

# China's Belt and Road Initiative: Connecting and Transforming Initiative

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## 2.1 NEW GREAT LEAP OUTWARD: LAUNCHING THE BELT AND ROAD INITIATIVE

In a speech at Nazarbayev University on 7 September 2013, during his state visit to Kazakhstan, Chinese President Xi Jinping proposed that China and Eurasian countries undertake a grandiose joint project, the Silk Road Economic Belt. The aim is to create a land connection from Southeast Asia over China to Western Europe. On 3 October of the same year, in his address to the Indonesian Parliament, President Xi Jinping proposed the twenty first Century Maritime Silk Road as a new maritime Silk Road connecting China with ASEAN countries, South Asian countries, Africa, and Europe. He used the opportunity to also

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announce establishment of the Asian Infrastructure Investment Bank (AIIB) as a new financial tool that would support regional interconnectivity and further economic integration through network infrastructure.<sup>1</sup>

However, The Belt and Road initiative should not be comprehended or translated geographically. Both the Belt and the Road represent a roadmap for how China wants to become integrated into the world economy and strengthen its political, economic, and cultural influence in the Belt and Road regions while combining its internal and external economic, political, cultural, and security interests. The projected network could take several decades to complete and involve more than four billion people and a market unparalleled in scale and value. The initiative reflects China's vision of effectively implementing its new regional and global role through an economic policy that serves China's internal and external strategic goals. At the same time, it aims to address some of the current, but fundamental, issues and needs of China, Asia, and the world.

At the crossroads of two centuries and two millennia, the numerous and continuous indicators of the growing power of PR China are one of the world's most pronounced phenomena. There is a wide spectrum of areas that demonstrated this, including production and trade, finance, culture, ecology, energy, security, the military, and geopolitics. During the past thirty eight years, China has evolved into one of the most important (sometimes the most important) participant in existing structures, agreements, and relationships at the regional and global level. China is also an initiator, re-constructer, and architect of many new initiatives, which are based on principles substantially different from those that had been dominant in the contemporary world until recently. By doing this, China exercises a huge influence, which is unprecedented for a state that was only a regional power and lacked the main features of a global power—military power and a doctrine formulating the intent to use this power to impose a given ideology and interest-driven discourse of its political, economic, and security reality on others (Mitrovic 2011).

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<sup>1</sup>In the Third Plenary Session of the 18th Central Committee of the Communist Party of China, held in November 2013, acceleration of the infrastructure networking among the regional countries, as well as pursuing construction of the Silk Road Economic Belt and twenty first-Century Maritime Silk Road were enhanced as priorities at the specific moment of the Reform and Opening Up.

During the period of pursuing the “Reform and Opening Up” policy, China has been consistently promoting, through bilateral and multilateral arrangements, its strategy of international economic cooperation, “mutual benefit, common development” (Xinhua 2010), whose realization should, accordingly, contribute to the creation of a more just international order. This strategy was also named the “win–win strategy.” Recently, when speaking of the Belt and Road initiative, Chinese President Xi introduced the concept of “three together” (Wu 2015). During the past few years, Chinese “activism,” in some cases seen as assertiveness, has accelerated as a result of internal Chinese and external developments. Some developments were pushed to the surface by the onset of the crisis in the US financial system, which turned into a global financial economic crises, not excluding the Eurozone and the EU. China stepped in as a holder of constructive solutions and expected that the new power of its economy and of others would be recognized within the reforms of the IMF, World Bank, and other crucial global financial institutions. Opposition from Washington obstructed this power sharing and China was pushed toward creating parallel paths and mechanisms for global governance, while pursuing reform of the existing situation from within. A significant part in this process was played by the dominant and creative personality of Xi Jinping, the new Chinese president and CCP Central Committee’s general secretary.

