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How the Belt and Road Initiative will impact the world: Risks and Opportunities

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To mum and dad, always by my side.
To Auri, my light brightening in the dark.
To my family, my secrete treasure.
To Michele, my sweet hand.
To me, to always remember that challenges
are made for the ones able to face them.

Enjoy the ride.

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Introduction

Over the past 2000 years, the Silk Road has been expanding on the world map, telling inspiring stories about people exchange and mutual benefits among countries, being central to cultural interaction.

This spirit of intertwinement among countries and cultures guided and inspired the Chinese president, Xi Jinping, in his presentation of the Belt and Road Initiative, in the fall of 2013 in occasion of a visit to Kazakhstan and Indonesia.

The new Belt and Road follows, complements and expands the path of the famous ancient Silk Road both on the land and maritime sides. Although the bases are the same, the intentions of the recent initiative go far beyond the ones of its initial inspiration, being an ambitious connectivity project.

The new initiative's aim is not only the development and the enhancement of trade and commerce between the East and the West, but also the advancement of all the significant factors in facilitating cultural and social interactions across continents.

In the first chapter of the dissertation, it is analysed the Belt and Road initiative per se, when it has been firstly launched, the countries involved and how its routes are organized.

The main reasons that led the Chinese government to propose a project of such huge scale are discussed. The "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" document, issued by the National Development and -reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of the People's Republic of China, with State council authorization, is presented and an interpretation of it is proposed.

In the second chapter, the attention is placed on the financial aspect of the project and the foreign investments undertook across the Belt and Road: the patters and the effects are assessed as well as the potential of the initiative to shape the world as whole. Following the evidences of numerous studies and analysis on cross-country bilateral transportation cost and foreign investments, the thesis highlights how the ambitious new transportation network can drive the growth in gross domestic products, by reducing the overall travel times and transportation costs.

Subject of the third chapter is the world trade and how the BRI would impact the terms of trade, the trade costs and how they vary across different countries. From this evidence, the relevance of trade facilitation reforms in maximizing the economic impact of the infrastructure

connectivity investments is examined. An interesting finding is that, in global context, trade facilitation is weak along the BRI corridor, with broad variation in performance between countries, providing considerable barrier to efficient utilization of the corridors for cross-border transportation of goods. Based on this, trade reforms must be implemented, and policies' importance is stressed out.
To conclude, in the last chapter both the potential benefits and the possible risks are evaluated, together with possible rationale that would incentive a country to become an active participant of the project is presented. The European position in this complex framework is analysed and an interesting mild overview on the recent Italian decision to join the initiative is offered.

Despite scarce data, information, documents and researches on the topic are available, its contemporaneity and relevance captured my curiosity: in an increasingly globalized and connected world, the influence of this initiative is clearly perceivable and worthy of attention.
Nowadays, enterprises have become extremely global with transnational and distributed business architectures that optimise production: the Belt and Road Initiative could represent a decisive shift in the world's equilibria as well as a double-edged sword of trade definition.

Chapter 1

Economic Development of the New Silk Road

Human beings have always had the attitude toward moving from place to place and trade with other communities, exchanging goods, skills and ideas. Over the history, Eurasia was crossed by communication and trade routes, which gradually linked up to what is known today as the Silk Road.

The first chapter of the paper starts presenting the transformation this ancient route from its origins to nowadays, when the Chinese President proposed to the world to bring it back to life. The principal countries involved in the project are identified, together with the economic role they are going to play.

1.1 – The Origin of the New Silk Road

In the 475 B.C., the Silk Road was named the Royal Road of the Persian Empire, which ran 2,857 km from the city of Susa, on the Karun, to the port of Smyrna on the Aegean Sea.

In 200 B.C, the government of the Han dynasty started the construction of a well-defined corridor, which has been lately conquered by the Greek empire of Alexander the Great. From that moment onward, the Silk Road gain continuous increasing importance as a commercial network between the East and the West, both from the land and sea sides, enabling the first trades between the two realities. It extended westwards from the ancient commercial centres of Eastern and Southern Asia to East Africa, West Asia and Southern Europe, as showed below in Figure 1.

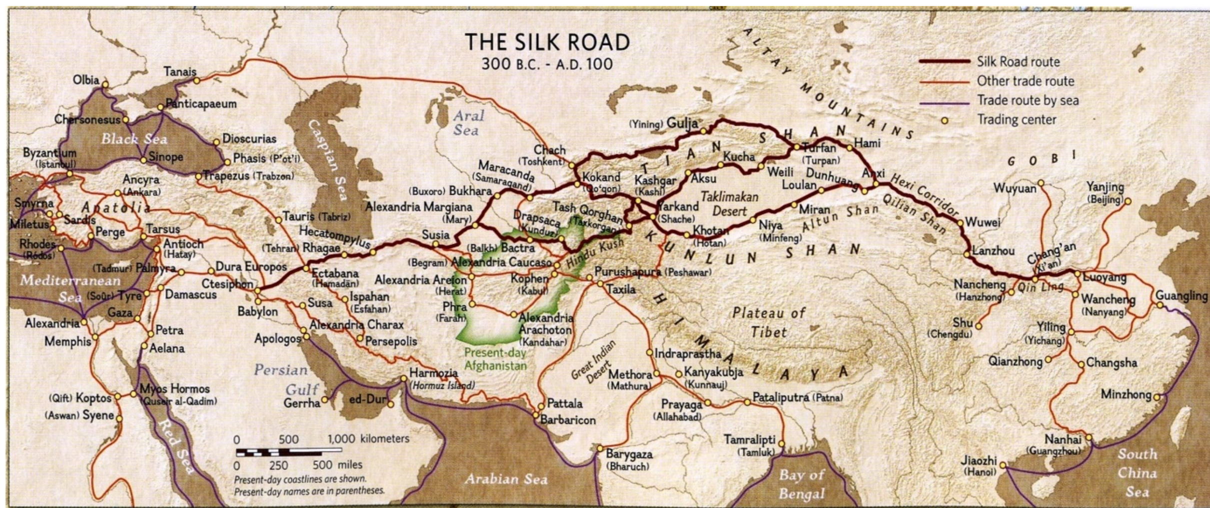


Figure 1[1]

Despite its glorious moments, it went through tough periods which led it to decline. Nevertheless, this vast system has always been identified as the first real way through which the constant movement and mixing of populations, knowledge, cultures and beliefs have been made possible. This is why, during history, an incredible number of nations tried to conquer both the domain over the Silk Road and the control of the established commercial routes.

