China’s ‘Belt and Road’ Initiative
Its strategic, trade, and fiscal implications

The ‘Belt and Road Initiative’ (BRI) initiative aims to create the infrastructure necessary to connect China to Europe, with the ultimate aim of creating a new Free Trade Area between China and Europe. To all intents and purposes, this enormous project intends to recreate for the modern, digital age the Silk Road that once connected China with Europe during the time of the Roman Empire. Professor Julien Chaisse at the City University of Hong Kong, School of Law, explores both the project’s ambition and its challenges, and profiles some suggestions as to how— and if—this can be achieved across the many nations requisite to its construction and ultimate success.

BRI’S ORIGINS AND AIMS

BRI was first envisaged by the Chinese President, Xi Jinping, in 2013. He proposed a project of connected construction on an unprecedented scale, with two major routes: the North Line (starting in Beijing and extending through Russia, Germany, and eventually to the Scandinavian countries), and the Middle Line, also starting in Beijing, working its way through the autonomous region of Xinjiang, on to Afghanistan, Kazakhstan, Hungary, and ultimately to the rest of Europe and presumably the UK (even if no longer a member of the European Union), with two auxiliary routes to ensure full connectivity between regions.

Such a project builds on recent measures for greater cooperation between nations, including China’s platform for cooperation with the Belt, Central European and Balkan Countries, known as the 16+1 Group, which was initiated in 2012. Some of the individual projects which make up the different sections of BRI have been initiated, such as the modernisation of the Baku-Tbilisi-Erzurum-Kars (BTEK) railway, the China-Kazakhstan railway, or the China-Pakistan Economic Corridor (CPEC), and the rejuvenation of the Karakoram Highway (joining north-west China and Pakistan). Professor Chaisse’s most recent edited volume, China’s International Investment Strategy: Bilateral, Regional and Global Law and Policy, ed. Chaisse, Julien (Oxford University Press, 2019) brings together important analyses of such projects to date and, as his editorial assessment reveals, these endeavours remain a drop in the ocean for a project that envisons a 50-year timescale for its completion. In doing so, he creates a much clearer picture of the ways in which Europe, China and the countries of Central Asia are collectively engaged in the construction of a new major commercial axis.

FINANCING THE SILK ROAD / BRI

In 2015, the EU and China signed a memorandum of understanding in order to cooperate on BRI. Whilst this memorandum sets out the basic relationships underpinning this project, there remains uncertainty as to how it will progress. To date, China’s international policy has been focused very much on World Trade Organization (WTO) membership. Professor Chaisse’s research pinpoints the key questions remaining over any future Asia-Pacific trade policies in the coming decades, specifically over the creation of innovative approaches to international trade and investment at such a turbulent financial moment. As he cautions, exactly how the project will be delivered in full—across multiple partners—raises complex economic and regulatory challenges on an unprecedented scale.

Professor Chaisse also draws attention to the environmental concerns of the project, inextricable from its delivery and overall impact.

THE EXTENT OF INTERNATIONAL INVOLVEMENT

The Chinese government has set out to deliver such an enormous, complex project by subdividing it into a series of smaller, regional projects along the route. To date 65 countries are involved in bringing its connectivity and infrastructure to fruition. Central to the project’s achievement is China’s own need to ensure its financial success but alongside this, each participant along the route is taking a financial leap into the unpredictable, if not the entirely unknown. Those nations participating in BRI account for roughly 63% of the world’s population (accounting for around four billion people), with roughly a 30% share of the world’s GDP. The risks may be shared but they remain substantial.

BRI’S IMPACT ON BANKING

In order to facilitate the series of infrastructure projects, the Chinese government have therefore established the Asia Infrastructure Investment Bank (AIIB), which supplies funds to Asian projects requisite to the route. Many countries have joined the AIIB, with 21 (including China, India, and Singapore) signing the agreement as to its formation, with the UK, France, Germany, and Italy joining subsequently. Other financial institutions have been established, including the Silk Road Fund (with a contribution from China amounting to USD 40 billion), the Shanghai Cooperative Organization Development Bank (SCO Development Bank), established with a Chinese contribution of USD 80 billion, the New Development Bank (initially known as the BRICS Bank) with contributions across countries including Russia, Brazil and India amounting to well in excess of USD 100 billion.

Such funding will certainly be necessary if the required building infrastructure, transportation, energy, and ultimate population of new systems are to be realised. Even so, this remains a high-risk enterprise, one in which competition standards must be set, risk managed, and an amorphous legal framework scrutinised continually. It is this very scale, and the pertinent appeal to international trends in growth and restructuration, that manifest so clearly in Professor Chaisse’s analysis. His edited volume, The Belt and Road Initiative—Law, Economics, and Politics (Brill, 2018) confirms that BRI is proving to be a key driver of the readjustment of the Centre of Economic Gravity (CER) in the 21st century.
Professor Chaisse's research will continue to monitor its progress and provide crucial analysis.

CONCLUSION
The determination by the Chinese government and their partners to deliver a new Silk Road is clear. What remains unclear, of course, are the subsequent agreements to be made between domestic and foreign partners, which are necessary to ensure delivery of a seamless network and infrastructure. Concerns continue to be voiced by the USA, Western countries and Japan about the ways in which Chinese State-Owned Enterprises (SOEs) may act alongside Western structures, potentially causing friction and delay.

Professor Chaisse maintains that some ‘rules of conduct’ need to be established for SOEs, either through informal guidelines issued by the governments or through an international agreement between the relevant governments, to ensure that their behaviours do not overstep the boundaries. To date, BRI is being delivered through an open-framework, open to interested parties who wish to participate and, as such, Professor Chaisse’s research will continue to monitor its progress and provide crucial analysis. In 2015, China’s State Council expected the goal of BRI to be the creation of an ‘BRI/Free Trade Area (FTA) or Silk Road FTA. As Professor Chaisse’s work emphasises, such an agreement is yet to be achieved but the world is watching.