## 2.2 THE BELT AND ROAD INITIATIVE: CONTENT AND AIMS

This strategic initiative has been reshaped and enlarged with new routes and projects. The Belt and Road initiative now concerns 4.4 billion people in sixty five countries with a collective GDP of US\$2 trillion. The initiative aims to address primarily the infrastructure investment needs of Asia. The Asian Development Bank (ADB) estimates that about US\$8 trillion is needed for infrastructure investment in the Asian region between 2010 and 2020. Based on an implementation guideline for the Belt and Road initiative released by China’s National Development and Reform Commission (NDRC) in March 2015, development plans along the Belt and Road routes aim to improve connectivity in five areas: policy, infrastructure, trade, currency, and people. Priority is given to development of transport infrastructure such as roads, railways, and ports. Another area of focus is connectivity of energy infrastructure, such as power grids, oil and gas pipelines, liquified natural gas terminals,

high-voltage power lines, nuclear power reactors, renewable energy installations and other energy projects. Construction of communication line networks and IT infrastructure links across Asia, the Middle East, East Africa, and Europe is also important.

East Asia is the fastest growing and most dynamic area of global economy, followed by the strong growth of South Asia. Central Asia lags behind in many aspects, although it is richest in natural reserves. The goals of the Belt and Road initiative address this particular point because Central Asia is probably the first and nearest area where projects regarding energy, transport infrastructure, and introduction of common standards will be implemented. Properly implemented, the projects that comprise the Belt and Road initiative could significantly boost regional economic growth, development, and integration. They can also promote political cooperation, better understanding, and stability, which could reduce the roots of and fields for terrorism and extremism in the region, going hand in hand with set of strategic policies and goals of the Shanghai Cooperation Organization (SCO). On the other side of the continent and China's borders, ASEAN countries have high levels of energy deficiency and a critical need for energy infrastructure investment, coupled with a desire for increased regional energy connectivity. The ASEAN countries are also expected to be high on the agenda of the Belt and Road initiative's list of projects (SIEW 2015). Experience of East Asia's economic rise has shown that economic success has had a positive impact on domestic social and political stability, as well as on regional interstate relations, although there are limitations resulting from historical, ideological, and other invisible and deeply rooted obstacles.

Domestic needs reflected at, and strategic goals and gains coming from, the Belt and Road initiative are numerous. Considering China and her domestic needs, the initiative is intertwined with a range of challenges related to sustainable growth of the Chinese economy. China has been facing many problems in trying to switch to a new model of economic growth, some of the most grave being the need to access resources and markets for final products; reduce or reallocate part of its industrial overcapacity; deleverage some crucial sectors of the economy; and diversify and safely and efficiently deploy its enormous US\$3.51 trillion in foreign reserves (Wei 2015).

The Belt and Road initiative is an opportunity to solve some of these problems. By building or upgrading infrastructure relating to transport, energy, and communication along the Road and the Belt and connecting

it with existing infrastructure, China can create a new and vibrant network. This brings the opportunity to export technologies, creativity, management skills, materials, and labor, which will reduce the pressure of overcapacity in sectors such as steel and cement manufacture, and maintain high and sustainable economy growth. It can also absorb and diversify China's financial surplus and help increase capitalization and control extensive domestic investment. Economic structural reform is an urgent issue for China in order to overcome the steady decrease in its working-age population and the consequences of excessive domestic investment and overreliance on export-driven growth in recent decades.

Nevertheless, President Xi Jinping said he hoped that annual trade between the countries involved in Beijing's plan to create a modern Silk Road would surpass US\$2.5 trillion within a decade (Wei 2015), which shows the importance of revitalizing exports as a growth engine for the Chinese economy. This should ease the process of structural change in the domestic economy. Furthermore, continuing economic growth would give the chance for China's "Reform and Opening Up" program to once again become inclusive. Further results in alleviating poverty confirm the legitimacy of the Communist Party's leading role, proving its continuing ability to provide a share of global wealth to the Chinese nation, more equally distributed than ever in the long history of the Chinese state. In that sense, economic growth is inseparable from national security. Also, China could and should further promote internationalization of the renminbi.

