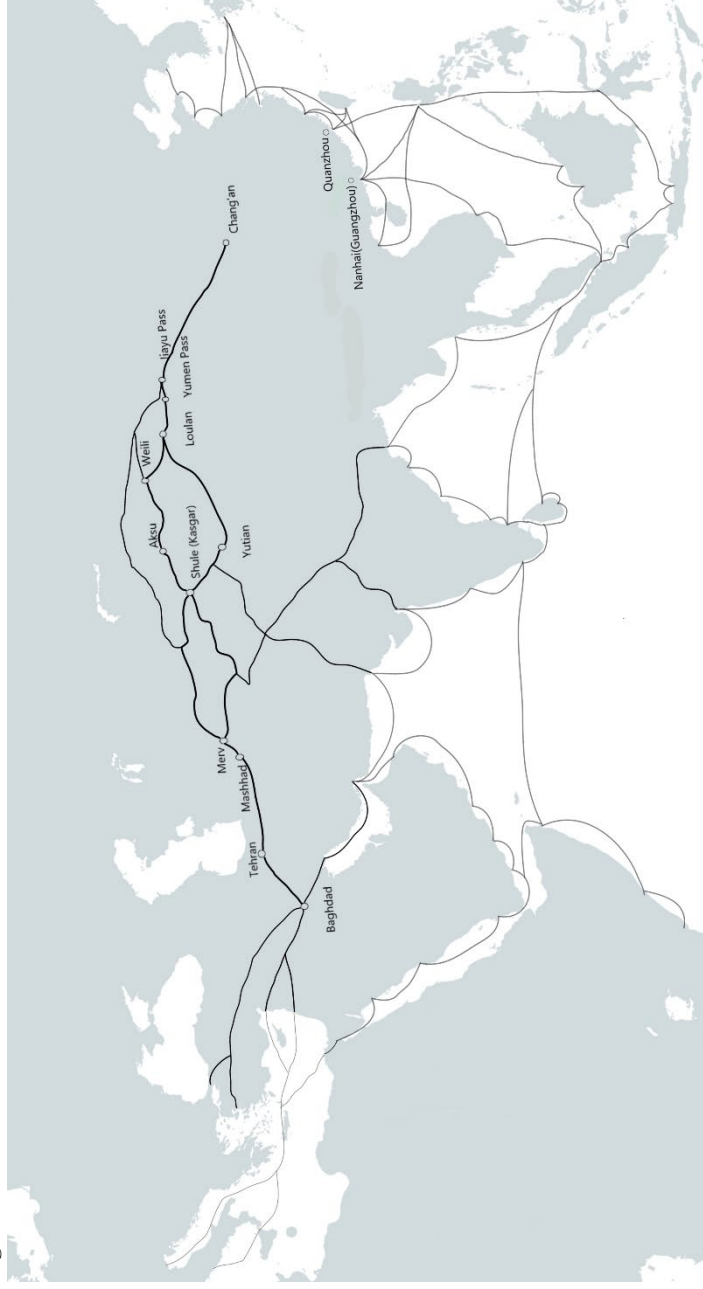
⁶ David F. Graf, "The Persian Royal Road System", *Continuity & Change: Proceedings o-x*, 1994.

⁷ Yiping Zhang, *Story of the Silk Road*, WuZhou Press, 五洲传播出版社, 2005, p. 22, ISBN 978-7-5085-0832-0. Archived from the original on February 27, 2018. Retrieved April 2011.

wars, Chinese armies established themselves in the area and initiated the Silk Road as a major international trade network. China controlled the eastern part of the Silk Road at the time of the later Han dynasty, ensuring the freedom of trade along the double chain of oases north and south of the Tarim by using military force.⁸

⁸ Di Cosmo, *Ancient China and its Enemies*, Cambridge University Press, 2002.

Figure 1.1 Ancient Silk Road



Source: Created by the authors using mapchart.net.

