

Chapter 1

China's Push for the BRI in a Changing World: Origins and Motivations



1.1 Unveiling of the Belt and Road Initiative: How Significant Is It?

The Belt and Road Initiative (BRI) is at the heart of the paradigm shift of Chinese foreign policy. Since its announcement by China's President Xi Jinping in 2013, the BRI has emerged as the centrepiece of China's aspiration to become a global power. China's BRI is rooted in history and inspired by the historic Silk Road, an extensive network of maritime and land routes for trade, communication and cultural exchanges that once linked China with the Eurasian countries. It fell into disuse around the 1600s after a few glorious centuries. China is now keen for this historical Silk Road to be revived.

Since the implementation of the Belt and Road Initiative in 2013, China has made every effort to expand cooperation with the BRI countries in the fields of infrastructure, investment, trade and people-to-people exchanges. The BRI is a globally oriented strategy, and therefore, it has no clear physical boundaries. It is a carefully crafted long-term strategy with an ambitious agenda.

The Chinese central leadership team for implementation of the BRI, headed by the Executive Vice Premier of the State Council, has been established since 2013. In October 2017, the BRI was incorporated into the Chinese Communist Party's Constitution, demonstrating the Party-state's determination to push through implementation of this grand initiative. No other countries have ever incorporated their economic initiatives or development plans into their constitutions.

China is keen to project a "Global China" image under the BRI. The Initiative has been opened up to all countries which are interested, and there has subsequently been a gradual shift away from the ancient Chinese Silk Road narrative based on the historical and cultural significance. Essentially, the BRI is China's outreach, connecting the world with China as the core hub. Nevertheless, several regionally

An initial form of this Chapter was published as an academic article, please see Yu (2017a).

or globally influential countries have not signed up for the BRI to date, including the United States, the United Kingdom, Canada, Mexico, Australia, India and Japan. Surprisingly, North Korea, China's close ally, is not in the BRI mapping.

Moreover, some countries which have signed up for the initiative have yet to host large-scale infrastructure projects under the BRI framework, for example, Vietnam. Some countries have merely endorsed the BRI formally as a concept and pledged to cooperate with China to promote the initiative. Even if some BRI countries are not hosting BRI projects, their endorsement of the initiative lends credibility to it.

Among the major global cooperation initiatives to promote infrastructure connectivity, the Belt and Road Initiative has achieved the largest financial scale and the greatest impact (see Table 1.1). This is a reflection of China's ascendance in the global arena, economically, politically and strategically. The BRI accurately reflects China's rising global influence.

The world cannot ignore the impact of China's rise and BRI implementation. According to a report published by the World Economic Forum (2022), Chinese enterprises and banking institutions have announced their participation in about 3800 overseas projects under the BRI since 2013, involving a total investment of US\$4.3 trillion. A poll released in 2022 by the Centre for Future Democracy at the University of Cambridge found that 62% of respondents in the developing countries around the world have a favourable opinion of China, compared with 61% of respondents who have a favourable opinion of the United States. Almost two-thirds of respondents from the BRI countries have a favourable opinion of China. According to the Cambridge survey report, for the first time, China leads the United States in public favourability in developing countries, especially in Asia and Africa. To the Chinese intelligentsia, this survey data documents well the rise of China's geostrategic influence in contrast to the United States' diminishing influence in the world, commonly described as the "rise of the East and decline of the West" by China.

Under the implementation of the Belt and Road Initiative, China has continuously expanded economic and trade ties with other countries, improved the cross-border connectivity of international trade routes, and promoted the sustainability of China's economic development (Office of the Leading Group for Promoting the Belt and Road Initiative 2019). Over the past four decades, China has pursued a national policy of domestic reform and opening up to the outside world, and its development achievements have attracted worldwide attention.

China's "reform and opening up" strategy since the early 1980s has two strands: the first is to promote reform, and the other is to expand the open market throughout the world. The 40 years of reform and opening up, especially since China's accession to the World Trade Organization (WTO), have been a period of rapid development and integration into the world economy. China's great development achievements have been made possible by opening its doors and embracing the world economy.

Since the announcement of the BRI in 2013, the Chinese government has been deploying its full political, economic and diplomatic resources in order to forge a positive image of the BRI among the international community. The success of the

Table 1.1 List of competing regional/global connectivity initiatives

Year	Dominant country/ Organisation	Name of connectivity initiative	Investment committed/Spent	Investment sector
2009	Australia	Australia-ASEAN Development Cooperation Programme Phase II	US\$39 million	Technical service for infrastructure development and regional integration
2010	ASEAN	ASEAN Master Plan for Connectivity	N/A	Infrastructure development; technical service
2013	China	Belt and Road Initiative	US\$156.2 billion–US\$332.6 billion*	Infrastructure development; technical service
2015	Japan	Partnership for Quality Infrastructure	US\$110 billion	Infrastructure development; technical service
2015	Russia and Kazakhstan	Eurasian Economic Union	N/A	Regional economic integration and infrastructure development
2016	India and Japan	Asia- Africa Growth Corridor (AAGC)	N/A	Infrastructure development
2017	Republic of Korea	ASEAN-Korea Infrastructure Fund	US\$200 billion	Infrastructure development; technical service
2019	United States, Japan and Australia	Blue Dot Network	US\$60 billion	Infrastructure investment and technical service
2021	European Union	Global Gateway	€300 billion	Infrastructure development; technical service

(continued)

Table 1.1 (continued)

Year	Dominant country/ Organisation	Name of connectivity initiative	Investment committed/Spent	Investment sector
2021	United States with other G7 countries	Build Back Better Initiative	US\$6 million	Climate change; digital infrastructure; gender equality; health systems
2022	United States with other G7 countries	Partnership for Global Infrastructure and Investment (PGII)	US\$600 billion	Climate change and energy security; digital infrastructure; gender equality; health systems

Note *According to China's Ministry of Commerce, US\$156.2 billion were invested in the BRI countries between 2013 and 2021, while, as estimated by American Enterprise Institute's China Global Investment Tracker, Chinese firms had invested US\$332.6 billion in the Belt and Road countries from 2013 to 2021

Source Compiled by the author

BRI will testify to China's rise as a full-fledged global power and boost the legitimacy of the Chinese Communist Party and the Chinese leader's rule at home.