1.1.2 – Analysis of the Belt and Road Route since 1900

At the end of the nineteenth century, in the period from 1896 to 1903, Russia built the first railway road to connect the Euro-Asian continent, from Vladivostok to Moscow. It was the first move which pushed the ancient Silk Road to the modern era. In the year 1990, the railway road which connected the city of Lianyungang, in the Chinese province of Jiangsu, to Rotterdam, Holland, was constructed, representing the second "bridge" between the two sides of the world. Twenty-five years later the railway road Lanzhou-Xinjiang opened to the public, leading the Silk Road into the high-speed trains era.
Given these remarkable initiatives, the most well-known among China's projects, the Belt and Road Initiative, proposed the 7th of September 2013 by the Chinese President Xi Jinping during a speech at the Nazarbayev University of Kazakhstan and again October 8th at Jakarta, Indonesia, is well established in this new era framework.

[1] The Silk Road Map 300 B.C – A.D. 100. Source: Public Science Framwork, 2015.

At the basis of the BRI there is the principle of connectivity enhancement through multi-model transport corridors, both on land and through sea, leading to economic integration, free flow of goods and services, which is clearly inspired by the ancient road described before.
According to the International Monetary Fund, the massive magnitude of trade and the infrastructure endeavour have a great potential for China and the participating countries (Forbes, 2018).
De facto, the initiative could recuperate large and long-standing infrastructure gaps in partner countries, boosting their growth forecasts, fostering supply chains, trade and employment.

1.2 – The Initiative's Participants and their Economic Role

An analysis of how the route has been delineated by the Chinese government's plan is now presented. The path has two different components: a continental and a maritime one, that are illustrated in Figure 2. It will extend north to Russia and Central Asia, west to the countries along the Caspian Sea and the Black Sea and south to the ASEAN countries. It will touch Kenya as well, before entering into the Red Sea and passing through the Suez Channel to arrive to the Old Continent.

Figure 2[2]

[2] New Belt and Road Map. Source: (Goh, 2017)

To be more precise, the blue line in the figure above indicates the maritime path, that connects all the most important ports in China, the South China Sea and the Indian Ocean with the European ports in the Mediterranean Sea, reaching Italy as well.
The continental route instead is highlighted by the red colour: it links-up western China with Central Asia and Europe.
Six economic corridors are identified: (1) The China-Mongolia-Russia Economic Corridor; (2) The New Eurasian Lan Bridge; (3)The China-Central Asia-West Asia Economic Corridor; (4) The China-Indochina Peninsula Economic Corridor; (5) The China-Pakistan Economic Corridor and (6) The Bangladesh-China-India-Myanmar Economic Corridor.
All together they involve 71 countries directly, plus other 30 country touched indirectly, which are listed in table 1 below.

Afghanistan	Costa Rica	**Iran**	**Macedonia**	**Pakistan**	**South Korea**	Uruguay
Albania	**Croatia**	**Iraq**	**Madagascar**	**Palestine**	Spain	**Uzbekistan**
Argentina	**Czech Republiic**	Ireland	**Malaysia**	**Panama**	**Sri Lanka**	**Vietnam**
Armenia	Denmark	**Israel**	**Maldives**	Papua Guinea	Switzerland	**Yemen**
Austria	Djibuti	Italy	Mauritius	**Philippines**	**Syria**	Zimbabwe
Arzebaiojan	**Egypt**	Japan	**Moldova**	**Poland**	**Tajikistan**	
Bahrain	**Estonia**	**Jordan**	**Mongolia**	**Qatar**	Tanzania	
Bangladesh	**Ethiopia**	**Kazakhstan**	**Montenegro**	**Romania**	**Thailand**	
Belarus	France	**Kenya**	**Morocco**	**Russia**	**Timor-Leste**	
Belgium	**Georgia**	**Kuwait**	**Myanmar**	**Saudi Arabia**	Tonga	
Bhuthan	Germany	**Kyrgyzstan**	Namibia	**Serbia**	Tunisia	
Bosnia - Herzegovina	Ghana	**Laos**	**Nepal**	Sierra Leone	**Turkey**	
Brunei	Greece	**Latvia**	Netherlands	**Singapore**	**Turkmenistan**	
Bulgaria	**Hungary**	**Lebanon**	**New Zeland**	**Slovakia**	**Ukraine**	
Cambodia	**India**	**Lithuania**	Norway	**Slovenia**	**United Arab Emirates**	
Chile	**Indonesia**	Luxembourg	**Oman**	**South Africa**	United Kingdom	

Table 1

Going through the list of all the countries touched by the project, it is clearly noticeable that they are mostly emerging economies and developing countries: the sum of their GDP represents

the 55% of the global one, while their population and their natural resources account for the 70% and 75% respectively (Termine, 2017).
These countries are usually in the upward phase of economic development and enjoy broad prospects of mutually beneficial cooperation. By exploiting its potential, they can receive investments, improve their national current accounts, speeding up the GDP's growth. Hence, it can be affirmed that, given the importance and the economic weights of the participating economies, the initiative could give a huge impact to globalization, threatened by the protectionist Trump's governance and Brexit, enhancing the flows of foods, capital and people.

The countries that are covered by the ambitious plan are important manufacturing centres of the world, but most importantly they are abundantly endowed with energetic natural resources and labour. Despite that, there is a significant difference between them and the European neighbours. In particularly, the inorganic products of the former could fulfil the demand of nearly the majority of the industrialized economies, but because of their isolation condition with respect to the world markets, little has been done.
The project of Beijing aims at solving this market inefficiency, being beneficial for the Chinese hinterland provinces transforming their geographical characteristics into a unique comparative advantage.
China is surely the main commercial partner of the five Central-Asia Republics. Today it is the second world economy with a GDP of $12.24 trillion, which is estimated to grow at an annual rate of 6.9%, with an historical peak of 15,2% in 1984 (World Bank, 2017). It experienced a steady increase of the bilateral commercial flows from $460 million in 1992 to $50,2 billions in 2013 (GAAC, 2014).
The most important challenge of Beijing is maintaining this outstanding growth rate. It seems that China is losing its competitive advantage in exporting low cost labour, due to the slow and risky passage from an export-led method to a consumption-led one.
To find a strategy to escape the current dangerous condition, the Chinese government proposed the Belt and Road initiative, with the aim of achieving coordination in three sectors mainly: the oil and gas production chains, guaranteeing the maximum security for the pipelines; the key development projects that will increase the employment rates; and the nuclear and new energies.