The land portion of the ancient Silk Road consisted of several alternate routes. It started in Chang'an (currently Xi'an), or Luoyang in the Late Han period (25-220), and went through the Hexi Corridor (河西走廊) to the Jiayu Pass (嘉峪关) and the Yumen Pass (玉门关), the westernmost point of China's territories at the time. Past the Yumen Pass, the Silk Road was divided into two routes, the northern and southern routes. The northern route went to the north of the Taklamakan Desert, from the Yumen Pass, through Loulan (楼兰) and ended in Shule (疏勒, Kashgar); from there the Silk Road went across Conling (葱岭, Pamir Range) to Persia and India. The southern routes went through the south of Taklamakan Desert, passed through Ruoqiang (若羌), Yutian (于阗), and Shache (莎车) to the Pamir Range. Branches of the northern and southern road met at Shule. The southern road went through northern Pakistan and into Afghanistan and rejoined the northern route near Merv (木鹿) and Mashhad (马什哈德). From Merv, the road went west to the Levant, an historical region in the eastern Mediterranean, where sea routes connected to Italy. The Maritime Silk Road, developed mainly in the Song dynasty (960 to 1279), connects China to Southeast Asia, the Indian subcontinent, the Arabian Peninsula, Egypt, East Africa, and Europe.

The Silk Road was reopened, after several hundred years of lost control, by the Tang dynasty (618 to 907) in 639 when it conquered the regions and kept it open for almost four decades, during which Tang occasionally lost control to other powers in the area. Tang competed with countries in the area in the controlling of the road. During the Tang dynasty, the Chinese empire was welcoming foreign cultures, and Persian and Sogdian merchants could be seen in Chinese cities, trading western-made glassware for Chinese silk. The eastern portion of the Silk Road experienced its golden age during the Tang dynasty. China lost control of the Silk Road after the Tang dynasty.

The Silk Road has been controlled not only by the Chinese but also by Tibetans, Muslims, and the Mongol empire at different times. Many people along the road played significant roles in facilitating trade between the west and China, e.g., Sogdians and Persians. Through the Silk Road, many goods were traded between China and the west. Chinese merchants delivered silk, lacquer-ware, and porcelain to the Roman Empire in exchange for glassware, jewellery, spices, and jade. (Romans were known to wear silk robes.) The Chinese needed the superior horses bred by their western neighbours, which were crucial in fighting the Huns. Many vegetables and fruits, e.g., potatoes, carrots, and grapes were introduced from the west into China. Some scholars even think some of China's major technology and political systems

are imported from the west.¹ The ancient Silk Road promoted cultural exchanges and brought Buddhism to China.

The Mongols expanded on the Eurasian continent, controlled the Silk Road during the 13th to 14th centuries, and developed trade networks to the Black Sea and Mediterranean Sea to the west and the Indian Ocean to the south. Marco Polo, a Venetian explorer, travelled the Silk Road to China and wrote *The Travels of Marco Polo*,² which told western readers about the east. The fall of the Mongol Empire resulted in the separation of the great political powers along the Silk Road and the decline of the land portion of the Silk Road.

In the Song dynasty (960-1279), the Maritime Silk Road was opened for trade between China and the west, from the Chinese-controlled Giao Chi (in modern Vietnam near Hanoi) to Roman-controlled Egypt. The Song dynasty restored maritime trade in the South Pacific and the Indian Ocean, reaching East Africa.³ During the Ming dynasty (1368-1644), Zheng He, a eunuch admiral, commanded seven voyages to the Western Ocean, including Southeast Asia, the Indian subcontinent and East Africa from 1405 to 1433. The emperor ordered the voyages with the aim to increase the influence of the Ming dynasty through diplomacy.⁴ Zheng He's fleet contained large numbers of ships, the largest of which was about 127 metres long and 5 metres wide.⁵ ⁶ The prohibition of sea trade due to security reasons in the late Ming era through the Qing dynasty (1636-1912) ended the ancient Maritime Silk Road and China was closed to the rest of the world.⁷

¹ Liu Zhongjing, *China Marsh Land: a History of Inner Asia Dominant East Asia*, (in Chinese) Taiwan: Eight Banners Culture Press, 2017.