Beijing also hopes that improved connectivity between its less developed southern and western provinces, its richer coast, and the countries involved in the Belt and Road initiative will improve China's internal economic integration and competitiveness and spur more regionally balanced growth. Regarding domestic security in China, the Belt and Road initiative offers an opportunity for central government to intensify its policy of economically upgrading the Xinjiang Uyghur Autonomous Region, which is the epicenter of the country's secessionist and terrorist threats. Xinjiang, which borders Mongolia, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan, and India, is strategically important for the infrastructure network of the Belt and Road initiative, which will pass through the region and connect China with relevant neighbors. This is particularly true for Central Asian countries that will be connected with western China through Xinjiang as the gateway. Such a position has already been provided with several infrastructure projects,

such as a high-speed railway between Urumqi and Lanzhou, and initiatives for investing in Xinjiang's banking sector, manufacturing, tourism, transportation and commercial hubs, and other sectors that should create work for locals and stimulate growth of the region's economy and general well being. Beijing is counting on the calming effect that economic development and elimination of poverty should have on ethnic issues and political dissatisfaction on the part of the local Uyghurs.

External goals that China could achieve through the Belt and Road initiative are plentiful and inseparable from domestic goals. There is no doubt among the majority of decision-makers and analysts from the interested sides that implementation of the Belt and Road initiative could assist in deepening regional economic integration. This would come through increased cross-border trade, benefiting from improved transportation and legal infrastructure, simplified procedures, and unified standards for trade and investments. For China, this initiative is the most rational way to exert its growing potential as a rising power and increasingly influential international player, especially because the USA's Asia Pivot has strengthened US military alliances in East Asia and the Pacific. Maritime and border issues in the South China Sea showed China's gained military strength and self-confidence, but were counter-productive in terms of deepening mutual trust and maintaining good neighborly relations. Furthermore, Washington has been pushing two major economic initiatives on both points of its global dominance: the Atlantic and Pacific Oceans. The Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) both exclude China. Certainly, containment of China's rise has so far proved unsuccessful, but it has pushed China toward its western geostrategic vector and perhaps reassured its leaders that "peaceful rise" and "win-win" economic cooperation are better options than security and military pressure or confrontation. The Belt and Road initiative benefits China's geopolitical and security interests by tying other countries into very close and interdependent economic relations.

These relations would strengthen China's importance as an economic partner for its neighbors and, potentially, increase its political and strategic power in the region, including its strong cultural influence. Increased investment in energy and mineral resources, particularly in Central Asia, could also help reduce China's reliance on commodities imported from overseas, including oil transiting the Strait of Malacca, while maintaining energy security.

### 2.3 EXPECTED OBSTACLES AND CHALLENGES TO THE BELT AND ROAD INITIATIVE

Many of the countries in the mentioned regions have already developed and pursued close economic relations with China, especially in areas such as trade, energy infrastructure investment, and developmental projects, which indicates their ability to deepen that cooperation easily and willingly. However, there have also been examples showing the opposite, which has created a negative image of similar projects at home and internationally.

That is the reason why it is crucial to create and obtain support from the general public and business communities, based on the expected gains, in the countries along the path of the Belt and Road, before making decisions in the relevant countries regarding this multilevel and multipurpose gigantic project. In addition to seeing the mutual benefits, a lot of work needs to be done, bilaterally and multilaterally, related to the necessary harmonization of customs and financial standards and regulations, adjusting and probably lowering tariff and non-tariff barriers, and facilitating trade and investment. Cooperation in dealing with complex and sensitive processes for visa facilitation procedures will be necessary. The legal framework should also be considered for promotion of tourism, education, common research and development projects, cultural exchange, and similar programs that deepen integration and support social and cultural interaction on the people-to-people level. Cooperation between the relevant countries should be an integral part of the Belt and Road initiative, because such cooperation has proved to be the binding force of every lasting bilateral and multilateral cooperation.