1.3 – Strategic Perspective: win-win cooperation

After the proposal of the Belt and Road Initiative, many researchers referred to it as a "strategy". As it was defined above, maybe it is. Despite that, the strategy the thinkers refer to suggests that China aims at exploiting all the benefits from the perspective of its own national interests. The China's official and authoritative document - the Vision and the Actions – presents the proposal as a strategic vision, whose deepest intention is to make China face both the opportunities and the challenges in the open economy, as well as analyse the new partnerships and routes of the economic globalization and re-evaluate its new round of opening up policies with a coordinated perspective, focused on both the world and the domestic economies.

As a strategic vision, the "Belt and Road" Initiative can be distinguished in two different layers: an internal and an external one.

The external side of the project relies on the existing-multi-lateral mechanism between China and relevant countries and borrows the existing and effective regional cooperation networks with the goal of maintaining and enhancing peaceful development, based on common interests, common destiny and common responsibilities, which is possible only if political mutual trust, economic integration and cultural tolerance are ensured.

Internally, the BRI is a new strategy that China adopts to further promote opening up, which has been started over the past thirty years. Nevertheless, geographical limitations, resources endowments and policies increased the transaction costs (e.g. the time to trade – which is a significant determinant of commerce patterns) – causing a slowdown in the returns of the past Chinese investments.

The new project represents a clear solution for the issue, as it aims to connect countries in a more efficient web. This is the main argument brought by the Chinese authorities to respond to the accusations risen, through which it assesses that the BRI is both a progressive and open strategy.

Additionally, all these connections among different countries lead to a crucial observation: wherever there is an economic interaction, geo-politic and geo-strategic aspect come into play, together with trade facilitation concerns. The construction of the Belt and Road Initiative represents a political and economic cooperation among countries which could undermine the world equilibria, disturbing the biggest economies – e.g. US, Russia.

For the sake of clarity on the dispute, in the Vision and Action document the Chinese government states that:

"*The Belt and Road Initiative upholds mutual respect for each other's sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equally and mutual benefit and peaceful coexistence" (Vision and Action, 2015).*

Hence, by these words, it appears clear that the key aim of the BRI has nothing to do with a supremacy contention among the "Big" players of the world economy. On the contrary, it could be said that it follows the economic golden rule which establishes that competition, together with cooperation, is beneficial for the improvement of the economic vitality and the rapid and successful development of participating economies.

1.3.2 – The Vision and Action Document

In March 2015, the National Development and Reform Commission, together with the Ministry of Foreign Affairs and the Ministry of Commerce of the People's Republic of China, realized the "*Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road"* document. It analyses the world contest, the core and inspiring principles, the means and the pattern of cooperation that were needed in order to realize the most ambitious project ever conceptualized in the Eurasian world. The complex and profound transformations that continuously take place, as well as the effect of the 2007 world crisis, are considered and depicted as responsible for both a slow world-economy's recovery and an irregular global growth.

Therefore, the BRI is contemplated as a way to both promote an efficient resources allocation and deep markets' integration and foster an economic cooperation able of injecting positive energy for the international peace and development.

In this scenario, China committed herself to provide the best contribution possible, beginning from an economic intervention of $40 billion for the Silk Road Fund's institution.

From what can be learned from the document, the initiative complies with the scopes and the principles of the United Nations Charter. De facto, the new Silk Road is available to any country's participation, in the respect of the market rules, leaving a primary role to enterprises, aiming at being a model of win-win cooperation.

Chapter 2

Investment Along the Belt and Road

Once the geographical composition of the BRI has been presented, the second chapter's subject is the financial perspective of the initiative. Because Foreign Direct Investments play a crucial role in the context, their patters and effects will be investigated. As previously mentioned, China is investing a noteworthy capital in the initiative, granting loans to all the countries in the need for aid and willing to collaborate. Thus, since the financial sources are of significant importance, they are immediately presented.

2.1 – Financial Sources

One of the most crucial question is how to finance the huge capital necessity of the project. By now, it is critically difficult to provide a definite estimation of the exact cost of the infrastructural constructions. Nevertheless, it has been possible to forecast the investments' cumulative value, which lies between $4 and $8 trillion, distributed along an undefined temporal range (Silk Road Briefing, 2017).
Since the launch of the Belt and Road Initiative in 2013, China has already invested more than $70 billion in countries and regions involved, with commodity trade exceeding $5 trillion; it has set up 75 overseas economic cooperation zones, with an investment exceeding $27 billion and created jobs for more than 200,000 local people (Zheng, 2018).

The substantial financial requirement of the project obliged China to ask for private funding, together with the ones already asked to the State banks and multilateral financial institutions.
Four type of financial sources' categories can be identified:

1) Bilateral Funds: China-Russia RMB Co-operation Fund with a capital of $10 billion; the Russia-China Development Fund ($6 billion); The China-India Development Fund ($5 billion); the China-Africa Development Fund ($2 billion); the Russia-India Investment Fund ($1 billion).
2) Multilateral Financial Institutions: The World Bank, with a capital of $253 billion; the Asian Development Bank ($175 billion); the Asian Infrastructure Investment Bank ($100

billion); the New Development Bank ($100 billion); the European Bank for Reconstruction and Development ($30 billion).

3) Sovereign Funds and other institutions: China Investment Corporation, with a capital of $814 billion; China Life Insurance Company ($382 billion); China National Social Security Pension Fund, ($290 billion); China Development Bank and the Silk Road Fund with capitals of $64 billion and $40 billion respectively.

4) Chinese Commercial Banks: Industrial & Commercial Bank of China ($3,4 trillion); China Construction Bank ($3 trillion); Agricultural Bank of China ($2,7 trillion); Bank of China ($2,6 trillion) (Silk Road Briefing, 2017).

