

# Policy Advice on "The Belt and Road Initiatives"

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The vision of the “One Belt, One Road” is to promote free trade on a global scale, integrate markets along the Road, promote regional economic integration, promote political cooperation between countries along the belt, thus promoting the development of globalization.” The grand conception of “One Belt, One Road” meets the needs of countries along the Road. It is conducive to take complementary advantages of the countries along the Road and integrate resources to achieve further opening up. It is conducive to achieve economic interconnection and scientific industrial layout. It is conducive to safeguard national political stability and world peace and to the achieve global economic prosperity and sustainable development.

## *1. Investment Risk under the “One Belt, One Road” Initiative.*

The Asian Development Bank (ADB) estimates that from 2010 to 2020, there will be a demand of \$8 trillion for infrastructure investments in Asia alone. Many countries along the Road are endowed with rich resources, but are lack of capital and technology for infrastructure construction. With capital accumulation and development experience from more than 30 years’ of China’s reform and opening up, domestic quality-capacity has been accumulated in manufacturing and construction industries and can be expanded to foreign market. The conception of “One Belt, One Road” provides the possibility of win-win cooperation between China and other countries along the Road to achieve complementary advantages. Meanwhile, China has a strong will to make outward investment. In 2014, outward investment from China reached \$ 140 billion, and inward foreign investment reached \$ 116 billion, which made China a net exporter of capital for the first time from an importer of capital. After the 18th CPC National Congress, China's foreign policy has shifted from the previous "opening up" to a more pro-active strategy to take part in international affairs more actively and to contribute to global development.

The “One Belt, One Road” initiative covers a total of 65 countries and regions, involving a population of 4.4 billion, accounting for 63% of the

## Introduction>>

The 7th International Finance Forum Leaders Dialogue was held in Fudan University on April 22, 2015. Numerous elites from the political, academic and business community explored the issue “One Belt, One Road, the Vision and Action” in depth. This article mainly explores the risks in implementing the great conception of “One Belt, One Road” and proposes reasonable coping mechanisms. By using the experience and advantages of Shanghai, we should accelerate the development of Shanghai into an international economic, financial, trade and shipping center.

global population. The countries involved have a total GDP of about \$ 21 trillion country, accounting for about 30% of global GDP. Around one third of the world's countries and regions will participate in the design of the "One Belt, One Road". The widely-divergent political systems, economic levels, cultural traditions, and complex historical and geographical factors among different countries pose real difficulties to realize the grand blueprint of "One Belt, One Road". In addition, investors need to be fully prepared against grave international issues, different ideologies, values and legal systems, information asymmetry and lack of credibility. Potential investment risks may result from political distrust, political instability and imperfect legal system of participating countries. A painful lesson concerning these problems can be learnt from previous overseas investment.

## ***2. How will China deal with the investment risk under the "One Belt, One Road" Initiative***

(1) Summarize domestic experience, be well-prepared, make multilateral coordination and cooperation, and guard against blind follow- suits

To earnestly sum up domestic economic development modes and successful experience and reflect what can be replicated and what can be avoided in promoting the "One Belt, One Road" Initiative in countries along the Road.

To participate in the "One Belt, One Road" Initiative with an inclusive attitude. We need more empathy and consider mutual benefit. We need to properly assess the political risks, identify priorities and conduct bilateral and multilateral cooperation.

Fully considerations about investment return need to be made when a project is proposed, considering internal demand and whether the benefits deserve the risks. A high-level talent pool should be established and more exchanges and cooperation need to be conducted between governmental and non-governmental think tanks. Research on nationalities should be made before investing in targeted countries. Communication across governments and inter-enterprise communication are needed.

Policy makers need to improve the quality of policies through overall consideration, coordination and cooperation among different departments to improve efficiency.

(2) Set an example to attract active participation of countries along the Road

Political and economic situation in countries along the “One Belt, One Road” is complicate. Successful cases are very important for mobilizing more countries to actively engage in the entire action. We recommend that several demonstration projects can be made to bring real economic benefits and sustainable development for the participating countries, which is helpful to implement the grand “One Belt, One Road” project. On April 20, 2015, China and Pakistan issued a joint statement in Islamabad to invest tens of billions of dollars in infrastructure. Compared with the complicate political situation in the countries along the Road section along the Road, the political risk in China-Pakistan Economic Corridor is relatively low; therefore project feasibility can be discussed economically and commercially. We can strive to set an example. If Pakistan Economic Corridor project achieves great success, it will play an exemplary role for other neighboring countries and enhance the confidence of the countries along the Road, thus exerting a profound influence on the “One Belt, One Road” construction.

(3) The active role of the Asia Infrastructure Investment Bank

The emergence of Asian Infrastructure Investment Bank(AIIB) conforms to the trend of the times, and it is a powerful complement to existing international investment banks. On the one hand, the AIIB need excellent, clean, green and high standards; on the other hand, the AIIB also needs to help countries along the Road to explore a most suitable development strategy for their own. In the long term, the AIIB will effectively and comprehensively weigh different perspectives between developing and developed countries to make balanced international rules and improve discussion about public policies, thus giving more and better expression of the will of developing countries in dealing with international affairs. The development of the AIIB will be helpful for China to play a more important role in future international negotiations, such as the pricing right of bulk commodities.

The AIIB will also reflect innovative combination of traditional finance with emerging markets to develop development-oriented finance and improve efficiency. It will promote the participation of private capital and encourage domestic Internet financial enterprises with development

advantages to go out to serve the construction of countries along the Road.