Transparency and inclusiveness while developing plans and specific policies and decisions are of the highest importance for the legitimacy and public support of the Belt and Road initiative within partner countries. Many Chinese experts suggest that it is crucial to find mutually beneficial solutions whereby participating countries can map and pursue their particular priorities and development projects along the various planned routes. A truly transparent approach seems to be obligatory for substantially easing the doubts, fears, and reservations of other nations, especially if they enter a joint enterprise with their sovereign soil as an invested resource.

As some Chinese experts have pointed out, it would be wrong for Beijing to assume that gigantic infrastructure projects and growth through huge investment, which have characterized China's economic

development, are universally applicable and welcomed by all or even most developing countries, with their individual circumstances. If China ignores the differences and needs of participating countries, it would be repeating the path it has so carefully avoided when leading developing states in many arenas and in bilateral cooperation—the path of “often disastrous mistakes of Western universalism” (Shi 2015).

As already stressed, transparency could reduce possible risk or a wrong approach concerning projects of the Belt and Road initiative that are to be built or financed by the Chinese in the territories of other countries. Some previous projects have been the target of domestic and international criticism on the grounds of being environmentally and socially insensitive or not considerate enough toward local communities. In the past, such projects were not discussed publicly and decisions were made at the top level, without the necessary transparent and publicly oriented procedures for projects that should be beneficial for the majority of people. Some of the most prominent examples are the hydropower dams within the Greater Mekong Subregion, such as the Laotian Xayaburi megadam project on the Mekong river that left fishermen with empty hands and stomachs and threatens the future of the river and local ecosystem (Nijhuis 2014). Other more recent problems emerged with Chinese-financed projects in Sri Lanka, which the new government has put under investigation. Chinese firms had been awarded work on the Colombo Port City project, worth US\$1.5 billion,<sup>2</sup> the key Maritime Silk Road project in the Indian Ocean, and another 34 projects. All these projects were concluded with the former government in a bilateral framework, at the top level, financed by a bilateral loan from Beijing. A similar example came with the new Syriza coalition government of Greece, which put on hold the sale of Piraeus Port to COSCO (China Ocean Shipping Company), which had been agreed with the previous government.

Two recent cases occurred in the big and important market of Indonesia, a rising south-Asian power. One project was planned and badly executed during the previous local administration, and another with the new government. In the first case, strongly supported by

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<sup>2</sup>The Port of Colombo project was agreed in September 2014 when Chinese President Xi visited Sri Lanka as part of his tour through South Asia to promote the One Belt, One Road initiative.

several high officials from the previous Indonesian government, China's Shenhua Guohua Electric Power Co., Ltd. led consortiums that won the bid to build nine out of ten of the largest coal plants on Java during the three years up to 2014. As part of the gigantic Indonesian project to provide 35,000 MW of electricity, the consortium bid to build 10,000 MG stations at a cost of US\$700,000 per megawatt, which was about 30% of the average market price. Unlike usual practice, the constructor left the project after the work was completed, but with stations running far below capacity and not even compliant with the power of local coal. The Indonesian state-run power supplier PLN was left with serious maintenance and performance issues with the newly built stations and accused the Chinese consortium of using backward technology boilers and second-hand equipment. After requests by the new administration, the Chinese partners returned to repair some faults, but by mid-2016 only 7000 MW were operating efficiently (McBeth 2016). Even though China's energy corporations remain the most desirable partners for the new Indonesian administration and their ambition energy plan, which is an important project for the sea route of the Belt and Road initiative, PLN remain reluctant to do business with Chinese partners in the future.

In spite of President Widodo's personal push for the project and an official ceremony in January 2016, another huge infrastructure project with crucial Chinese involvement has had numerous issues. The Jakarta-Bandung high-speed rail project, worth US\$5.1 billion, has been delayed because of financial, environmental, and land issues that question the viability of the project. Rail experts claim that the proposed 350 km/h speed and four planned stops is highly unsuitable for a distance of only 143 km (McBeth 2016).

