China’s Belt and Road Initiative
The Middle Kingdom Expands its Economic Domain

PROJECT OF THE CENTURY

“To forge closer economic ties, deepen cooperation and expand development space in the Eurasian region, we should take an innovative approach and jointly build an economic belt along the Silk Road.”

– Xi Jinping, President of the People’s Republic of China

In an effort to enhance and expand its economic domain, the Chinese state has sought to revive and reestablish the historic trade routes that made China one of the richest countries in the world. Just as the ancient Silk Road made the Middle Kingdom mankind’s most prosperous economy for the better part of a millennia, the Belt and Road Initiative was conceived to reestablish China as the center of trade, reclaiming its former command of intercontinental commerce. In doing so, China hopes to craft an entirely new sphere of eastern influence, rivaling the western hegemony crafted by the United States and its allies. The Belt and Road Initiative is colossal in its size and scope and its aims are equally ambitious. However, as with any project of this scale, its future is fraught with uncertainty and its path to completion remains laden with potential pitfalls. Nevertheless, it is irrefutably the project of the century.

KEY TAKEAWAYS

The Belt and Road Initiative involves approximately 70 countries, and comprises two separate megaprojects.

The first project, the “Silk Road Economic Belt,” strives to connect and integrate countries located in mainland Asia, the Middle East, and Europe. The second project, called the “21st Century Maritime Silk Road,” aims to connect Asia, Oceania, and North Africa.

The two projects involve an estimated $4-8 trillion worth of roads, ports, rails, airports, pipelines, and telecommunications. With this megaproject, China aims to build a global network of infrastructures to connect itself with Asia, Europe, and Africa through land and maritime routes.

Should its vision be realized, China will be the heart of over half of the global population, three quarters of known energy reserves, and a plurality of developing countries.
THE SILK SAGA

The Silk Road was an ancient network of trade routes established over two thousand years ago to exchange goods, knowledge, and ideas. Its routes spread across Europe, the Middle East, Africa, and China, passing through strategic locations that allowed efficient transport, delivery, and storage of merchandise. Despite being named after the precious fabric, silk was just one of the many products traded across the route. In fact, merchandise included food, textiles, materials, artwork, and many other commodities.

Perhaps the most important aspect of the road was the sharing of cultures, ideas, technology, and other elements of civilization. For example, many countries in Europe adopted the use of paper and gunpowder invented by the Chinese, as well as spices from Southeast Asia. Another example of the dissemination of culture through the Silk Road was the expansion of Buddhism throughout Eurasia. In addition, merchants travelling from the Far East to Europe had to learn other languages and customs in order to broker deals successfully.

The Silk Road also included sea routes, also known as the “Spice Roads” or the “Maritime Silk Roads.” Originally, these routes only connected local ports. However, as naval technology evolved, merchants began to transport goods as far as 8,000 miles away, from the coast of Japan to various countries in the Mediterranean. These convenient and faster maritime routes rapidly replaced overland routes. The rise of the Mongolian Empire in the 13th century (which affected routes between China and the Mediterranean) and the collapse of the Byzantine Empire at the hands of the Ottoman Turks in the 15th century ultimately led to the decline of the Silk Road.

THE DRAGON SPREADS ITS WINGS

The Belt and Road Initiative involves approximately 70 countries, and comprises two separate megaprojects constructed along the ancient land and maritime trading routes. The first project, the “Silk Road Economic Belt,” strives to connect and integrate countries located in mainland Asia, the Middle East, and Europe. The second project, called the “21st Century Maritime Silk Road,” aims to connect Asia, Oceania, and North Africa.