The BRI puts China at the centre of geoeconomics and geopolitics in the region and beyond, a position from which it hopes to strengthen its political and economic ties with the participating countries. Most of the fast-growing emerging countries, such as Indonesia, Turkey, Saudi Arabia, Egypt, South Africa, Argentina and Chile, are concentrated along the Belt and Road routes. By deeply cultivating the markets of countries along the BRI, Chinese enterprises have seized new opportunities, expanded foreign investment and developed new economic and trade ties.

After a decade of development since 2013, the BRI has gradually transformed into a loose institutionalised framework for international cooperation. The projects presently covered by the Belt and Road, extending from infrastructure to manufacturing, finance, energy, services, logistics, digital economy and health, will help developing countries along the route accelerate the industrialisation process. The BRI provides a platform for Chinese companies and capital to invest in other countries by leveraging on China's strengths in manufacturing and infrastructure development and financial power.

The BRI is building a new model of interaction between China and the world: China is going to the world, and the world is going to China. Building on the ancient maritime and terrestrial Silk Road, China seeks to build a new circle of cooperation that extends across Asia and Europe to the African continent and Latin America. To borrow from President Xi's own words: "to expand China's circle of friendly countries".

China has successfully transformed the economic power it has built up since its reform and opening up into expanding influence in the world (Yu 2017b). China's ability to grant or deny access for foreign companies to its huge domestic markets gives it geoeconomic and geopolitical leverage.

While geopolitics and geoeconomics are different concepts with different meanings, the two are closely interrelated. The concept of geopolitics is defined as "an old expression shaped by both academic and popular usages going back to imperial concerns with the links between geography, state territoriality, and world power politics". In contrast, geoeconomics is a relatively new concept: "geoeconomic visionaries tend as a result to anticipate capitalist inclusion rather than the expulsion or containment of evil others. Their focus is on networks not blocs, connections not wall, and transborder ties instead of national territories" (Sparke 2007). In essence, geopolitics studies the influence of such as the military, political, human resources and other hard power elements on the policy of a state, particularly its foreign policy. Meanwhile, geoeconomics focuses more on economic space, covering transportation connectivity, networks, commerce, trade, investment, and financial and economic strengths. Geoeconomics concerns a nation's pursuit of strong economic performance and sustainable economic competitiveness. However, geopolitics and geoeconomics are two sides of the same coin, the political dimension of geoeconomics being strongly intertwined with the competitive economic dimension of geopolitics.

China has leveraged on its formidable economic power to pursue its long-term strategic goals and aims to further deploy the BRI to expand its geopolitical and

geo-economic influence in the world. The countries along the Silk Road routes will thus be brought into China's economic orbit. As Graham (2015) comments:

The preeminent geostrategic challenge of this era is not violent Islamic extremists or a resurgent Russia. It is the impact that China's ascendance will have on the U.S.-led international order, which has provided unprecedented great-power peace and prosperity for the past 70 years.

1.2 Motivations and Rationale Behind China's BRI Implementation

On 28 March 2015, China's National Development and Reform Commission, Ministry of Commerce and Ministry of Foreign Affairs jointly released the lengthy "*Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road*" (the Blueprint) outlining relevant frameworks, principles and action plans. This Blueprint provides the clearest overall picture yet of the ambitious BRI and demonstrates China's serious attempt to materialise its grand vision. In China's view, the BRI is an initiative calling for infrastructure development and economic cooperation that will foster economic growth and industrial development for the participating countries, to create trade and investment opportunities and promote stability and peace in the world.

China stresses that BRI implementation is based on extensive consultation with the countries involved. The Chinese authorities insist that the BRI has no geostrategic motivations or geopolitical ambitions. However, promoting the notion that China is a great growing power but without geostrategic motivations is a hard sell for Beijing, and few outside China believe it.

The author's view remains firmly that pursuit of interregional connectivity through the BRI is being driven by domestic economic, geopolitical and historical motivations. First, against the backdrop of domestic economic slowdown, sustaining Chinese economic growth has been one of the main drivers of BRI implementation. However, in the shifting international geopolitical environment, China is facing daunting external challenges to its economic development.

At the same time, internal contradictions and problems accumulated over many years of economic growth, from environmental degradation, uneven regional development, to widening of the wealth gap between the rich and the poor, are also increasingly affecting the sustainable development of China's economy. BRI implementation could enable China gradually to resolve these various domestic issues and build a high-quality, high-income economy.

The shifting global geostrategic environment and COVID-19 pandemic have pushed China to rely more on the domestic market and resources for generating economic growth. The new development paradigm of "dual (domestic and international) circulation" strategy emphasises the domestic market, while the other side of this dual-circulation strategy is to open up more to the outside world. The BRI will be at the heart of international circulation under China's new development paradigm.

Although China is pursuing more balanced economic growth in which domestic consumption will play a major role, this will take time. Foreign trade is thus still vital to boost the Chinese economy and domestic industrial development. The export of "Made in China" goods to the Asian countries will help to absorb many of China's manufactured goods, such as iron and steel, which will help to address domestic production overcapacity and stimulate domestic economic growth through upgrading of its industries. With its push for BRI implementation, China will continue to expand its global trading and investment ties to enhance its economic resilience and to gain wider market access to the BRI countries.

The Belt and Road Initiative is in line with the Chinese government's "going global" strategy for Chinese enterprises, encouraging and supporting Chinese enterprises to go overseas to find new markets and investment opportunities. More and more Chinese enterprises are confidently expanding into overseas markets and expanding their presence in the global market.

China's economic growth is powered by its massive export-oriented manufacturing industries, while it has to import large amounts of intermediate components and raw resources to power these industries. As the transport of these raw materials and semifinished goods to China largely depends on maritime shipping, a secure and reliable maritime trade shipping line is crucial to China. It is anticipated that a comprehensive and efficient transport network based on land, air and sea transport will facilitate the flow of goods and trade, as well as contributing to people exchanges and stimulation of economic prosperity in China and the BRI countries.