The risk that comes from a changed policy toward Chinese companies and their business involvement in locally situated projects could be reduced by avoiding nontransparent deals and pursuing stronger legal procedures. Even more important are the quality of work and the business ethics expressed during the whole process, which are left behind as a legacy that could open or close the door for future engagement of Chinese businesses.

Those negative examples demonstrate that such long-term initiatives might face challenges from the very nature of political processes and from the manner of conducting business. Transparency and inclusion of local stakeholders might help in some cases. In others, the type of

political system and tradition might not allow such a “code of conduct.” However, smart publicity campaigns explaining the broad-spectrum benefits that projects could bring should achieve more understanding and public support in general. Otherwise, a negative track record in those traditionally friendly countries will diminish the existing positive image that China has in the relevant countries.

Expansion of Chinese political, economic, cultural, and geopolitical influence in the territories that are to be connected by the Belt and Road initiative and its network has already increased tensions in major countries in those regions, such as India and Turkey. Such expansion will also create reaction from major global powers such as Japan, the Russian Federation, and the European Union. In spite of the thoughtful diplomatic initiative of Beijing, which stresses the “win-win” potential of the Belt and Road initiative, the projects will create important foreign and domestic policy implications for all of the mentioned countries, and others. Some argue that China’s policymaking process has lacked transparency, leaving uncertainty about China’s intentions (Tao and Haenle 2016).

The Maritime Silk Road will inevitably demonstrate China’s capacity to project its growing naval power abroad, challenging the dominant power (the USA) and many of the Chinese neighbors along the routes, especially those with maritime border issues with China in South China Sea. In contrast to the previous period when the USA hoped to indirectly control China’s rise to the position of a regional power, the global impact of the Belt and Road initiative, together with the founding of the AIIB, have changed Sino-American relations into a competition for dominance in Asia and almost all of its subregions. There is also a concept that China is pivoting toward the West as a response to the US Asia-Pacific Pivot, although this initiative from Washington proved to have poor results.

Regarding the Chinese initiative “16+1” (Sixteen plus One), some politicians and experts speak of China building “a new Great Wall” across the EU and trying to take the Balkan states away from the EU path (Mitrovic 2014). In December 2014, the third Meeting of Heads of Government of China and 16 CEE countries was held in Belgrade, Serbia, with an upgraded and enriched agenda for cooperation. Reviving and intensifying the economic cooperation between China and the crisis-stricken countries of central and southeastern Europe through the “China plus Sixteen” framework is promising and matches interest-based

cooperation between these investment- and technology-hungry countries and China. The long history and tradition of cooperation since the birth of the People's Republic and absence of political preconditioning support the issue. In spite of plentiful potential benefits, China's strong initiative toward Central and Eastern Europe (CEE) is viewed with concern in certain offices in Brussels.

Meticulous attention is required in dealing with the issue of how much the Belt and Road initiative will overlap with or compete with other strategic projects and initiatives. These include Shanghai Cooperation Organization (SCO) projects and initiatives; the Eurasian Economic Union and its Eurasian Development Bank (EDB),<sup>3</sup> initiated by Russia; ADB, EU, Indian, Japanese, and US initiatives in Central Asia; the Conference on Interaction and Confidence Building Measures in Asia (CICA); BRICS New Development Bank projects; and others, including China's own initiatives. China's initiatives include construction or bidding for construction of high-speed railways from Russia to Indonesia, the Bangladesh–China–India–Myanmar (BCIM) Economic Corridor, and the China–Pakistan Economic Corridor.