Moreover, in March 2016, China has introduced the Belt and Road bonds as a new channel through which companies can finance their projects in the initiative. On March 5th, 2018 the Zhejiang-based Hengyi Petrochemical Corporation issued 500 million yuan ($79 million) of three-year Belt and Road corporate bonds on the Shenzhen Stock Exchange. The China Securities Regulatory Commission approved applications from seven domestic and overseas companies to issue a combines 50 billion yuan in BRI bonds to fund the initiative as well.
It is compulsory to expand the financing channels to meet the huge funding demand of the on-going project, whose planned investment amount is of significant magnitude. Only the Chinese investments are around $150 billion per year, offered also to high-indebted countries, as Sri Lanka.

Despite China has national currency reserves which exceed $3000 billion, Beijing cannot grant bad loans endlessly, especially in period of slower growth rate.
The rating agency Moody's evaluated the Chinese project as relatively secure, but at the same time, they pointed out that Chinese investors are putting at risk a significant amount of their resources, estimating that only the 40% of the countries involved has a stable financial situation. This implies that several banks are carefully considering both the profitability and risks deriving from investing in these projects (Silk Road Briefing, 2017).

2.2 – Debt Vulnerabilities

The vast portfolio of financial sources China provides to its partners immediately conducts to the analysis to its possible consequences. Indeed, despite the constructive ground of the Belt and Road, a great number of Western economists have labelled it as "*debt imperialism*", after

more than 86 countries and international organizations signed the 102 Memorandum of Understanding with the Chinese government to jointly build BRI projects. To verify the validity of this radical judgment, the way in which debt influences economies must be analysed.

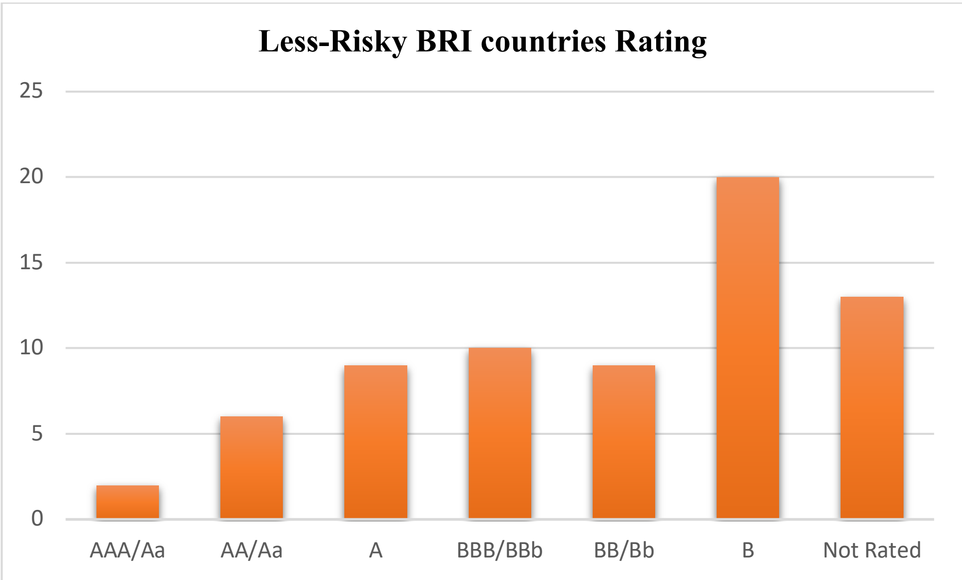
"If infrastructure is the principal engine of growth in developing economies, then debt financing is the fuel for that engine" (Hurley, et al., 2018).

When government borrowing is not complemented by both a significant economic growth and a revenues' stream to fully clear the debt, it can create a downward dangerous spiral. The doubt about a country's ability to fulfil its obligation as its debt ratios worsen can increase further the cost of capital, since investors demand a higher return, inducing a self-fulfilling prophecy.
The macroeconomic impacts of a rapidly increasing country-risk premium and of a subsequent sovereign default represent a substantial damage to citizen and to the economy as a whole. Indeed, the latter can lead to a banking crisis, since banks have to make write-downs on credits provided to the state; an economic crisis, as aggregate demand falls; and a currency crisis due to a sudden drop in foreign capital. The negative effects can be relative short-lived, depending on the efforts made to solve the serious situation, but the impacts on the individuals who fall into poverty could not.

On the other hand, evidence in some countries appears to support the successful link between debt-financed infrastructure investment and economic growth. For instance, China's economic performance has also enjoyed the benefits of a massive infrastructure investment program. From the money borrowed from both the World Bank and the Asia Development Bank, it capitalised ¥200 million in every kilometre of its high-speed railways, summing up to ¥5 trillion in its 25,000 km of high-speed rail routes, ensuring an unbelievable GDP growth rate. Clearly, in this case, the ensuing debt, instead of arming, has boosted rapid development and integration of the economy, despite initially the Western countries showed concerns about a dangerous strategy.

It can be ultimately concluded that there are controversial evidences of a causal relationship between public investment and economic growth, hence a general reasoning would be superficial.
A recent study points out that investments and infrastructure projects are less likely to be successful when they are undertaken during periods of higher-than-average public investment, which is relevant in the BRI context (Presbitero, 2016).

Additionally, debt sustainability is a key variable in the evaluation of the Belt and Road Initiative as it determines the way countries will be impacted by the project. In their study, Hurley, Morris and Portelance found out that the Belt and Road Initiative is unlikely to cause a systematic debt issue in the regions involved. Despite that, there are still some small and poor countries that will face a significant risk of a sovereign debt default if the BRI projects are implemented with massive sovereign loans or guarantees.
The histogram below shows the Standard & Poor's, Moody's and Fitch Ratings of the sixty-nine countries among the BRI's participants with long-term foreign currency ratings of B or better.



Graph 1[3]

These relatively less risky countries are highlighted in blue in the snapshot of the Center for Global Development – figure 3. Among the remaining thirty-two countries, in red there are the eight countries that can potentially fall in a dangerous debt trap. Because of this elevated risk, it is important to analyse their situations, individually.