China's accelerated economic transformation and industrial upgrading, and the transfer of some low value-added manufacturing industries to developing countries along the Belt and Road with relatively low production costs will drive China's investment in the regional countries and will also provide opportunities for relevant countries to develop manufacturing industries. Access to the BRI countries' markets has helped China to promote its market diversification strategy for foreign trade and investment, by reducing its dependency on the Western markets, and helped to consolidate and enhance China's position at the centre of global supply chains.

In seeking to gain more profits and expand their global business operations, Chinese companies have strong incentives under the BRI to invest their capital in other nations and implement a "going global" strategy. China is eager to participate in infrastructure construction abroad as such outward infrastructure investment will boost its manufacturing investment and hence its economic growth. For example, Chinese state-owned firms, such as COSCO Pacific, have made huge investment in the container terminals across many BRI countries in order to gain a market foothold through building a better and efficient port infrastructure network for maritime shipping (see Table 1.2). These projects, while currently representing a tiny portion of the completed BRI infrastructure projects, could have major geopolitical and geoeconomic impact across the world moving forward into the future.

Second, from the geopolitical perspective, China's foreign policy direction has changed substantially over the past decade, in particular after the Global Financial Crisis in 2008, and it is now far more proactive, assertive and globally driven. The launch of the Belt and Road Initiative is an important symbol of China's growing

Table 1.2 List of selected investments by Chinese companies in container ports in the BRI countries

Country	Container port	Chinese company	Shareholding ratio of Chinese company
Malaysia	Kuantan Port	Guangxi Beibu Gulf Port Group	40%
Singapore	Singapore Container Port	COSCO Pacific	49%
Myanmar	Kyaukphyu Port	China National Petroleum Corporation (CNPC)	50.9%
Sri Lanka	Colombo International Container Terminal	China Merchants Holdings (International)	85%
	Hambantota Container Port	China Harbour Engineering Corporation	65%
Pakistan	Gwadar Port	China Overseas Port Holding Company	40-year lease agreement for operating and managing port
Saudi Arabia	Container Terminal, Jeddah Islamic Port	COSCO Pacific	20%
Egypt	Safaga Port	COSCO Pacific	20%
UAE	Khalifa Port	COSCO Pacific	Building and operating a new container terminal
Djibouti	Djibouti Container Port	China Merchants Holdings (International)	23.5%
Peru	Port of Chancay	COSCO Pacific	60%
Israel	Haifa New Port	Shanghai International Port Group	25-year lease agreement for operating and managing port
Greece	Piraeus Container Port	COSCO Pacific	35-year lease agreement for operating and managing port
Italy	Naples Container Port	COSCO Pacific	50%
Belgium	Port of Antwerp	COSCO Pacific	25%

Source Compiled by the author based on public information available

influence in the region and even at the global level. The transformation of China's foreign policy began late in the era of Hu Jintao, the former Chinese President. Hence, China's foreign policy under the current leader is a reflection of continuity rather than radical change.

Nevertheless, like their predecessors, the new Chinese leaders need to show innovation in foreign policy by announcing new policies that will distinguish their leadership strategy and advance China's national interests abroad in the changing geopolitical environment in the region and throughout the world. The proactive foreign policy pursued by the Chinese government under Xi Jinping, China's President, is a

clear departure from the low-profile foreign policy advocated since the 1980s by the then paramount Chinese leader Deng Xiaoping.

The Belt and Road Initiative demonstrates China's more assertive and proactive diplomacy on regional and global affairs. Rather than passively following international systems, China is now actively participating in the reform of global governance and the international institutional system. The ascendancy of China in the global arena and Xi's initiation of the BRI in such a short period of time after he took office have astonished both the region and onlookers in the West. The new Silk Road and AIIB proposals demonstrate China's capability to develop its own initiatives for financial and economic governance in the region. Allison (2015) rightly states:

Nearly three years into his 10-year term, Xi has stunned colleagues at home and China watchers abroad with the speed at which he has moved and the audacity of his ambitions. Overseas, he has pursued a more active Chinese foreign policy that is increasingly assertive in advancing the country's interests.

China's foreign policy is now more centralised, proactive and assertive. President Xi has centralised foreign policy-making power under his own direction since he came to power in late 2012, chairing the Central Leading Group for Foreign Affairs, the highest authority for foreign policy decision-making in China, which demonstrates his strong man image and his ambitious vision.

The low-profile, passive approach to foreign policy previously adopted by China was understandable when it was a poor developing nation with many thorny domestic issues and limited financial resources. However, China is now far more powerful than in Deng Xiaoping's era and is able to project its power, regionally as well as globally. Xi views the change to China's foreign policy as necessary to match its ascendancy as the rising global power. Xi intends that China will one day become a rule-shaper in the global arena and regain a position of pre-eminence in the world. China's adoption of a more proactive foreign policy stance, following its rise as a global power after three decades of economic reform and opening up, reflects its aim to safeguard its domestic development and advance its national strategic and economic interests abroad.

China's foreign policy stance has been influenced by the increasing sense of national pride that has accompanied the emergence of China as a global power and the world's second-largest economy. The Chinese people and the youth population in particular (such as the post-1980s and 1990s generation) have become more confident about their nation (Breslin 2013). Meanwhile, the Chinese leaders have been increasingly responsive to this popular nationalism. Zhao (2013) argues that the Chinese government has become more accountable to popular nationalist calls since 2008 in terms of its muscular foreign policy, which he referred to as a "strident turn" for China.

China's share of the total world economy has risen in the past four decades from 1.7% in 1980 to 18.5% in 2021. In 2021, China's import and export volume of foreign goods was US\$6.05 trillion, accounting for 13.5% of total world trade, and it is now the world's largest trader of goods, ahead of the United States and Germany. These

figures reflect China's rise to become a major international power and its movement to the centre of the world stage.

As its economic and financial power accumulated, China began to engage in many multilateral regional cooperation platforms, including the BRICS grouping, Shanghai Cooperation Organization (SCO), ASEAN Plus China (10 + 1), China-ASEAN (Association of Southeast Asian Nations) Expo, Asia-Pacific Economic Cooperation (APEC), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China International Fair for Investment and Trade, and Greater Mekong Sub-Region Economic Cooperation (GMS). Through its active role in relation to these cooperation mechanisms, China seeks to gain support from the respective countries in promoting the BRI.