The two projects involve an estimated $4-8 trillion worth of roads, ports, rails, airports, pipelines, and telecommunications. Looking ahead, China is considering the idea of expanding its reach beyond the traditional belt and road trading routes. Initiatives include a “Pacific Silk Road” that connects China to the Indian Ocean and Africa, a “Silk Road on Ice” that crosses the Arctic Ocean through the Northern sea route, and a “Digital Silk Road” through cyberspace. Chinese president Xi Jinping refers to this conglomerate of ambitious ideas as “the project of the century,” or, as it is better known worldwide, the “Belt and Road Initiative” (BRI). With this megaproject, China aims to build a global network of infrastructures to connect itself with Asia, Europe, and Africa through land and maritime routes.

[Map of China's Ancient Silk and Spice Routes]
BELTING IT OUT

The projected “Belt” comprises six economic corridors, taking advantage of international cities and ports already predisposed for the transport of goods:

- The China-Mongolia-Russia Economic corridor links Tianjin, a port city one hour away from Beijing, to Ulan-Ude, a key stop in Siberia for heavy freight.

- The Eurasian Land Bridge links Russia’s eastern port of Vladivostok to Moscow and Rotterdam, effectively connecting the Pacific and Atlantic Oceans. This route uses the Trans-Siberian Railway, which passes through Ulan-Ude, the final stop of the Chinese-Mongolia-Russia economic corridor.

- The China-Central Asia-West Asia Economic Corridor is very similar to the ancient Silk Road and connects China to the Arabian Peninsula. The route begins in Horgos and continues south, crossing multiple central Asian countries before finishing in the Indian Ocean.

- The China-Pakistan Economic Corridor connects the city of Horgos in Western China to the Pakistani port of Gwadar, offering areas in mainland China direct access to the Indian Ocean. This project is more than a simple corridor of the BRI; it also includes a network of pipelines to supply China with energy, and a variety of projects to solve Pakistan’s blackout issues.

- The China-Indochina Peninsula Economic corridor links the Pearl Delta Region (which includes megacities like Hong Kong, Guangzhou, and Shenzhen) to most countries in Southeast Asia. This route not only aims to bridge the gap between China and countries like Vietnam, Laos, Cambodia and Malaysia, but also aims to strengthen the China-ASEAN1 relationship and ensure prosperity in the region.

- The Bangladesh-China-India-Myanmar Economic Corridor focuses on connecting the BRI routes coming from mainland China to the various southern ports (such as Myanmar) and ultimately India.

China’s Belt and Road Initiative

Source: Getty Images
ON THE ROAD AGAIN

The 21st century Maritime Silk Road aims to revolutionize trade coming from mainland China to Africa and Europe, with the use of sea routes and strategic ports to speed up the transportation of goods. The main sea route connects Beijing, the Pearl Delta Region, and various cities along the Southeast border of China to various ports in the Indochina Peninsula, ultimately leading to the Indian Ocean through the Strait of Malacca. The sea routes continue to key ports that connect Bangladesh, Myanmar, and India. Sri Lanka’s port of Colombo is the last key point of the maritime route in the Indian Ocean, where the route splits to Pakistan and the East Coast of Africa. Whether in the form of investments or through physical infrastructures, countries like Senegal, Tanzania, Djibouti, Ghana, and Mozambique already have a Chinese presence.

China has a geography problem when it comes to its ability to import and export goods through maritime routes. For example, China imports the vast majority of its energy supply from the Middle East. However, China does not have direct access to the Indian Ocean, and its imports must travel through the strategically significant Strait of Malacca in Southeast Asia. As a result, Beijing has been heavily investing in Malaysia, financing the construction of high-speed rail and a deep-water port along one of the routes of the Silk Road.

Likewise, another strategically significant maritime strait is located near Djibouti, at the intersection of the Red Sea, the Horn of Africa, and the Indian Ocean. It is here that China built its first overseas military base. Just as Britain took possession of and maintains a permanent presence at the strategically significant Strait of Gibraltar (which guards the entrance to the Mediterranean), so too does China hope to wield its influence via this strategically significant strait. This military base was justified as a contribution to the United Nations peacekeeping operations, but China also uses this port as a commercial channel. The final leg of the 21st century Maritime Silk Road connects Djibouti with the Suez Canal, which enables access to the Mediterranean Sea and European markets.