[3] Sovereign credit ratings for less risky BRI countries source (number): Standard & Poor's, Moody's, and Fitch Ratings

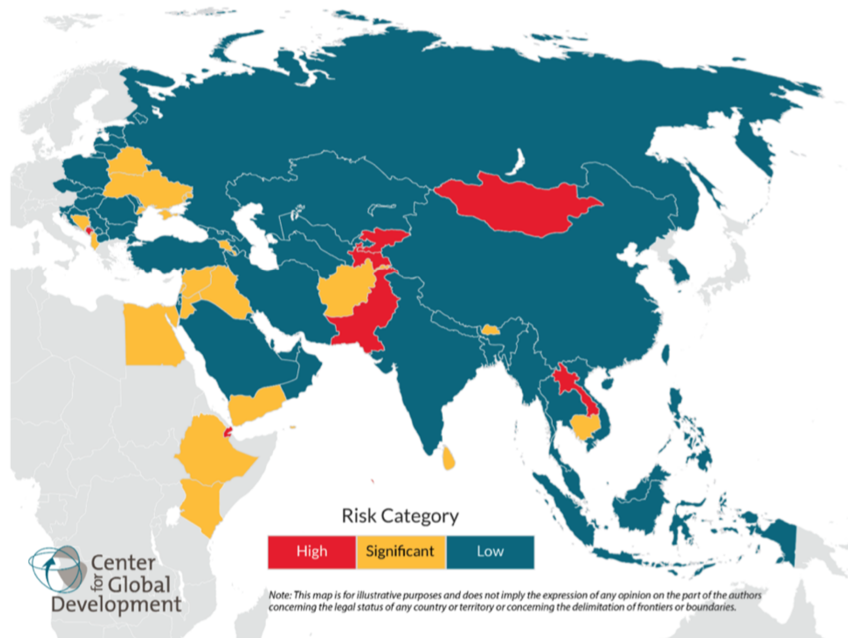


Figure 3[4]

2.2.2 – The Eight Most Critical Countries

1) Gibuti: it is an incredibly small but strategically powerful country in the Horn of Africa. Indeed, situated along the Strait of Bab el-Mandeb, which divides Africa from Arabia and the Red Sea from the Indian Ocean, it controls all the maritime routes. For this reason, it hosts several foreign military bases, including the Chinese one.
   Nevertheless, the critical debt level of Gibuti amounts to $400 million, of which the halve is owe to Beijing.

2) Maldives: the Maldivian government aims at restructuring the international airport and at creating both a residential centre and a transfer system. China is involved in all the projects financing $240 million out of 879.

3) Laos: it is one of the less developed countries in the South-Eastern Asia. China is financing its infrastructural modernization process investing $6 billion, which amounts to the halve of the Laos's GDP.

4) Montenegro: it is the only European country that risks the debt burdens with China to be unrecoverable. In the recent years, the Montenegrin debt reached an unbelievable peak because of the new highway ongoing construction, which has been financed by the 85%

[4] Countries' debt-default risk categories, source: Center for Global Development

by the Chinese government. To conclude the project, Montenegro needs further investment, which must be granted at low interest rates, otherwise the default would be almost certain.

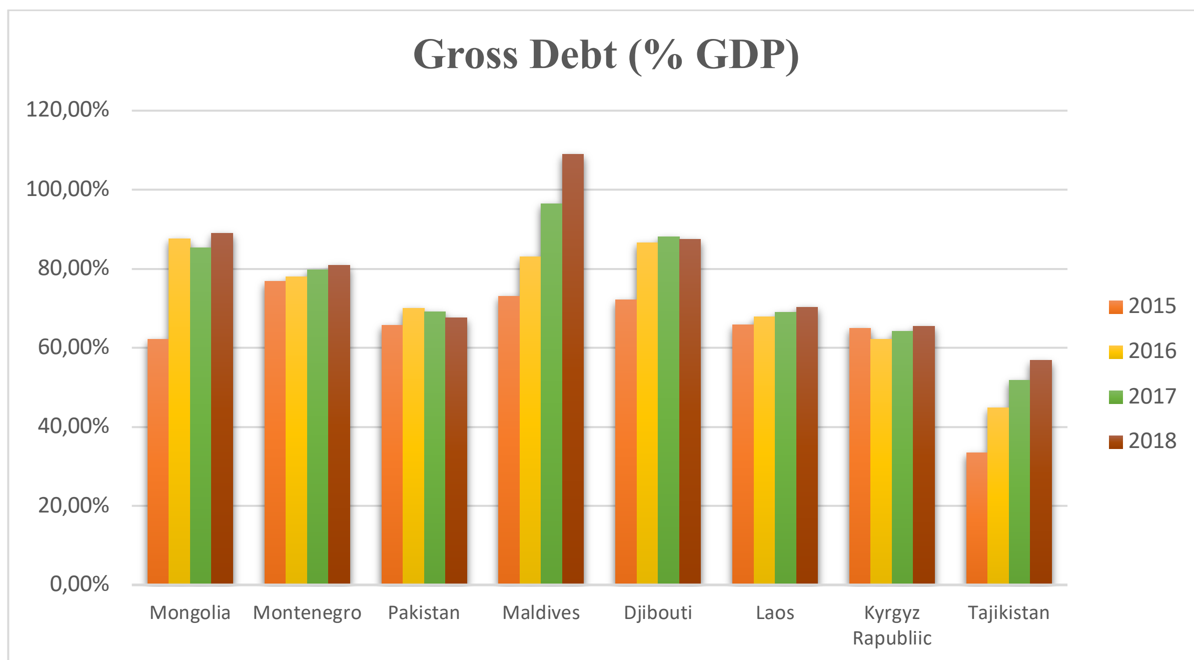
5) Mongolia: this country founds itself in a delicate position, as its development success lies in the huge infrastructural investments aimed at enhancing both its productivity and exporting capacity. At the beginning of 2017, the Export-Import Bank of China credited a loan of $1 billion at an incredibly low interest rate to finance a highroad construction and the hydroelectric plant. Within 2028, China should finance several new projects for the BRI construction for a total amount of $30 trillion.

6) Tajikistan: it is one of the poorest nations of the entire Asia. China is financing its expenditures by the 80%. Moreover, Beijing is funding with $3 billion FDI part of the Central Asia-China gas pipeline.