Third, developing interconnectivity through infrastructure development forms a central pillar of the BRI. Developing infrastructure connectivity is becoming an important national strategy for China in its attempts to gain control over regional markets and industrial supply chains. BRI implementation gives China greater access to energy and other natural resources, from countries such as Saudi Arabia, Indonesia, Turkmenistan, Kazakhstan and Russia, and enormous markets along the Silk Road route to power sustained economic growth at home and advance its national economic interests abroad. The infrastructure development, trade and economic initiatives of the Silk Road strategy will reinforce China's geopolitical position in the world.

China is keen to use the BRI to help regional countries to modernise their infrastructure and improve cross-border transport and other crucial infrastructure facilities. This in turn will help China to forge strong bilateral trade and economic integration with the BRI countries. Connectivity through infrastructure provides the foundation for industrial and economic prosperity. Economic geography theorists (e.g. Kraft et al. 1971; Bougheas et al. 1999; Henderson et al. 2001) have long argued the importance of infrastructure development in overcoming backward geographical conditions and reducing high costs of production in landlocked countries. For example, the comparative cross-regional study by Calderón and Servén (2010) describes the significant contribution made by infrastructure development to economic growth in Sub-Saharan Africa.

Many developing countries have an urgent need to bring in related investment, production capacity and technology to accelerate industrialisation through improving their infrastructure. According to the Asian Development Bank's forecast of infrastructure investment needs for the Asian Pacific region (2017), by 2030, in order to realise their economic growth potential, the Asia-Pacific countries will need a total investment of \$22.5 trillion in infrastructure development.

China is convinced that its BRI push will boost regional trade and economic development through interregional infrastructure improvement. Chinese enterprises and financial institutions have become among the most important financing and contracting parties in the infrastructure sector in the developing countries. The state-owned enterprises (SOEs) have been involved in most of China's global investment abroad under the BRI framework over the years. According to the statistics released by the State-owned Asset Supervision and Administration Commission, China's top

watchdog for the SOEs, 81 China's centrally administrated SOEs had been involved in constructing 3400 BRI-related projects worldwide by January 2020.

China has embarked on very rapid and massive overseas lending since 2013 when it launched the BRI. It has emerged as a major lender and provided hundreds of billions in loans and credit to developing countries across all continents. Most of China's overseas lending has been directed at the energy, transport and other infrastructure sectors under the BRI framework. The Export-Import Bank of China and State Development Bank are the two major Chinese financial institutions for providing loans abroad for BRI-related projects. These two state-owned Chinese banks provided up to US\$462 billion in total in financing overseas infrastructure development projects from 2008 to 2019, which was almost equivalent to the amount of development financing (US\$472 billion) provided by the World Bank during the same period (Ray and Simmons 2020).

Hundreds of railways, roads, seaports, energy plants, telecommunications and other infrastructure projects built under the BRI framework have been welcomed by the recipient countries. China's push for the BRI cements its growing importance as an underwriter for infrastructure development for the developing countries. According to the Engineering News-Record's list of "2021 Top 250 Global Contractors", in the field of technological capacity and infrastructure construction, fourteen Chinese construction firms are listed among the top 20 largest infrastructure contractors in the world. These companies are ranked according to construction revenue, which were generated outside of each company's home country in 2020. Chinese firms are not merely the leading players; in fact, China structurally dominates the global infrastructure construction industry.

China has strong international competitiveness in infrastructure construction, equipment manufacturing, metallurgy, building materials and communication equipment. Around the world, from Cambodia, Indonesia and Saudi Arabia to Croatia, Serbia and Greece, from Egypt, Kenya and Ethiopia to Brazil, Chile and Mexico, Chinese infrastructure companies and engineers are involved in the construction of roads, railways, bridges, energy facilities, ports and terminals and airports.

In addition to the transport, energy, power and information and communication infrastructure projects that have already been completed and put into operation, many large-scale cross-border infrastructure projects are under construction, such as Phnom Penh Airport in Cambodia, the Jakarta-Bandung High-Speed Railway in Indonesia, the Hungarian-Serbian Railway Project and the Malaysia East Coast Railway Project.

The Belt and Road Initiative will have a long-term impact on infrastructure development, industrialisation and economic growth in countries along the route. According to a 2019 World Bank study entitled "The Economics of the Belt and Road: Opportunities and Risks of Transport Corridors", BRI transport projects can expand trade, increase foreign investment and reduce poverty by reducing trade costs. If fully implemented, BRI transport projects could increase global trade by 1.7–6.2% and global real income by 0.7–2.9% (Baniya et al. 2019).

The Belt and Road projects can help developing countries improve logistics and transportation capacity and efficiency, speed up the flow of people and enhance the

economic competitiveness of countries along the route. The BRI unleashes the potential for economic growth and expanded trade through infrastructure development. In 2016, Chinese companies won the right to operate the port of Piraeus through a competitive bid and then invested in the modernisation of the port’s container terminal and the renewal of terminal loading and unloading equipment, thereby improving the operational efficiency of the terminal. The renovated port of Piraeus has become the fourth-largest port in Europe and one of the most important transshipment ports in the Mediterranean. On the one hand, Chinese goods are more easily exported to the Balkans and Central and Eastern European countries through the port of Piraeus. On the other hand, Greece receives taxes through the transit of goods in the port, which drives the development of shipping, logistics and commerce in the area around the port, and provides more jobs for Greeks. China and Greece achieve mutual benefit and win–win results through the Piraeus Port project.

Over the past decade, according to statistics provided by China’s Ministry of Commerce, China’s direct investment in countries along the Belt and Road has shown a steady upward trend, from US\$12.6 billion in 2013 to US\$20.9 billion in 2022. The share of BRI countries in China’s total outbound investment increased from 11.7% in 2013 to 17.9% in 2022 (Fig. 1.1). The BRI marks the change in the direction of China’s trade, export and foreign investment from mainly developed countries toward a mix of developed countries, emerging countries and developing countries.