EXPORTING THE EXCESS

Due to its explosive expansion over the last few decades (Figure 1) and extensive subsidization of its state-owned enterprises (SOA), China has become a global production powerhouse. Having previously produced a small fraction of total global output, China now produces more coal, steel, and cement than the rest of the world combined (Figure 2 & 3). However, with great production comes great oversupply. China is now searching for ways to export its excess capacity. The BRI poses a twofold solution. Trade routes along the BRI will not only create additional channels to export the excess, but their construction will also create demand for infrastructure materials (like steel and cement).
Another issue engendered by its rapid economic growth is income equality across China, with higher disposable income per capita in coastal cities like Beijing and Shanghai and lower disposable income per capita in landlocked areas like Xizang and Gansu (Figure 4). Again, the BRI poses a twofold solution. By connecting these provinces with foreign markets and increased trade, wealth and prosperity will spread in the process. Additionally, the Chinese government is exporting Chinese labor and expertise to complete Chinese-funded projects, further lowering the nation’s unemployment. This strategy has led to China becoming the world’s leader in the construction industry in recent years. In the year 2000, only ten of the 500 largest construction companies by revenue were Chinese. By 2017, that number had grown to 107, with seven of the top ten firms domiciled in China.

In 1986, China started the process to join the World Trade Organization (WTO) and self-selected the status of “developing” country. Over 30 years later, this classification has not changed, and China is still enjoying advantages and fewer commitments to the WTO than developed countries. It is indisputable that the country is not what it was 30 years ago, as unskilled workers have become skilled and transitioned to middle class. Therefore, China is increasingly becoming a less competitive place for low cost labor.

Figure 4: Provincial Share of Chinese GDP

SINO SAFARI

In the last decade alone, China has invested over $35 billion in Africa, creating thousands of Chinese businesses that employ millions of locals. This growing trend displays how an ever richer and more sophisticated China is looking for places to outsource and obtain cheap labor. The BRI is once again crucial to this strategy, as some of the routes connect China directly with countries like Zimbabwe and Namibia.

Africa is in desperate need of better infrastructure to connect its countries, but cultural and political differences pose significant roadblocks. In addition, the biggest continent in the world has a size problem. Due to distortions caused by cartography, Africa is often wildly misrepresented on most world maps. In reality, the African continent could easily fit North America, China, and most of Europe within its borders. Due to its sheer size, Africa requires hefty amounts of funding to create a network of high-speed rails and roads.

Trading costs in Eastern Europe and Central Asia are significantly higher than Southeast Asia and Europe due to tariffs between the countries involved and the quality of the transportation infrastructure. The BRI aims to facilitate trade across Eurasian economies through efficient border administration and free-trade agreements, as well as a high-quality transportation network. In addition, BRI countries are working on an information and communication technology platform that would orchestrate the flow of goods and further improve the process of transportation. As a result, the potential increase in cost and time is likely to increase the volume of trade between countries.

Trading Costs Across Eurasia
Relative to Value of Goods Traded (%)

For instance, the pan-African road network has been an official plan since the early 1970s, but funding has always been an issue. Only one of the nine main highways that were originally planned has been completed. Beijing sees this funding issue as the perfect opportunity to expand its reach in Africa by proposing BRI projects to many countries across the continent (Figure 5 & 6). In addition to receiving interest revenues from loans issued, China is hoping to gain access to Africa’s natural resources, cheap labor, and over 54 markets that are currently home to approximately one billion people.
FUNDING SECURED...?

The BRI’s estimated cost is currently in the wide range of $4-8 trillion dollars. In order to fund this project, the Chinese government created two major financial institutions. The first one, the Asian Infrastructure Investment Bank, closely resembles the International Monetary Fund in that it specializes in lending money for economic projects. The other, the Silk Road Fund, aims to invest in projects (rather than issuing loans) and falls under the supervision of the Chinese Central bank. In addition, other financial entities (like the China Development Bank, Exim Bank of China, and the Sovereign Wealth Fund) all have stakes in the BRI.