Regional powers such as India, which has its own strategic ideas for developing the Indian Ocean (the “Spice Route of India” and the “Mausam Project”) (Aneja 2015), face the initiative with mixed attitudes. China's intention to secure trade routes through the Indian Ocean could be perceived by Delhi as an aggressive move. Some experts claim that bigger challenges for the Maritime Silk Road initiative could come from the existing global shipping system (Ghosh 2015). On the other hand, East Asian neighbors Japan and the Republic of Korea are, so far, not included in the initiative. Tokyo remains reserved and concerned about the hidden strategic agenda of the Belt and Road initiative while Seoul is engaged in connecting its own initiatives into this one. President Park initiated another Eurasian economic and cultural cooperation mechanism in 2013, the “Eurasia Initiative,” and wants to connect

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<sup>3</sup>The EDB was established in 2006 by the Russian Federation and Kazakhstan. The Republic of Armenia and the Republic of Tajikistan became full members of the EDB in 2009, the Republic of Belarus in 2010, and the Kyrgyz Republic in 2011. The aim of the EDB is to promote economic growth in its member states, extend trade and economic ties between them, and support integration in Eurasia. The bank has provided financing totaling more than US\$5.3 billion for investment projects in its member states. Retrieved from <http://www.eurasianet.org/node/72701>.

trans-Korean railways with the Trans-Siberian railway, which is to be part of the Belt and Road initiative.

Projects of the Belt and Road initiative in Central Asia are already burdened with geopolitical tensions. China's growing leverage over the region will naturally create additional concerns in Moscow, which is sensitive to its traditional backyard and areas of high security, economic, and geopolitical interest. Central Asia is abundant in natural resources and strategically located and is therefore also of great interest of the EU. Not to be left behind China and Russia, the EU has established both bilateral and regional mechanisms with the region, most of which have little relative influence compared with Chinese and Russian initiatives, but have not reduced the EU's strategic interest.

With sixty six million people and huge infrastructure needs, Central Asia is a highly attractive market for producers and investors in the EU, China, Russia, Japan, and other countries. Central Asia borders China, Iran, and Russia and is a natural transportation hub connecting Europe with Asia that significantly affects the EU and Euro-Asian energy security. For the same reason, it is also important to Japan and Turkey, which, in pursuing Neo-Osmanism, wants to spread its cultural, economic, and political influence in the region. The expected increase in Chinese involvement in constructing regional IT infrastructure is per se a security challenge because it literally creates new platforms for Beijing to spread its influence over Central Asia (Kennedy and Parker 2015). Furthermore, Central Asia shares a border with Afghanistan and risks a possible spillover of instability from its southern neighbor, as well as religious, national, and other connections with major transnational threats such as terrorism, organized crime, and trafficking of people, weapons, and drugs. Therefore, the stability of the region is of crucial importance to China, Russia, India, and the EU. The Central Asian states are seen to play the role of key allies in the fight against Islamic extremism (Gast 2014).

Until recently, China's reliance on oil from Central Asia was limited to less than 5% of its needs, compared with 3.5% of Europe's fuel imports. However, the proportion of China's oil and gas imports from Central Asia has grown to over 10%. This has strategic importance because China wants to reduce its dependence on maritime routes controlled by the USA, NATO, and its allies. Competition for access to Central Asian resources is likely to grow between the EU and China, as Russia fulfils its relative goals through its relations with Turkmenistan and the strong ties

of Gazprom and its subsidiaries along the Caspian Sea and in the former Soviet Republics.

On the other hand, most of the projects of the Belt and Road initiative directly “call” on neighboring powers to cooperate. When China was engaged in extending the Tibetan railway line from Lhasa to the Indian frontier in the south, it asked India to develop a trans-Himalayan economic zone of cooperation jointly with Nepal and Bhutan. Also, China has invited India to build the BCIM Corridor that would link Yunnan Province with Myanmar, Bangladesh, and eastern India.<sup>4</sup> China has carefully responded to Delhi’s concern regarding the Indian Ocean and overlapping of the two initiatives, offering their mutually beneficial cohesion. Additionally, in 2013 during the RIC (Russia, India, China) foreign ministers summit, the Chinese proposed a three-level cooperation strategy, of which the third part is common engagement in “building the Silk Route Economic Corridor and Asia-European Continental Bridge” (The BRICS Post 2013). Furthermore, in February 2014, China’s President Xi and Russian President Putin agreed on construction of the Belt and Road initiative and on connection of its rail links with Russia’s Euro-Asia railways. Their cooperation within the frameworks of BRICS, SCO, Asia–Europe Meeting (ASEM), and other mechanisms should also have a very positive impact on Belt and Road development.