Despite the adverse impact of the global COVID-19 pandemic, China’s investment in the BRI countries has continued to grow, and Chinese investment in the countries along the Belt and Road routes has not slowed down. From 2013 to the end of 2022, according to data provided by China’s Ministry of Commerce, the accumulated direct investment of Chinese enterprises in the BRI countries reached US\$177.2 billion.

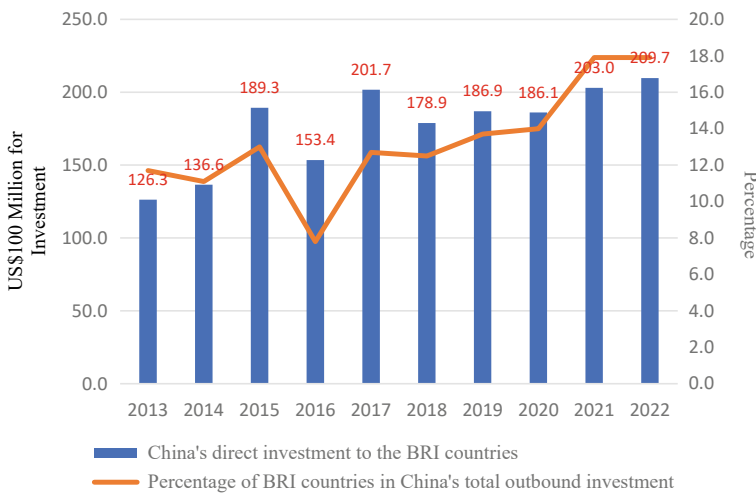


Fig. 1.1 China’s direct investment to the BRI countries. *Source* Belt and Road Trade and Investment Development Report (2021, 2022), Ministry of Commerce of People’s Republic of China

Relocating excessive production capacity to the BRI countries where there is a demand will be also beneficial to their economies and accelerate local industrialisation, through engaging in bilateral infrastructure, trade and investment cooperation and tapping into China's huge domestic markets. China also needs to engage with other fast emerging markets and to power sustainable domestic economic development.

With the advancement of the BRI infrastructure projects, the transportation infrastructure and interconnectivity between the BRI countries have been improved. China's trade volume with the Belt and Road countries has increased. For the countries involved, the BRI will not only help their respective countries attract more Chinese investment in the infrastructure sector, but also provide a platform for their products to easily enter the Chinese market. In 2013, China's exports and imports to the BRI countries amounted to US\$569.19 billion and US\$471.36 billion, respectively. By 2020, China's exports and imports to the BRI countries had risen to a record high of US\$783.86 billion and US\$569.91 billion, respectively (Fig. 1.2). In 2021, the BRI countries combined accounted for nearly 30% of China's total foreign trade.

From the historical perspective, the rationale behind China's BRI is to revive its historical Silk Road. In 1877, the German Geographer Ferdinand von Richthofen first coined the term "Silk Road" to describe the vibrant trade in many commodities, such as silk, porcelain, and spices, between China and the countries along the 11,000-km-long Silk Road routes.

The Silk Road initiatives echo the so-called China Dreams of the great revival of the Chinese nation, which was first announced by President Xi Jinping in November 2012 (The Economist 2013), and this has been reiterated by the Chinese leaders in

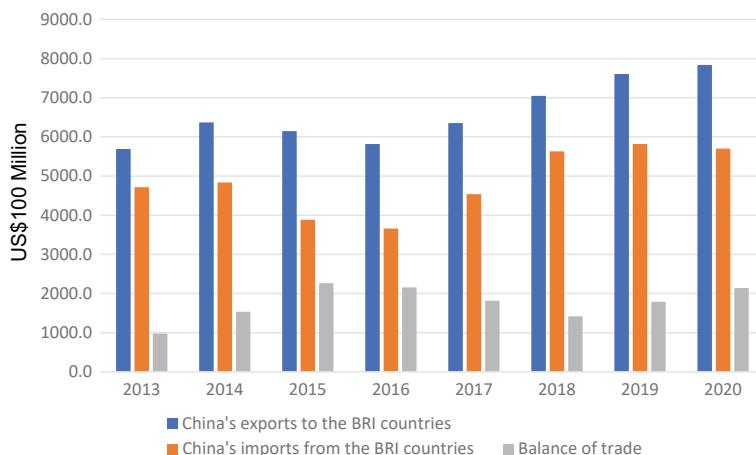


Fig. 1.2 China's merchandised trade with the BRI countries. *Source* China's Belt and Road Trade and Investment Development Report, 2021 Ministry of Commerce of the People's Republic of China

their speeches thereafter. The Chinese leadership sees the BRI as an important step on the road to reclaiming China's historical global position.

Moreover, Ye (2020) argues that the BRI could improve internal economic integration of China's vast inland western regions such as Xinjiang, Inner Mongolia, Heilongjiang, Guangxi and Yunnan and enable them to expand their participation in foreign trade. Improving the interregional connectivity of the landlocked western regions would allow them direct access to port facilities in neighbouring countries. As an example, Yunnan Province borders three ASEAN countries, Myanmar, Laos and Vietnam and is a short distance from India and Bangladesh in South Asia, Thailand and Cambodia in Southeast Asia. Its land connectivity with the ASEAN will be strengthened through cooperation on expressway and railways, and development of its ports and harbour-related and airport infrastructure (Li 2014). These cross-border links will enable Yunnan to serve as the international gateway or connector for China, Southeast Asia and South Asia and will bring much-needed rejuvenation to the region.

The rise of China and the BRI implementation is helping China to boost its soft power in the region and beyond. China wants to build the BRI into a new development model for international infrastructure financing, industrial investment and trade. BRI implementation marks China's transition from integrating into the world economy through reform and opening up to actively promoting globalisation and participating in the formulation of relevant international rules. China has reached consensus with 27 countries on infrastructure financing and financial institutions to support the development of infrastructure projects, in the form of the Guiding Principles for Belt and Road Infrastructure Financing. By getting countries along the route to become signatories to this document, China hopes to form a BRI standard for financial institutions to finance infrastructure projects, which will promote the BRI's standing in the international community. China is seeking to establish BRI standards with countries along the Belt and Road in a wide range of areas, including digital economy, energy development, tax collection and administration, and legal arbitration.