² ... volendosi ravvisare nella parola "Milione" la forma ridotta di un diminutivo arcaico "Emilione" che pare sia servito a meglio identificare il nostro Marco distinguendolo per tal modo da tutti i numerosi Marchi della sua famiglia. (Ranieri Allulli, "MARCO POLO E IL LIBRO DELLE MERAVIGLIE - Dialogo in tre tempi del giornalista Qualunque Junior e dell'astrologo Barbaverde". Milano, Mondadori, 1954, p.26.)

³ Gang Deng, *Chinese Maritime Activities and Socioeconomic Development, c. 2100 BC – 1900 AD*, Greenwood Press, 2005, p.12.

⁴ Edward L. Dreyer, *Zheng He: China and the Oceans in the Early Ming, 1405–1433*, Library of World Biography, New York: Pearson Longman, 2007.

⁵ Philip Bowring, *Empire of the Winds*, London, New York: I B Tauris & Co. Ltd., 2019.

⁶ Edward L. Dreyer and Peter Stearns, *Zheng He: China and the Oceans in the Early Ming Dynasty, 1405-143.*, Pearson Longman, 2007. Retrieved October 2022 at https://books.google.com/books/about/Zheng_He.html?id=9BeFQgAACAAJ.

⁷ Li Kangying, *The Ming Maritime Trade Policy in Transition, 1368 to 1567*,

Table 1.1 A Timeline Chart of the Ancient Silk Road

202 BCE-220 CE	Han dynasty. Silk Road is officially opened and unobstructed.
138 BCE	Han Emperor Wu the Great sends Zhang Qian to the west.
618-907	Tang dynasty. Silk Road was reopened.
960-1279	Song dynasty. The Maritime Silk Road was developed as an alternative to the land Silk Road, of which Song lost control.
1271-1368	Yuan dynasty (Mongols). Developed trade networks to the Black Sea and the Mediterranean Sea to the west and the Indian Ocean to the south.
1368-1644	Ming dynasty. Zheng He commanded voyages to the Western Ocean. Sea trade prohibition, for security reasons, ended the ancient Silk Road.

The history of the ancient Silk Road demonstrates some of the unique features of government-supported trade activity: (i) The Silk Road was supported by the Chinese empires for political and military purposes, using military forces to protect the trade activities. (ii) The Chinese empires controlled the road when it was politically and economically strong and unified domestically and lost their control when they were weak. Some of these experiences are useful when we analyse the modern Silk Road.

1.2 Modern Silk Road

Modern China inherits the tradition of the ancient Silk Road. During the first two and half decades of the People's Republic of China, Mao prioritised supporting the development of the Third World as part of his foreign policy, even though China's own economy was troubled. This policy was emphasised when China broke diplomatic relations with the US in the early 1950s and with the Soviet Union in the 1960s. Mao's international policy matched his Populism-based domestic policy, i.e., the Chinese Communist Party (CCP) took the side of poor people and developing countries worldwide. After Mao's death, the Chinese leadership changed its foreign policy to focus more on the relationship with the developed world, especially the United States. After 30 years of economic reforms and opening-up, China's foreign policy has begun to change again by putting

more weight on the developing world.

In the early years of the 21st century, the Chinese leadership made great efforts to revive the concept of building a modern Silk Road to strengthen ties with the rest of the world. Premier Wen Jiabao proposed building a maritime Silk Road between China and the Baltic states when meeting the Latvian premier in September 2007.⁸ He also mentioned “Silk Road” several times when meeting government officials from different countries, for example, when speaking at the second China-Eurasia Expo in September 2012.^{9 10}

Chinese President Xi Jinping, who became the Communist Party secretary and the chairman of the People’s Republic in 2012 and 2013, formally raised the initiative of jointly constructing the Silk Road Economic Belt and the 21st Century Maritime Silk Road during visits to Indonesia and Kazakhstan in 2013.¹¹ According to the official definition, the “belt” refers to the land portion of the silk route, while the “road” refers to the Maritime Silk Road.¹² The area initially covered more than 60 countries in Asia, Europe, and Africa. Many efforts have been made to set up and promote the programme. Premier Li Keqiang promoted the programme in many cases.