## 2.4 FINANCING THE BELT AND ROAD INITIATIVE: EMERGENCE OF A NEW REGIONAL/GLOBAL FINANCIAL STRUCTURE

China has also been working to develop financial institutions and financial structures that can offer financial support for the numerous projects of the Belt and Road initiative and provide opportunities for foreign and private investors to take part in the established financing network. China will try to avoid some of the previous less successful and not well-received patterns of financing business operations abroad.

On 4 November 2014, at the Asia-Pacific Economic Cooperation (APEC) conference in Beijing, China’s president announced a plan to

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<sup>4</sup>Xi raised this issue with Prime Minister Narendra Modi when they met for the first time on the margins of the Brazil, Russia, India, China and South Africa (BRICS) summit in Fortaleza, Brazil, July 2014. Please, read more at: <http://carnegieendowment.org/2014/08/13/chinese-takeaway-one-belt-one-road>

direct US\$40 billion from China and welcomed other investors to contribute as “The Silk Road Fund will be open ... and the fund’s managers will welcome investors from Asia and beyond to actively take part” (Zhang 2014). The State Council will forward the nation’s foreign currency reserves for about 65% of the Silk Road Fund’s initial amount. The rest of the fund’s assets will come from the government’s sovereign wealth fund, China International Trust and Investment Corporation (CITIC), and the two policy banks, the Export-Import Bank of China and the China Development Bank Capital Co. (CDB). CITIC’s share will be 15%, and the two banks will contribute 15 and 5%, respectively. Future investments may be ordered if needed, according to the State Council sources.

In May 2015, at the ASEM Industrial Dialogue, Chinese vice-premier, Zhang Gaoli, announced that six economic corridors with countries along the Belt and Road’s trade routes connecting Asia and Europe will be funded by the AIIB, the Silk Road Fund, Chinese banks and corporations, and other interested investors. According to Zhang, corridors are set to run through China–Mongolia–Russia, the New Eurasian Land Bridge, Central China and West Asia, the China–Indochina Peninsula, China–Pakistan, and Bangladesh–China–India–Myanmar (He 2015). Meanwhile, the CDB announced that it would invest more than US\$890 billion in more than 900 projects in 60 countries as part of its efforts to bolster the Belt and Road initiative (*China Daily* 2015). So far, according to Li, the bank’s vice-president, over US\$10 billion has been invested in projects covering coal and gas, mining, electricity, telecommunications, infrastructure, agriculture, and so on.

The Silk Road Fund projects (for example, projects within the Belt and Road initiative) include some recent major Chinese investment initiatives. These projects will increase similar multibillion-dollar funds financed by China (or bilaterally) in recent years to support development in Africa, Latin America, southeastern Europe, and Southeast Asia.

Repeating the same pattern as elsewhere around the globe, China has moved toward multiplying and strengthening its presence in Europe. Since the global financial crisis, Mediterranean, eastern, and southern European countries have become very attractive to the Chinese business community, supported by the Chinese government. In April 2012, Prime Minister Wen Jiabao met high envoys from 16 central and southeastern European countries in Warsaw at the economic forum (announced a year before in Budapest) and introduced “Twelve

Measures” for development within the 16+1 cooperation. Measures include a credit line worth US\$10 billion for support of future projects, of which 30% of the amount would be financed under preferential conditions for Third World countries. Projects in the area of infrastructure, high technology, and renewable energy were prioritized. China intends to stimulate 16+1 trade to double in value and achieve US\$100 billion by 2015 and to build one economic development high-technology zone in each of the 16 countries in the following five years. In recent years, cooperation in “industrial capacity” speeded up and became a very important element of the cooperation between China and the 16 CEE countries (Mitrovic 2016a and Mitrovic 2016b).