1.3 Issues and Challenges to China's New Silk Road Initiatives

Since the initiative was initially launched in 2013, China has witnessed profound changes to both the regional and global geopolitical environment. During the decade of BRI implementation, multifaceted and multidimensional issues and challenges have arisen. Many Chinese enterprises are facing mounting pressures and difficulties in carrying out business and investment activities abroad, affecting such as outbound investment, mergers and acquisitions, and building manufacturing plants (Yu 2019).

From the domestic perspective, intensifying local competition represents a concern for China. A lack of central-local coordination, in a system already dogged

by red tape and bureaucracy, could not only delay implementation of the BRI but could also cause confusion in the participating countries as to who is in charge of the Silk Road plan and with whom they should negotiate. Wang (2011) points out, "Almost all institutions in the central leadership and local governments are involved in foreign relations to varying degrees, and it is virtually impossible for them to see China's national interest the same way or to speak with one voice. These differences confuse outsiders as well as the Chinese people". Such problems over unity and communication undermine China's efforts to promote its grand strategy.

Starting in July 2023, China's "Foreign Relations Law" came into enforcement (The National People's Congress of the People's Republic of China 2023), as the first law attempting to outline the objectives, tasks and responsibilities of Chinese central ministries and agencies in conducting diplomacy and foreign relations through such as the BRI. As written by Wang (2023), China's top diplomat and Director of the Central Foreign Affairs Commission Office, the Law also attempts to clarify the functions and tasks of local Chinese governments in China's overall foreign policy.

From the external perspective, the biggest challenge to China's Silk Road initiative relates to geopolitical factors. China hopes to use the initiative to forge close trade and economic cooperation with the Silk Road countries and boost their economic growth by improving infrastructure connectivity and increasing flow of trade and investment. However, due to their suspicion over China's real intention, the world's reactions to the BRI have been mixed. Meanwhile, China has failed to cultivate the necessary strategic and political trust among the respective parties over the BRI. However, China is eager to demonstrate the "win-win" philosophy as the upholding pillar for BRI implementation. Global perceptions of the BRI are becoming increasingly negative. Salient differences have emerged between foreign media coverage and the Chinese official narrative on the BRI. For instance, according to a survey report of the Southeast Asian countries published by the ISEAS-Yusof Ishak Institute in January 2020, ASEAN members' attitudes towards China have become increasingly complex and cautious. Most of the Southeast Asian elites surveyed believe that "China is a revisionist power and intends to turn Southeast Asia into its sphere of influence", with 63.6% of the respondents having little or no confidence in China's BRI.

By borrowing Chinese money to finance domestic infrastructure construction, many BRI countries are concerned that they might fall into the "debt trap" if their relations with China turn sour or they encounter severe domestic financial and economic crises. Beijing's Belt and Road Initiative was launched against the backdrop of rapid growth in public and corporate debt across the world. Public debt in emerging market economies continues to rise, reaching its highest level for the past four decades and thereby increasing fiscal risk and vulnerability.

As reflected in the case of Sri Lanka, the BRI is not a charitable programme, and the BRI's project financing is based on interest-bearing loans. Sri Lanka is facing its worst economic, political and social crisis in decades. It has been struggling to repay external loans and the interest associated with borrowing for infrastructure construction, partially deriving from BRI projects financed by Chinese firms and banks. On 31 March 2021, the Aid Data Lab at the William & Mary Global Research Institute released a report that examined 13,427 BRI-related projects worth US\$843 billion

across 165 countries between 2000 and 2017. The report revealed that over 40 countries have debt exposure to Beijing in excess of 10% of gross domestic product (GDP), and 35% of the projects have encountered problems such as corruption scandals, labour violations, environmental hazards and public protests. China has been accused of so-called debt trap diplomacy through its BRI. The critics argue that there is a significant risk that developing countries may not be able to repay their debts related to participating in the BRI. Given their debt obligation to China, these countries must align their foreign policy with Beijing by taking a pro-China stance.

As for the recipient countries, the borrowing costs from China to finance the BRI projects are relatively expensive and could create a significant long-term debt burden for these countries if their domestic economic and financial situations become dire. For example, as reflected from the case of the Philippines, the interest rates and tenor associated with the Chinese loans are relatively much tougher and harsher compared to the infrastructure-related borrowings from Japan and the Republic of Korea (see Table 1.3). The so-called concessional Chinese loans and grants under the BRI are not genuinely concessional or preferential.

Given the fact that almost all of China's global lending derives from the Chinese state and its various state-owned entities, China has become the world's largest official creditor, with outstanding claims in 2017 surpassing those of the IMF, World Bank, or those of all the 22 Paris Club governments combined. According to a study by Horn et al. (2019, 2023), low-income countries that have encountered huge debt burdens associated with China's BRI investment include Laos, Pakistan, Mongolia, Kyrgyzstan and Djibouti. According to a report published by the Beijing-based International Institute of Green Finance in January 2021, among the BRI countries,

Table 1.3 Comparison of terms of loans and grants among selected infrastructure projects in the Philippines

Project	Financing country	Total value of loan (in billion peso)	Interest rate (p.a.)	Tenor (in years)
Chico River Pump Irrigation Project	China	4.37	2.00	20
Kaliwa Dam	China	12.19	2.00	20
Panguil Bay Bridge	Republic of Korea	7.38	0.15	40
New Cebu International Container Port	Republic of Korea	9.96	0.15	40
Improvement of Sections along Pasig River from Delpa Bridge to Napindan Project	Japan	6.97	0.75	40
Cavite Industrial Area Flood Risk Management Project	Japan	9.89	0.30	30
Metro Manila Subway Phase I	Japan	356.97	0.10	40
North–South Commuter Railway Project	Japan	628.42	0.10	40

Source Department of Finance, Philippines (2023)

Pakistan (owed US\$20.2 billion to China), Angola (owed US\$15.0 billion), Kenya (US\$7.5 billion), Ethiopia (US\$6.5 billion) and Laos (US\$5 billion) had become the five countries most indebted to China by 2019 (Yue and Wang 2021).