7) Kyrgyzstan: close to the former, it is a deeply poor country which should host numerous BRI infrastructures. The Export-Import Bank of China detains the 40% of its public debt.

8) Pakistan: last, but not least, this country has a crucial role in the new Silk Road project, as it will provide a direct access to Indian Ocean. The total value of the infrastructural projects of the China-Pakistan Economic Corridor has been estimated to be $62 billion, whose 80% is financed once again by China (Hurley, et al., 2018).

Graph 2 below summarizes the gross debt as a percentage of the GDP of the eight countries of interest, over the period between 2015 and 2018.



Graph 2[5]

For these particular countries, the Chinese Government has grant debt relief in an ad hoc, case by case manner, whose details are not disclosed unfortunately.

Hence, without a guiding framework, the attitude toward debt could be analysed only by actual examples.

Indeed, in 2011, Beijing agreed to write off a certain amount of debt owed by Tajikistan in exchange for 1,158 square kilometres of disputed territories. Another evidence is represented by Sri Lanka which was unable to fulfil its debt of $8 billion used to finance the construction of the Hambantota Port. In that occasion, China agreed to a debt-for-equity swap accompanied by a 99-yeart lease for managing the port.

Moreover, China has proven to be ready to grant further loans to debtors to ensure they could avoid default – e.g. in 2017, China extended an RMB $15 billion swap line to Mongolia for three years in support of an International Monetary Fund's facility.

To conclude, it is now clear that China has invested a significant amount of capital and resources. Thanks to the Chinese effort, several BRI countries expect that improved infrastructures and market access will increase the returns on investments, boosting the incentive of all the world community to finance more foreign direct investments and trade. Thus, despite the reasonable doubts on debt pointed out, the principal objective of the

[5] General Government gross debt (% GDP). Source: IMF surveillance documents, (Hurley, et al., 2018).

Government of Beijing is to share its successful experience with BRI participants, generating long-term economic growth that will ensure positive returns to everyone.

2.3 – Foreign Direct Investments

In the framework of international investments, it is important to analyse the role played by Foreign Direct Investments. FDI are investments in which a firm in one country directly controls or owns a subsidiary in foreign location. Historically, most of inflows of FDI have gone to the developed countries in OECD. However, the proportion of FDI inflows going to developing and transition economies has steadily increased over time and accounted for roughly half of the worldwide FDI flows since 2009.

As it is visible in figure 4 below, still developed countries dominate the list of the top countries whose firms engage in outward FDI, but in recent decades, the FDI flows have more than doubled, especially in developing countries, such as China and India, involving not only the flows of goods and inputs, but also the exchanges of information and ideas.

To justify the steady increase of Estern investments, whch are Chinese mainly, Wu and Chen (2001) propose that Chinese firms invest overseas to seek markets, natural resources, technology, managerial skills and financial capital and to trasfer excessive production capacity, even in risky environments with less efficient regulations, once the beneficial returns are identified, in terms of faster growth and firms' productivity.

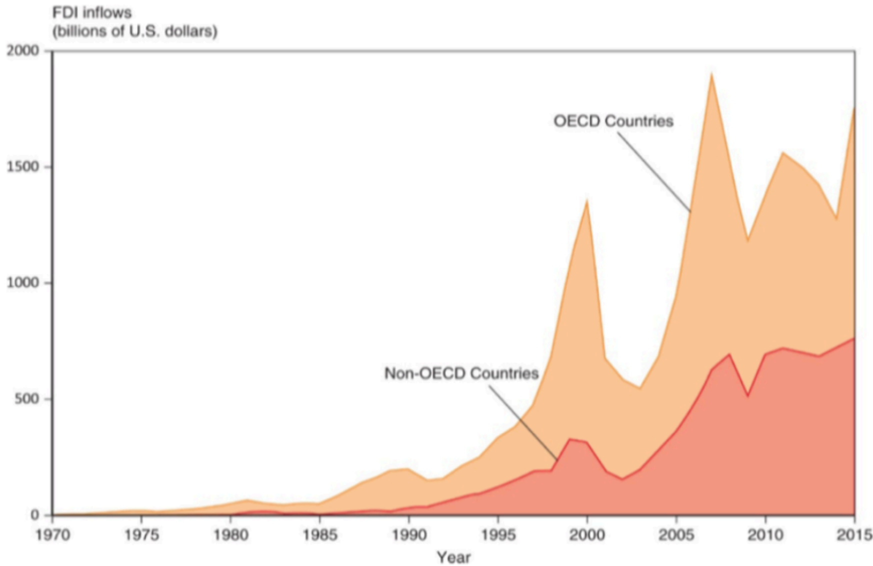


Figure 4[6]

[6] FDI Inflows over time, source: International Economics: Theory and Policy (Krugman, et al., 2017).

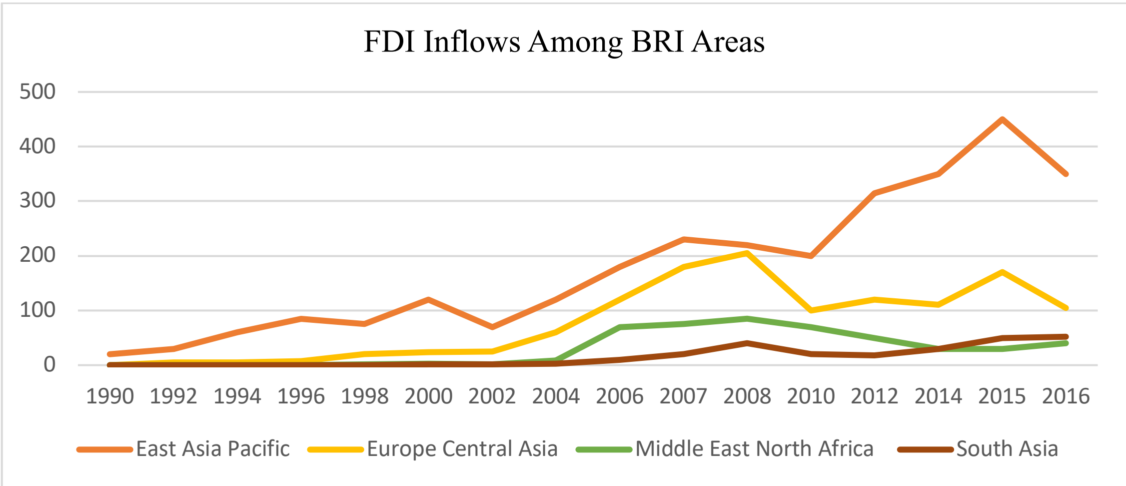
The economic impact of FDI have been studied thoroughly in macro, micro and firm-level researches and literature. For instance, Borensztein, et al. (1998) examined the relationship between FDI and economic growth. They reported evidences of a positive correlation among the two if host countries meet certain economic conditions, including sufficient human capital stock and developed financial markets. At the same time, at the firm-level, the effects of FDI are beneficial on different variables of interest: wage, employement, productivity and export performance.