The official English translation of the name of the programme changed from “One Belt and One Road” to “The Belt and Road Initiative” in 2015, while the name in Chinese (“一带一路”) has not changed. The new translation emphasises that there is more than one road and that it is an initiative rather than a hard plan.

⁸ Chinese Embassy in Mexico, “Wen Jiabao Meets Mexican Prime Minister”, retrieved April 2022 at <http://mx.china-embassy.org/chn/xw/t359378.htm>.

⁹ Xinhua, “Chinese Premier Wen Jiabao’s Speech at Opening Session of Second China-Eurasia Expo (4)”, September 3, 2012, retrieved April 2022 at <http://en.people.cn/102774/7933196.html>.

¹⁰ Sources said that General Liu Yazhou, a famous writer and an officer of the Chinese air force, and a professor of the People’s University were the initiators of the BRI. He sent an insider proposal to the leadership. It is not verified. Wu Qiang, “What Happened to Liu Yazhou?” Mingjing, December 24, 2021. <http://www.youtube.com/watch?v=oQYkr7wwLVU>.

¹¹ The State Council of China, “Chronology of China’s Belt and Road Initiative”, March 28, 2015, retrieved April 2022 at http://english.www.gov.cn/news/top_news/2015/04/20/content_281475092566326.htm.

¹² Xinhua, “Philippines hails China’s Belt and Road Initiative”, March 7, 2017. Retrieved October 2022 at http://www.xinhuanet.com/english/2017-03/07/c_136109856.htm.

1.3 Motivation and Strategic Design

Like the ancient Silk Road, the modern BRI is a great strategic plan based on both global geopolitics and economic considerations. The unbalanced global economy provides enormous opportunities and risks for China to develop trade and investment relations with countries in Asia, the Middle East, Eastern Europe, and Africa. If successful, China will significantly enhance its spheres of political and economic influence in the world, especially on the Eurasian Continental Island, and make Eurasia the largest market in the world.

The objectives of the BRI, as stated by the Chinese government, are “to construct a large unified market and make full use of both international and domestic markets, through cultural exchange and integration, to enhance mutual understanding and trust of member nations, ending up in an innovative pattern with capital inflows, a talent pool, and a technology database”.^{13 14 15}

In the long run, China’s goal is to increase its influence and to be the dominant regional power in Asia and one of the most powerful countries in the world. The BRI is a crucial instrument to reach this goal; the other part of China’s global strategy is its relationship with the US and the developed world, which is currently in a bad state. China ultimately wants to be a global rule-maker, joining the top players to design and implement the status quo.

In the short run, the BRI will (i) help China to find a new market for its excess industrial capacity developed in the past four decades, which cannot be absorbed by domestic demand; (ii) build a platform for Chinese firms, including both state-owned enterprises (SOEs) and private firms, to invest overseas (under some degree of Chinese government control); (iii) import energy resources from the Middle East and other countries to meet the huge domestic demand; and (iv) negotiate more free trade and investment treaties with other countries in the world.

The Chinese leadership’s decision to commit to the BRI is based on a broadly defined cost-benefit analysis, including not only economic

¹³ News, “Zhejiang Uniview Technologies Co. Ltd.”, en.uniview.co., archived from the original on May 11, 2019.

¹⁴ Martin Keulertz, “Belt and Road Initiative: Risks and Opportunities for the GCC”, *Azaladvisors*, February 28, 2020, retrieved October 2022 at <https://azaladvisors.com/belt-and-road-initiative/>.