At the direction of the Chinese state, these banks are able to issue large loans very quickly. As a result, they have an additional edge in obtaining contracts for BRI projects in foreign countries. For instance, Pakistan recently awarded a contract for the construction of a coal plant to a Chinese SOE. Despite having a much higher cost estimate relative to other Pakistani and international firms, the Chinese SOE won the contract due to its ability to obtain timely financing. Upon securing funding, the firm built the coal plant in record time.

A WORM IN THE BAMBOO

Despite the fact that the BRI has the propensity to produce prosperity abroad, many critics fear that China is leveraging its lending abilities for geopolitical gain. Countries plagued by conflict or corruption have proven to be particularly vulnerable to foreign lending. Many of these countries likely lack the means to pay back the substantial Chinese loans they have incurred for BRI projects.

Nevertheless, many of these strategic locations are essential to the successful completion of the BRI. Therefore, China is willing to risk countries defaulting on their loans in return for alternative payment methods that confer geopolitical benefits. For instance, when Sri Lanka failed to repay its debt to China, the Chinese negotiated a 99-year lease of Hambantota (one of Sri Lanka’s deep-water ports) as a payment for the loan. While this flexibility in negotiating payment terms incentivizes other countries to commit to BRI projects with Chinese loans, they would do well to proceed with caution.

As evinced by the scenario in Sri Lanka, BRI projects often conceal unforeseen long-term consequences and constraints. Conditions of BRI projects often stipulate that Chinese labor and materials must be used in the construction process. Furthermore, BRI projects often include superfluous facilities (such as fancy hotels, financial hubs, and theme parks), which, while often unnecessary to the local economy, are likely useful to Beijing’s long-term strategy. China has substantial amounts of capital, material, and labor to invest, as well as an extended time horizon to harvest returns. By lending capital to countries that are likely to default on their loans, China is ultimately able to obtain partial or complete ownership of these infrastructures. This sophisticated colonialism of sorts is allowing China to expand its presence without the use of armed conflict in multiple strategic points along the BRI.

China has already secured multiple key nodes along the maritime Silk Road by lending money for the construction of ports and other infrastructures, receiving long-term leases in return. Strategic locations like the Strait of Malacca and ports in countries around the globe (such as Cambodia, Myanmar, Bangladesh, Sri Lanka, the Maldives, Pakistan, and Sudan) are crucial for China’s economic success. While these locations are indeed stops along key trade routes, some have suggested that China is preying upon developing countries in order to broaden its geopolitical influence.

ENRICHING TO EXTORT?

Many of these developing countries which took loans from Chinese banks due to BRI-related projects have debt-to-GDP ratios of over 60% (Figure 7). According to S&P ratings, 35 of the 68 countries currently involved in the BRI are rated below investment grade, and 13 are not rated at all. Consequently, the low credit ratings of these countries make Chinese offers hard to refuse, as they represent an opportunity to prosper in the future with credit they would not otherwise be able to obtain.

![Figure 7: Government Debt](source: Central Intelligence Agency, as of 2018)
However, these sizeable debts are likely to leave countries dependent on China, which could potentially escalate tensions and pose a threat to the sustainability of the BRI. Overinflated contracts and construction delays of BRI projects have caused some countries to accuse Chinese firms of corruption. Furthermore, the asymmetric benefits conferred to China on certain projects (including the port of Hambantota in Sri Lanka and a railway connecting China to Laos) have further fueled resentment.

Many countries have caught on to Beijing’s strategy, and have begun pushing back on China’s ‘generous’ lending propositions after questioning their long-term viability. Pakistan’s new prime minister, Imran Khan, recently announced his government would reduce the amount borrowed from China to finance the China-Pakistan Economic Corridor by $2 billion, voicing concerns about the financial burden posed by the loan. Separately, Malaysia recently cancelled three BRI related projects, including two gas pipelines and a high-speed rail project. Nevertheless, both countries remain committed to moving forward with the BRI and relations with China continue to be amicable.

