Introduction

During an official visit to Kazakhstan in September 2013, Chinese President Xi Jinping suggested an innovative model of regional economic cooperation to foster collaboration in countries along the ancient Silk Road. He called this idea the "New" Silk Road. A month later that same year, during his speech to the Indonesian parliament in Jakarta, Xi projected a New Maritime Silk Road as an extension of the land-based one, a likeness of the historic Maritime Silk Road linking China to the Mediterranean.

Since it was first announced, much has been written about the Belt and Road Initiative (BRI). The BRI, with its deliberately vague name, evocative of transport networks, was initially presented, and thus welcomed by most, as a major infrastructure investment program. The aim of the initiative was increasing connectivity between China and the entire Eurasian continent, in particular the areas most in need of transport links and infrastructure – i.e. the countries of Central Asia – with Europe as its westernmost frontier.

Already at that time, the Chinese government had been exhaustively explaining the idea behind the BRI, to clarify its characteristics, and the motivations behind the project and thus clear the field of certain interpretations that had immediately been put forward on the expansionist and paternalistic intent of the initiative, which many compared to a great Marshall Plan for Central Asia. Far beyond transport infrastructure, the BRI is an ambitious strategy to enhance connectivity between Asia and Europe by promoting five types of connectivity: not only physical, but also commercial, digital, financial and cultural. According to the main reference document drafted by the National Development and Reform Commission (NDRC) of the People's Republic of China (PRC), now known as the BRI White Paper (the full title is *Vision and Actions on*

Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road), the BRI is based on five pillars: policy coordination, infrastructure connectivity, increased trade, financial integration, and cultural exchanges. Since October 2016, the BRI has become a state objective of the PRC, fully incorporated into its Constitution, reflecting the enormous importance of the Initiative among the country's policy objectives.

The BRI has quickly become the focus of all Chinese economic diplomacy, if not Chinese diplomacy tout court. Its aim is to promote China's integration into the global economy along much deeper avenues than ever before, i.e. well beyond international trade and investment flows abroad. Although the Chinese government officially prefers to call it an Initiative, it should be seen as a genuine programme for opening up the country, developed in response to changing domestic and international circumstances. The Chinese government has built a colossal economic, institutional and political communication effort in support of the BRI, to dispel fears of possible Chinese expansionism, with language that is full of allusions to the common benefits the Initiative intends to bring to all its supporters. Today, more than a hundred countries and international organisations have officially supported the BRI through Memoranda of Understanding (MoUs) of great symbolic – perhaps more than operational – value.

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In the proliferation of books and articles on the BRI, both academic and journalistic, the financial pillar of the Initiative has so far received little attention. This despite the fact that it is a central element of the Initiative and in some respects, as this book seeks to show, its ultimate objective. Various essays, mainly academic articles with a technical-financial slant, have been devoted to some specific elements of China's financial integration strategy with the rest of the world. By far the most prominent among them is the internationalisation of the renminbi, since 1969 the official name of the Chinese currency, which literally means "the people's currency" – from the Chinese *rén mín* (people), *bì* (currency). From this word comes the common abbreviation (RMB), although it does not conform to the ISO 4217 code officially used for national currencies (according to this international standard the three-letter code for the Chinese currency would be CNY, from the official name *Chinese yuán*).

The internationalisation of the renminbi is undoubtedly a much-studied topic as far as its characteristics and evolution, and has been part of China's strategy of integrating the country into the world economy since well before the BRI was conceived. There is no precise date that we can identify as the starting point of the somewhat ambiguous objective of internationalising the renminbi, but it has certainly been under discussion in China since at least early 2002. Initially a vague notion, the prospect took shape within a few years and in 2006 was outlined by a study group sponsored by the People's Bank of China (PBoC), the Chinese central bank, in the report that would become the turning point for the entire strategy (*The Timing, Path, and Strategies of RMB Internationalization*). It stated that the internationalisation of the renminbi would promote China's international status, competitiveness, and influence on the world economy, in part by enhancing the country's power (as an international currency issuer). Therefore, this step had become inevitable. In 2014, the inaugural year of the BRI, the renminbi's internationalisation process had already been in full swing for at least five years, if we count 2009 as the date when its use as a currency in international trade transactions began.