Therefore, if the BRI is able to relaunch the FDI, it would have advantageous impacts on the world economy as a whole. For these reasons, several BRI countries expect that improved infrastructures and market access will increase the returns on investments, boosting the incentive of all the world community to finance more foreign direct investments.

2.3.2 – Pattern of FDI Over Time

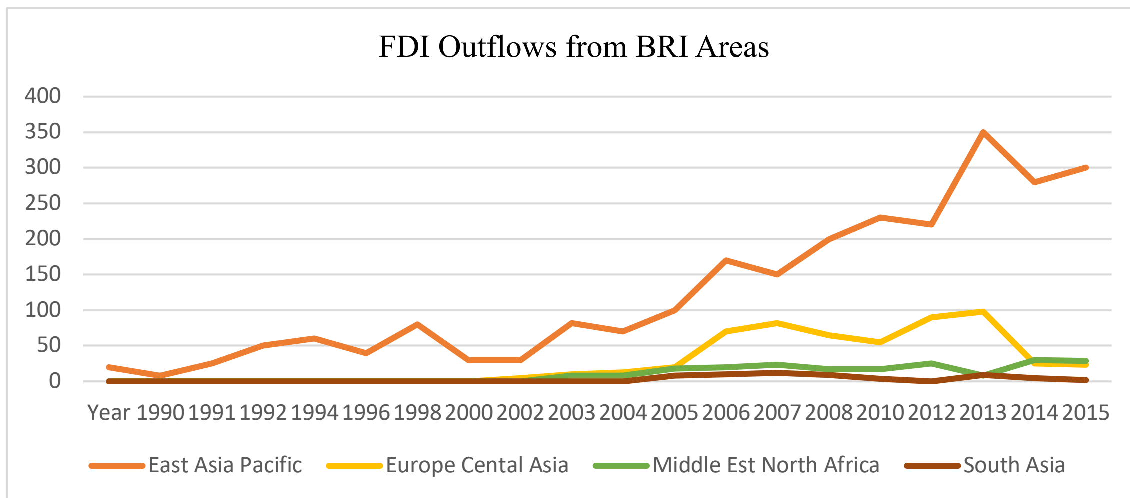
Existing economic analysis of the BRI is quite limited and scarse. To examine China's FDI, Chen and Chuanhao (2018) used a data set from China Global Investment Tracker (CGIT) from the American Enterprice Institute and the Heritage Foundation. The data set includes roughly 2700 transactions across energy, technology, trasportation and other sectors.

Grouping BRI countries based on their geographic regions and income, following the World Bank Group classification, it can be seen in graph 3 and 4 that the East Asia Pacific area is the main FDI driver, as well as investor, even before Europe Central Asia.



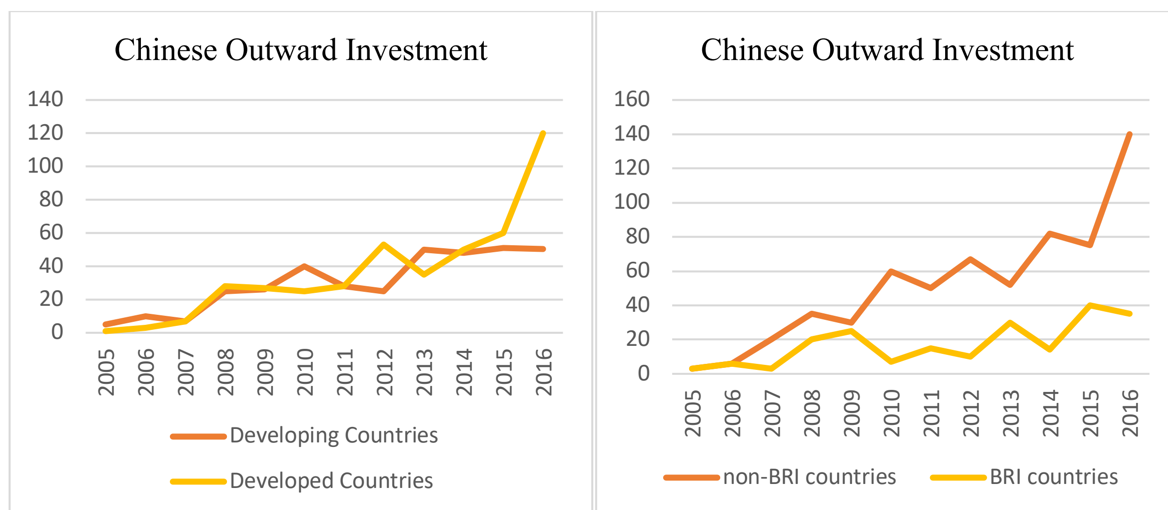
Graph 3[7]

[7] FDI Inflows, Source: China Investment Tracker



Graph 4[8]

Not by chance, the East Asia Pacific corridor is the best performing one among all the other countries involved in the initiative. Indeed, if a closer analysis centred on China is made, the overall outward FDI has increased steadily since 2013.