Many have suggested that the BRI was crafted to create a sphere of eastern economic influence, rivaling the western economic sphere long-led by America and its allies following World War II. Indeed, the U.S. has benefited greatly from printing the dollar, which over the course of the last half-century has become the principal reserve and transactional currency around the globe. Should the BRI succeed in its size and scope, a byproduct of increased Chinese trade would be the proliferation of the yuan, which could come to rival the dollar as the global currency of choice. Furthermore, America’s recent withdrawal from global affairs in favor of nationalistic interests has provided China a stage to curry yet more favor with the international community on key issues including climate change and free trade.

Separately, some have posited that this sphere of eastern economic influence may evolve into a sphere of militaristic influence. China’s nascent expansion in the South China Sea and elsewhere has already begun to challenge America’s naval presence and dominant position in the Asia-Pacific (see Strings of Pearls Theory below). Beijing has cultivated relationships with

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**THE STRING OF PEARLS THEORY**

The theory focuses on China’s objective to expand its control and military presence in the South China Sea and the Indian Ocean. The recent opening of a military naval base in Djibouti strengthened this theory, and raises further concerns that China is building commercial ports capable of hosting military warships and aircraft carriers. In fact, this network of ports would allow China to protect its interests and assets along the BRI and the African continent, as well as to challenge the U.S. supremacy in the disputed waters of the South China Sea.

Source: Getty Images
countries throughout Eurasia and the Middle East, oftentimes leveraging mutual animosity and discontent towards the dominance of American doctrine around the globe. To this end, the BRI has strengthened ties between China and its neighbors and has contributed to the reshaping of their diplomatic and military ties with the U.S. (as in the case of the Philippines and Cambodia).

**POTENTIAL PANDA-MONIUM**

The BRI faces many challenges along its path to completion, many of them financial, political, and demographic in nature. Should the BRI fail in executing its ambitious aims for any of these reasons, the consequences would be vast. Due to its sheer size, scope, and scale, its success or failure may very well turn the tide of economies around the globe for better or worse. Many developing countries took on significant amounts of debt in hopes of boosting future economic growth. In the event that the debt does not succeed in spurring growth, stagnation will ensue and the burden of the debt will remain. Furthermore, overinflated projects may simply prove unable to generate projected returns, with their costs outweighing their benefits, to the detriment of both debtor and creditor.

“Made in China 2025” is Beijing’s initiative to update and heavily invest in its industry, manufacturing, technology, research, and innovation. “China 2030,” another Beijing initiative, strives to build a high-income populace rivaling that of the U.S. However, accounting for its entire populace on a per capita basis, China remains poorer than half of the global population. Achieving such a goal by 2030 may prove to be far-fetched. Additionally, China’s population is already starting to age and is projected to start declining in 2023. A declining workforce in an expansionary environment is likely to stall China’s growth and may prove to be an obstacle to its goals of becoming a global power.

**THE CHINESE DREAM**

While critics might suggest that the BRI is simply a political ploy backed by massive amounts of state funding as a last ditch effort to propel the economy into the future, the pace and power of Chinese ambitions should not be underestimated. China effected an unprecedented transformation of its economy in record time. In a matter of mere decades, China ascended from relative poverty to become the second largest and richest economy in the world. It not only caught up with its western counterparts, but surpassed all but one of them at breakneck speed. It is now poised to pass the leader of the pack.

Should its vision for the BRI be realized, China will become a new, colossal center of economic influence. The country will be the heart of over half of the global population, three quarters of known energy reserves, and a plurality of developing countries. However, due to China’s lack of transparency in reporting, the economic impacts of this seismic shift are difficult to forecast and gauge. Nevertheless, it is irrefutable that this initiative will have an indelible impact upon economies around the globe. A successful BRI could prove to be the dawn of a new financial age, crowning China as the world’s emergent economic power.