Another important institution formed to financially support this specific branch of the Belt and Road initiative is the China–CEE Investment Cooperation Fund, “a government-backed, adhering to market-oriented and commercial operation” (The Silk Road News, June 24, Xinhua 2016). It is an equity fund and Mitrovic 2016 registered in Luxembourg that has US\$500 million for investment in CEE countries (US\$470 million coming from the Export-Import Bank of China and US\$30 million from Eximbank Hungary) and a special credit line of US\$10 billion dollars at the disposal of fund management to invest in relevant projects in the 16 CEE states. Three projects in Poland have already been approved. According to *The Silk Road News* and *Xinhua*, the fund’s first investment went to Polish Energy Partners S.A. (Jakobowski, cited in Mitrovic 2016c).

The Silk Road Fund Co Ltd. has a special role in financing projects of the Belt and Road initiative. The fund was set up in December 2014 with an initial capital of US\$10 billion, with 65% coming from the China’s foreign exchange reserves. Its capital later grew to US\$40 billion. It is equity investment, where the Belt and Road initiative will be innovative by involving public and private investors, as well as international organizations such as the ADB, IFC, and AIIB. According to the governor of China’s Central Bank, Zhou Xiaochuan, it could become a model of public–private cooperation, operating like a private equity fund but with a longer investment prospect.

Chinese state-owned conglomerate CITIC Ltd. announced in June 2015 that it will invest up to US\$113 billion in the One Belt, One Road initiative. The money will come from its banking, securities, trust, and construction divisions, and will help finance the completion of approximately 300 projects from Singapore to Turkmenistan (Zhang and Miller 2015).

One of China's biggest foreign policy successes and strategic wins occurred in Beijing on Monday, 29 June 2015 when delegates from fifty seven countries signed an agreement on the Asian Infrastructure Investment Bank (AIIB). Currently, fifty seven countries from Australia to Germany are AIIB stakeholders, of which thirty seven come from the Asia-Pacific region, while the other twenty come from Europe, Africa, the Middle East, and Latin America; Fourteen are EU Member States. The AIIB began with authorized capital of US\$50 billion, which will eventually be raised to US\$100 billion. Asian countries are expected to own up to 75% of the bank, with European and other nations owning the rest. Each Asian member is allotted a share of that 75% quota based on economic size. China is about to hold a 25–30% stake.

Founding the AIIB could certainly be seen as an attempt by China, Russia and other BRICS countries, as well as numerous emerging economies, to change the existing order by taking part of the global power cake from the USA, EU, and the global financial oligarchy. BRICS and other emerging economies obtain their “relational power” from their relative position as big regional or global importer or exporter, or as a trader with scarce resources (such as oil, gas, or rare earths). However, what is even more important and new in this process is that the AIIB brings “structural power,” which is based on a system of building, controlling, and making rules by the founders. By definition, these rules should give the biggest gain to members.

## 2.5 CONCLUSION

If China encourages inclusion and equal possibilities for all stakeholders, and abides by dominant and agreed legal norms and rules, the Belt and Road initiative will give very positive impetus to global markets and efficient allocation of capital investment. It will create an unprecedented scope of opportunities for direct investment and wake up sleepy markets.

The One Belt, One Road strategy underlines China's bold and powerful move forward to a bigger role in global economic and political affairs and shows the way it would like to participate in shaping the world and its future. This is the one of the two most strategic and leadership-expressive initiatives of the PR China. It also reinforces the policies of “reclaiming national pride and enhancing personal well-being” while realizing “China's Dream.” Some analysts even see the future network of the Belt and Road initiative as “an economic empire centered in China” (Lo 2015).

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