According to the International Monetary Fund's "World Economic Outlook", which was published in April 2023, many countries are still absorbing the shocking impacts brought about by Russia's war on Ukraine and the outbreak of new COVID-19 variants, these countries could experience slower growth and rising joblessness in 2023. Against this backdrop, the economic prospects for many BRI countries in the post-COVID-19 era look dismal. Many BRI developing countries have experienced severe domestic economic downturn, debt crises and social instability, and some countries, including Mongolia, Sri Lanka, Bangladesh, Pakistan, Kenya and Zambia, have experienced difficulties in repaying their foreign debts owed to China and other countries. For example, in January 2022, the Kenyan government said that due to the economic crisis in Kenya, it hoped to negotiate with China to delay the repayment of the loan owed to China for the construction of the Mombasa-Nairobi railway.

Nevertheless, labelling the BRI as a "debt trap" is both factually wrong and exaggerated. In fact, even before the launch of the BRI, some countries that joined the Initiative were already facing rising debt levels. Many developing countries have debt problems, but their debt problems have accumulated over a long period of time, and although their debt increased when the Chinese projects were implemented, these debts account for a relatively small proportion of the countries' total debt, compared to their debt borrowed from multilateral financial institutions and commercial creditors. There is no evidence to support the claim that China's BRI push either deliberately sets a debt trap to lure low-income BRI countries into financial crises, or forcefully attempts to take over their strategic assets. In fact, China has restructured its loan contracts with a few countries to help them to meet their loan repayment obligations more easily, for example, Sri Lanka, Pakistan and Laos.

Among the BRI countries, none of their domestic economic and debt crises have so far been caused by China; instead, they have been caused by internal fiscal mismanagement or external shocks, such as the global COVID-19 pandemic and the Ukraine war. Many low-income developing countries that receive BRI financing lack a comprehensive and robust fiscal framework. For example, while there was much hype about China plunging Sri Lanka into a debt trap, China has in fact provided loans that account for around 10% of Sri Lanka's total external debt. Sri Lanka's economic, political and social crises are rooted in the rampant corruption of its political elites, the government's poor economic management and the impacts of the global pandemic. Although the Chinese firm acquired the operation rights for the Hambantota Port, it does not enjoy conclusive authority.

BRI is not an aid programme or a charitable initiative. China views the BRI infrastructure projects as commercial endeavours with loans based on a market interest rate (or slightly lower). Even countries with low levels of debt must carefully weigh the pros and cons of BRI investments. Projects should conform to national development priorities. The BRI countries have full rights to either accept or refuse Chinese loans (Yu 2023).

China expects the BRI loans to be fully repaid since it did not force the developing countries to borrow from China, and it has no legal obligation to offer debt relief or a “haircut”. Regarding countries struggling with domestic economic crises and debt repayment, China has accepted a rollover of payments and even offered some interest rate relief, but not a true haircut. The G20 Debt Relief Initiative and the Common Framework have initiated China's participation in multilateral debt coordination.

The strategic competition between China and the United States presents a major challenge to BRI implementation. U.S.-China relations have become increasingly confrontational and contentious in nature, and there is little space for bilateral cooperation. The United States and China compete fiercely in the multidimensional aspects of the global arena, and infrastructure financing and construction has become one of the important areas of contest. The U.S. fears that the BRI, cemented by the rise of China, poses a serious long-term threat to U.S. interests and national security. U.S. elites regard China as having both the will and resources to reshape the United States-led international order, rules and global governance system through the BRI platform. The intensified China-U.S. competition in infrastructure financing and the U.S.'s unveiling of the “Indo-Pacific Strategy” to counter the rising influence of China and its BRI will be discussed in detail in Chap. 11.

1.4 Concluding Remarks

China has been extremely keen to project its rising power and expand its global influence through implementing the BRI abroad, and to forge close trade and economic cooperation with the BRI countries. This marks a major departure from China's long-held international affairs policy of “hiding one's capabilities, biding one's time and focusing on domestic development”, which was advocated by the former paramount leader, Deng Xiaoping.

The Belt and Road Initiative forms a cornerstone of China's new foreign policy under President Xi Jinping. By leveraging on its financial power and strong manufacturing and infrastructure development capacity, China is determined to push for the BRI's implementation overseas.

Many countries have aligned their development strategies with China's BRI and explored the opportunities brought by Chinese investment. Driven by domestic economic, geopolitical, interregional connectivity and historical considerations, the BRI has already generated profound impacts for the participating countries, and it is likely to continue to have far-reaching socioeconomic implications at home and abroad in years to come. China's rising global influence and the Belt and Road Initiative also have had a huge impact on the existing West-led global geopolitical and socioeconomic order.

The BRI goes far beyond investment cooperation and economic interests as it has clear geopolitical underpinnings. BRI implementation has advanced China's strategic, political and economic interests in the participating countries. The BRI has brought China to the world, and the world is approaching China. The BRI is

also helping China to deal with the domestic problem of industrial overcapacity and speed up industrial restructuring and technological upgrading at home.

Nevertheless, compared to the time of its inception in 2013, the regional and international environment for BRI implementation is now increasingly complex and severe. Despite the initiative attracting huge international attention and China's efforts to increase its momentum, China's push for the BRI implementation is encountering serious internal and external challenges. The effective implementation of the BRI largely depends on the response of China's neighbours, large and small, and will require much more than simply rhetoric and goodwill. The BRI is still, by and large, a China-centric solo or bilateral initiative. China has thus so far been unable to project the BRI as a credible multilateral endeavour. The Chinese authorities have to focus on consultation in order to explain the Silk Road initiatives in detail to the BRI countries and convince them that this initiative will not be for the benefit of China alone.