The BRI and the internationalisation of the renminbi are both strategies promoted by China in the 21st century to increase its integration into the world economy. They came about at different times and with parallel, if complementary, aims. Indeed, there is a great synergy between them. On the one hand, as we shall see in Chapter 1, greater international circulation of the renminbi is indispensable for the completion and smooth functioning of the BRI. The vast financial resources needed to implement BRI projects around the world cannot be denominated in renminbi (which has no real official circulation outside China), but require an international reference currency, mainly the dollar. Although China is still the world's leading country in terms of the amount of foreign exchange reserves (with $3,400 billion as of March 2020), one can hardly imagine it using these funds to finance long-term investment projects abroad. This has two implications. The first is that China alone cannot finance the BRI, but must channel extensive financial resources from a large number of countries. This was done through the establishment in late 2015 of a specially dedicated multilateral development bank, the Beijing-based Asian Infrastructure Investment Bank (AIIB). The second implication is the need for China to increase the RMB's circulation area in order to reduce its financial and political dependence on the dollar.

On the other hand, the BRI provides a formidable platform for pursuing an ingenious currency strategy of gradually incrementing the international circulation of the renminbi – as we shall see in Chapter 2. By intensifying Chinese trade and investment in partner countries, the BRI significantly increases demand for the renminbi outside China and thereby creates the conditions for extending its circulation well beyond its borders. The most interesting aspect of this strategy is the highly innovative and clever way in which China intends to circulate the renminbi around the world. This will be done not through a progressive and unconditional convertibility of the currency (as in past cases of internationalisation of non-convertible currencies, e.g. the Japanese yen or German mark), but through a system of controlled convertibility based on deposits of renminbi in a network of banks in various countries around the world. More recently, China has also issued a digital currency that can also be used in international payments.

As it becomes more widely circulated outside national borders, the "people's money" thus becomes an instrument and vehicle for China's growing power over its economic partners, as we shall see in Chapter 3. The latter, enticed and driven by the advantages stemming from maintaining good economic relations with the world's most dynamic market, are increasingly agreeing to subordinate political relations with China to economic relations with its large corporations and wealthy consumers. This has now also extended to accepting shares and securities denominated in renminbi. Beijing's ultimate goal is to create an international renminbi circulation area parallel to that of the dollar. The financial BRI is an international renminbi liquidity network that relies on foreign financial institutions operating bilaterally with Chinese counterparts, outside the PRC's borders, but within the PBoC's sphere of monetary sovereignty.

It is therefore clear that the financial BRI is distinguished by two related themes, both of which have been dealt with extensively in recent years. The first theme is the system of financial institutions (including the AIIB) that have been designed and set up to support BRI projects and that operate mainly in dollars. The second is the financial consequences of the BRI, i.e. the effects on the external accounts of countries receiving financing for Chinese infrastructure investment projects. Since the funding is provided on market terms, and often (so far overwhelmingly) to countries with low per capita incomes, some of which are already highly indebted, it risks leading many of these countries into a "debt trap," i.e. over-indebtedness to the rest of the world, and in particular to China. This creates not only financial and economic but often also political dependence, as the resulting power relations are heavily skewed in favour of the interests of the creditor, as we shall see in Chapter 3. In this way, Beijing hopes that the BRI will foster the emergence of a growing need for a China-centred international chain payments system, a system parallel to the dollar circulation area. This would also satisfy many of the aspirations associated with the internationalisation of the renminbi. From this perspective, the BRI can be seen as the vehicle for a Chinese strategy to set a new course in globalisation, aimed at achieving a multipolar system in which China has its own place and can continue to participate actively in the global economy while respecting its own rules.

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This book is the fruit of many years of study and analysis on the path of international opening and integration that China has embarked on since the 1980s. Although the obvious geo-political significance of the BRI has attracted the attention of political observers and media coverage of the BRI is huge, there are comparatively few economic studies on the effects of this Initiative. Chinese scholars have studied the related banking, currency, financial and trade issues; explored the possibilities for agricultural and energy cooperation; and sought to address misunderstandings about the objectives of China's designs. For their part, foreign scholars have mainly analysed its effects on regional balances and international relations, but there are few in-depth analyses of the economic scope of the BRI. Although China has stated that the BRI has no political objectives, politics and economics are intimately intertwined, and finance is the real instrument for extending China's power to influence the world: national financial and monetary capabilities are aimed at achieving foreign policy objectives.