¹⁵ James Jixian Wang, “On the Belt and Road”, *YouTube*, May 19, 2021, <https://www.youtube.com/watch?v=4LqiI91KpCg>.

considerations but also geopolitical considerations in the long-term. The economic efficiency of BRI projects is not the foremost priority; rather, long-term political and economic costs and benefits trump any short-term inefficiencies. They are calculating the overall political and economic costs and benefits over a very long period.

The partial disconnect in US-China economic relations in recent years, which have altered the global economic structure and supply chains, will further force China to move westward to create a new market and a new investment absorption site. This can be considered a major shift in the focus of China's existing global strategy.

During the Warring States period of Chinese history (475-221 BCE), when seven kingdoms competed with one another, there were two types of strategic alignments. The origins of the terms "Vertical" and "Horizontal" are geographic and are based on either a North-South axis (i.e., vertical) or an East-West axis (i.e., horizontal).¹⁶ Thus, the states allied on the North-South axis were known as the "Vertical Alliance". To compete with the Vertical Alliance, the State of Qin chose a "Horizontal Alliance" and eventually defeated the other six nations.

Chinese strategists view the current world using similar strategic points. Currently, the world is like the ancient Warring States in China, and China's "Westward Strategy" is like a modern version of an economic "Horizontal Alliance" successfully adopted by Qin two thousand years ago.

The modern Silk Road consists of a large number of countries, most of them less developed, with different political situations. The opportunities and risks are ultimately balanced with each other. While the need for infrastructure construction creates huge opportunities, the BRI faces tremendous risks and challenges due to the area's complex political and economic situation, which creates high costs in the short and long term. The Chinese government and Chinese companies involved face tremendous challenges to overcome these problems in order to successfully build the BRI. The risks of the BRI include the regular risks for infrastructure construction and international investment in less developed countries and the risks created by the massive involvement of governments in the BRI programmes. Risks created by government involvement are a crucial feature of the BRI, including the debt default problem of the recipient countries and China's domestic economy and policy changes.

¹⁶ Wikipedia, "School of Diplomacy", retrieved October 2022 at https://en.wikipedia.org/wiki/School_of_Diplomacy.

In short, the ancient Silk Road was based on political-military considerations, and the control of the road was determined by China's domestic conditions. The modern BRI follows some of the traditions of the ancient Silk Road. In the short run, the BRI will help China to find new markets for its excess industrial capacity; build a platform for Chinese firms, import energy resources, and negotiate more free trade and investment treaties with other countries. In the long run, China's goal is to increase its influence and become the dominant regional power in Asia and become a global rule-maker.

THE CHINESE MODEL AND THE BRI

The BRI is an international extension of China's domestic model of development. The BRI's success or failure will be a test of whether "the Chinese model" can be applied in other developing countries.

2.1 A Brief Review of the History of Modern China

Readers need to know a little about China and its history to fully understand the BRI. China created the first modern bureaucratic government system about 2000 years ago, without the rule of law or accountability, the two other components of the modern political system.¹ This bureaucratic system has been the backbone of Chinese society and has its advantages and disadvantages. Entering the 20th century, China was moving toward a market economy, albeit with a weak government during the late Qing dynasty and early iterations of the post-imperial government. A much stronger government gained control in 1949 when the CCP established the People's Republic of China.

From 1949 to 1978, the government operated the economy under a Soviet-style planned system. The system was inefficient, partly because of the shortcomings of every planned economy and partly due to political turmoil during this period. The political and economic turmoil affected nearly everyone in society; this helped to form a consensus for reform. Economic reform started in 1978 which introduced a market economy under the bureaucratic government system. However, political reform has been stagnant. Moreover, after more than 30 years of economic reform, there is more concentration of power within China's political system, which has added more restrictions to the market economy.

¹ Francis Fukuyama, *The Origins of Political Order: From Prehuman Times to the French Revolution*, New York: Farrar, Straus, and Giroux, 2011.