References

- Allison, Graham. 2015. The Thucydides Trap: Are the US and China Headed for War? *The Atlantic*. Available at: <http://www.theatlantic.com/international/archive/2015/09/united-states-china-war-thucydides-trap/406756/>. Accessed 14 Dec 2015.
- Asian Development Bank. 2017. *Meeting Asia's Infrastructure Needs*, 1–106. The Philippines. Available at <https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf>. Accessed 17 Jan 2019.
- Baniya, Suprabha, Nadia Rocha, and Michele Route. 2019. *Trade Effects of the New Silk Road: A Gravity Analysis*. World Bank Policy Research Working Paper No. 8694.
- Bougheas, S., P.O. Demetriades, and E.L.W. Morgenroth. 1999. Infrastructure, Transport Costs and Trade. *Journal of International Economics* 47: 169–189.
- Breslin, Shaun. 2013. China and the Global Order: Signaling Threat or Friendship? *International Affairs* 89 (3): 615–634.
- Calderón, César, and Luis Servén. 2010. Infrastructure and Economic Development in Sub-Saharan Africa. *Journal of African Economies* 19 (AERC Supplement 1): i13–i87.
- ENR's 2021 Top 250 Global Contractors*. Engineering News-Record. Available at <https://www.enr.com/toplists/2021-Top-250-Global-Contractors-Preview>. Accessed 30 June 2022.
- Foa, R.S., Mollat, M., Isha, H., Romero-Vidal, X., Evans, D., and Klassen, A.J. 2022. *A World Divided: Russia, China and the West*. Cambridge, United Kingdom: Centre for the Future of Democracy.
- Henderson, J.V., Z. Shalizi, and A.J. Venables. 2001. Geography and Development. *Journal of Economic Geography* 1: 81–105.
- Horn, Sebastian, Carmen M. Reinhart, and Christoph Trebesch. 2019. China's Overseas Lending. NBER Working Paper 26050. https://www.nber.org/system/files/working_papers/w26050/w26050.pdf.
- Horn, Sebastian, Bradley Parks, Carmen M. Reinhart, and Christoph Trebesch. 2023. China as an International Lender of Last Resort. Kiel Working Paper No. 2244. https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Kiel_Working_Paper/2023/KWP_2244_China_as_an_International_Lender_of_Last_Resort/KWP_2244.pdf.
- International Monetary Fund. 2023. *World Economic Outlook: A Rocky Recovery*. Available at <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>.

- Katigbak, Jovito Jose P. 2023. Unfavorable Terms of the Loan Agreement. Department of Finance of the Philippines, presentation given during the 2023 NEAT Working Group Meeting "Belt and Road Initiative: Partnership for Enhancing Regional Connectivity".
- Kraft, G., J.R. Meyer, and J. Valette. 1971. *The Role of Transportation in Regional Economic Development*. London: D.C. Heath and Company.
- Li, Mingjiang. 2014. Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China* 23 (86): 275–293.
- Ministry of Commerce of People's Republic of China. 2021. *Belt and Road Trade and Investment Development Report*.
- Ministry of Commerce of People's Republic of China. 2022. *Belt and Road Trade and Investment Development Report*.
- Ministry of Foreign Affairs of the People's Republic of China. *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*. Available at: http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml. Accessed 2 Apr 2015.
- Office of the Leading Group for Promoting the Belt and Road Initiative. 2019. *The Belt and Road Initiative: Progress, Contributions and Prospects*. Beijing: Foreign Languages Press. Available at <https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydyllgw/201904/201904220254037.pdf>.
- Ray, Rebecca, and B.A. Simmons. December 2020. *Tracking China's Overseas Development Finance*. <https://www.bu.edu/gdp/2020/12/07/tracking-chinas-overseas-development-finance/>. Accessed 9 Feb 2022.
- Sparke, Matthew. 2007. Geopolitical fears, geoeconomic hopes, and the responsibilities of geography. *Annals of the Association of American Geographers* 97 (2): 339–340.
- The Economist. 2013. *China's Future: Xi Jinping and the Chinese Dream*. Available at: <http://www.economist.com/news/leaders/21577070-vision-chinas-new-president-should-serve-his-people-not-nationalist-state-xi-jinping>. Accessed 20 Feb 2014.
- The National People's Congress of the People's Republic of China. 2023. Foreign Relations Law of the People's Republic of China. In *Adopted at the third meeting of the Standing Committee of the Fourteenth National People's Congress on 28 June 2023*. Available at <http://www.npc.gov.cn/npc/c30834/202306/d4a1d80fd2764a7ca3c57387cf17109d.shtml>.
- Wang, Jisi. 2011. China's Search for a Grand Strategy: A Rising Great Power Finds its Way. *Foreign Affairs* 90 (2).
- World Economic Forum. 2022. *Promoting Green Development of the Belt and Road Initiative: Harnessing the Role of Finance and Technology to Advance Low-Carbon Infrastructure*. https://www3.weforum.org/docs/WEF_Advancing_the_Green_Development_of_the_Belt_and_Road_Initiative_2022_CN.pdf.
- Ye, Min. 2020. *The Belt Road and Beyond: State-Mobilised Globalization in China (1998–2018)*. Cambridge: Cambridge University Press.
- Yi, Wang. 2023. Implement the Law on Foreign Relations and Provide Strong Legal Guarantee for Major-Country Diplomacy with Chinese Characteristics in the New Era. *People's Daily*. Available at <http://politics.people.com.cn/n1/2023/0629/c1001-40023485.html>.
- Yu, Hong. 2017a. *The Belt and Road Initiative, China's Rise and International Cooperation*. Beijing: World Knowledge Press.
- Yu, H. 2017b. Motivation Behind China's 'One Belt, One Road' Initiative and Establishment of the Asian Infrastructure Investment Bank. *Journal of Contemporary China* 26 (105): 353–368.
- Yu, Hong. 2019. Reflections on the Belt and Road Initiative. *China: An International Journal* 17 (4): 8–23.
- Yu, Hong. 2023. Why China's BRI is Not a Debt Trap? *ThinkChina*. Available at <https://www.thinkchina.sg/why-chinas-bri-not-debt-trap>.

- Yue, Mengdi, and Christoph Nedopil Wang. 2021. *Debt-For-Nature Swaps: A Triple-Win Solution for Debt Sustainability and Biodiversity Finance in the Belt and Road Initiative (BRI)?* Beijing: International Institute of Green Finance. https://iigf-china.com/wp-content/uploads/2022/03/Yue-2021_Debt-for-nature-swaps-BRI.pdf.
- Zhao, Suisheng. 2013. Foreign Policy Implications of Chinese Nationalism Revisited: The Strident Turn. *Journal of Contemporary China* 22 (82): 535–553.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution 4.0 International License (<http://creativecommons.org/licenses/by/4.0/>), which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