(4) Combine policy-oriented finance with commercial finance and attach importance to private capital

In the construction of the Silk Road, more consideration should be given to the combination policy-oriented finance and commercial finance, industrial strategy and business strategy, private equity and private equity investment, the introduction of private capital and the choice of effective cooperation between public capital and private capital. Investment in infrastructure should give more consideration to international cooperation, including other sovereign funds and international commercial banks and multi-level capital market. The fade-out of national background will help ease tensions of political relations. On the one hand, it is conducive to economic growth, financial maturity, and corporate innovation and going out; on the other hand, it is conducive to political risk averse to a certain degree, reducing the possibility of investment interruption for political reasons.

More exploration should be made on cooperation mode between government and enterprises, and try to promote public-private partnership (PPP) mode. To reduce the risk for private sectors to invest in infrastructure in countries along the Road through creative solutions brought. Leverage should be applied to attract the participation of private capital investment in the “One Belt, One Road”. Improve the business modes of private capital. Many domestic private capitals are quick-profit-oriented, making some negative effects on the long term overseas investment and development, to which attention should be paid by the government and enterprises.

(5) Combine various cooperation modes, and make investment match trade needs.

Consider a variety of cooperation modes, such as economic cooperation zones, investment zones, industrial parks and cross-border cooperation. Give more consideration to the employment of foreign labor for the welfare of local development and make contribute to the local community and explore the most appropriate way for local development. Make the bidding and procurement more international. Build a certain number of border cooperation zones and industrial park. The investment in

infrastructure will pay off under the driving of trade investment. Meanwhile, attention should be paid to the efficiency of financial services to avoid the traditional inefficiency of traditional development and investment banks and insufficient evaluation of project scheduling. Lessons should be learnt from National Development Bank and other institutions in domestic investment. In the case of controllable risks, we should strive to provide efficient one-stop service in the approval process of projects in the constructing of the Silk Road.

(6) Industrial restructuring and industrial upgrading.

Both the “One Belt, One Road” Initiative and the AIIB shore up the Southeast Asian and South Asian countries, and the promoting of infrastructure construction will greatly promote local economic development. The local regions possess dense low-cost human resources, which will pose a serious threat to China’s labor-intensive industries. Chinese enterprises should seize the opportunity and carry out industrial restructuring timely. The development of the “One Belt, One Road” may force domestic industrial structure to make further optimization, as well as promotion in industrial quality and efficiency. Enterprises should gradually abandon the investment mode for quick success, focusing on technological innovation, optimization and combination of factors of production and improvement of technological level and management level. We should take this opportunity to develop stable and high-quality companies with cutting-edge technologies.

(7) Establish and develop offshore RMB market in Shanghai Free Trade Zone

The grand blueprint of the “One Belt, One Road” and the establishment of the AIIB promote the international use of renminbi. In recent years, international trade has undergone steady overall growth and the RMB international settlement volume has been increasing rapidly. Meanwhile the capital account convertibility of renminbi is gradually advanced. Many recent initiatives, such as the introduction of Shanghai-Hong Kong Stock Connect, a series of bilateral settlement, swap agreements, gradually increasing and lifting QFII and RQFII quota restrictions, have greatly improved the renminbi capital account free convertibility and increased the market-oriented means to make rational allocation of resources. The improvement in the internationalization of the RMB has provided an

opportunity for incorporating renminbi into IMF basket of the Special Drawing Rights, and also great convenience for the implementation of the “One Belt, One Road” Initiative and further outward investments.

To confirm with the construction of Shanghai Free Trade Zone and developing Shanghai into four centers, we recommend to establish a long-term offshore RMB market mainly serving the “One Belt, One Road” Initiative, supplementing to the offshore RMB market in Hong Kong and London respectively featuring callable loan and interest arbitrage . The “One Belt, One Road” serves as a vector for the new normal facing the internationalization of the RMB. Specifically, the development of RMB market can be promoted by the following means: (i) focus on the development of offshore capital markets; merge offshore and onshore capital markets when conditions are ripe in the future. (ii) the offshore RMB market should be bank-based, encourage financial innovation, pay attention to risk control, play the role of supply chain, extend the scope from the domestic to countries along the Road (iii) give full play to the systematic function of RMB in transaction, pricing, payments and wealth storage to enhance the status of the RMB as an international currency and pricing right of bulk commodities trading. (iv) integrate the ratio of onshore capital to offshore capital, relax limits on free access to the monetary market, gradually relax capital account convertibility and expand the application of financial derivatives.

(8) Pay attention to population flow and the development of education to show cultural soft power.

Opening the door to the outside world will bring population flow, which will amplify the instability along the “One Belt, One Road”. Considering that migrants to Europe brings manpower but also instability, we should alert the multiple external influence caused by the increasing migrants to the country. In addition, cultural and educational undertaking should be enhanced steadily with. A lot of versatile professionals with a global vision are required to develop “One Belt, One Road”. It is very important to enhance educational and academic exchanges between countries. More cultural activities can be conducted to promote Chinese and foreign outstanding cultures, modestly learn to accept other cultures to deepen the friendship between the two peoples.

(9) Emphasize on the role of overseas Chinese

According to statistics, the total number of overseas Chinese reaches up to more than 50 million people, including nearly 4 million professionals from high-tech industry, education and finance fields. Overseas Chinese and Chinese businesspersons enjoy a high level of knowledge, skill, abundant capital and wide social connections with local political and business community and they are natural ties and participants in the China's cooperation with countries along the Road to build the "One Belt, One Road". The local Chinese community plays a very important role in dealing with foreign affairs. With the understanding of local situation, laws and regulations and their reputations, they actively engage themselves in activities through Chinese community to building the country they live in, which has greatly promoted the image of overseas Chinese.

In addition, national policy encourages overseas Chinese to take root in the countries they lived in. Our country has been supporting the construction of the Confucius Institute and Chinese Schools to make overseas Chinese children have access to excellent traditional Chinese culture and to promote Chinese culture at the same time.

*Translated by Yang Chaonan*