Graph 5[9]

Graph 6[10]

Analysing the two graphs above, it is clear that until 2014 outward investments were relatively balanced among developed and developing countries, but from that year onward China's investments in developed countries has risen faster, because the financial crisis was overcome and Chinese investors were even more willing to invest (Graph 5). Hence, the unexpected

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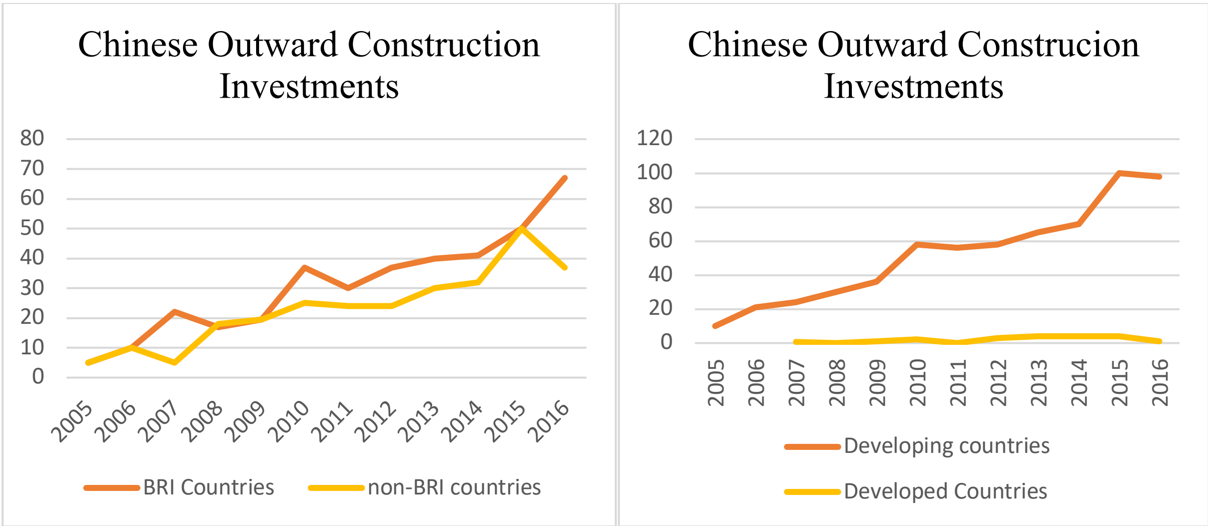
[8] FDI Outflows, Source: China Global Investment Tracker.

[7] China's Outward investment according to developing and developed countries, source China Investment Tracker.

[8] China's Outward Investment according to BRI and non-BRI countries, source: China Global Investment Tracker.

higher level of investments in non-BRI countries with respect to BRI ones showed in graph 6 is explained by countless reasons: in sythesis, during and post the financial crisis, chinese investors were able to capture the world opportunities to invest, while developed economies stepped back.

Despite these evidences, if the scrutiny of the researches' results gets more thorough, China's outward Construction investments have increased much more in BRI countries with respect to the non-BRI ones, as shown by Graph 7 below. Accordingly, these contracts are much more centred in developing or even low-income nations (Graph 8).

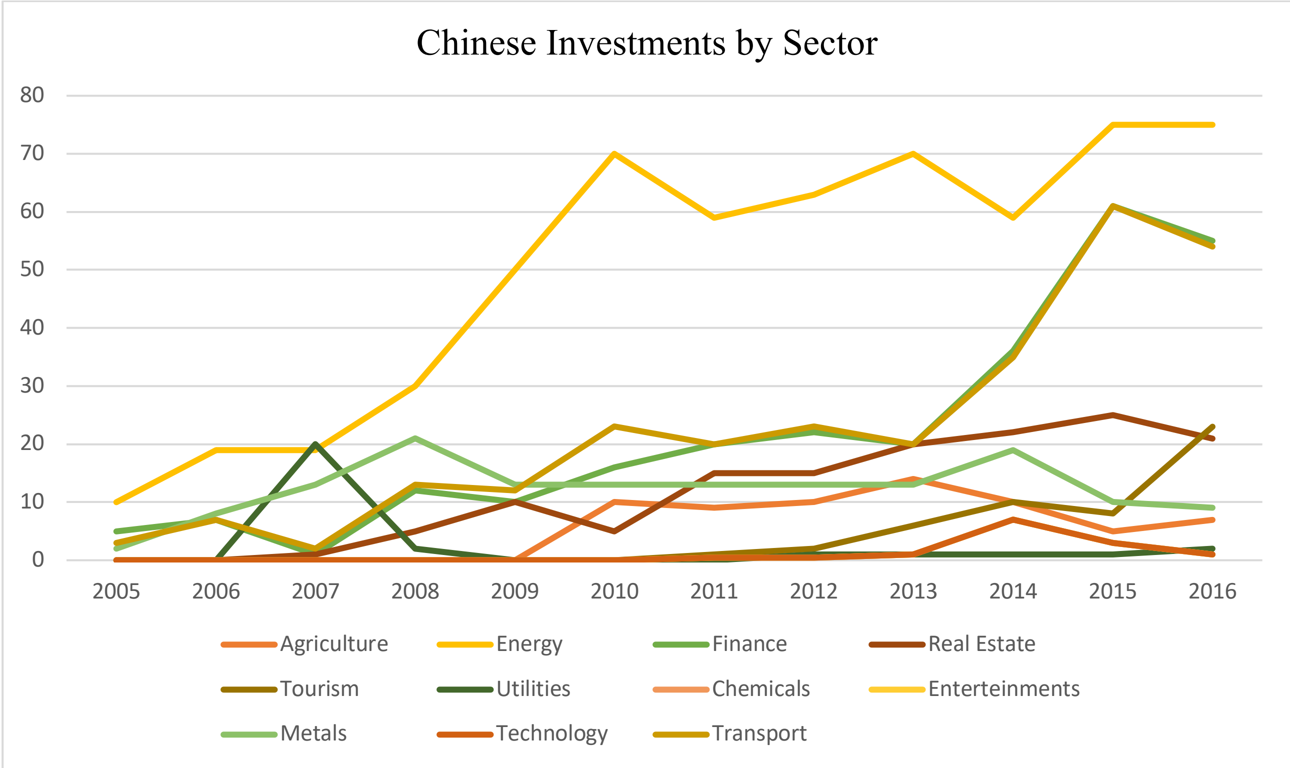


Graph 7[11]

Graph 8[12]

Together with the just illustrated graphs, the China Global Investment Tracker provides details for each investment transaction. From graph 9 it is clearly noticeable that, since 2007 energy has been the sector in which China has invested the most. Contingently, from the announcement of the BRI, investment in transportation grew enormously.

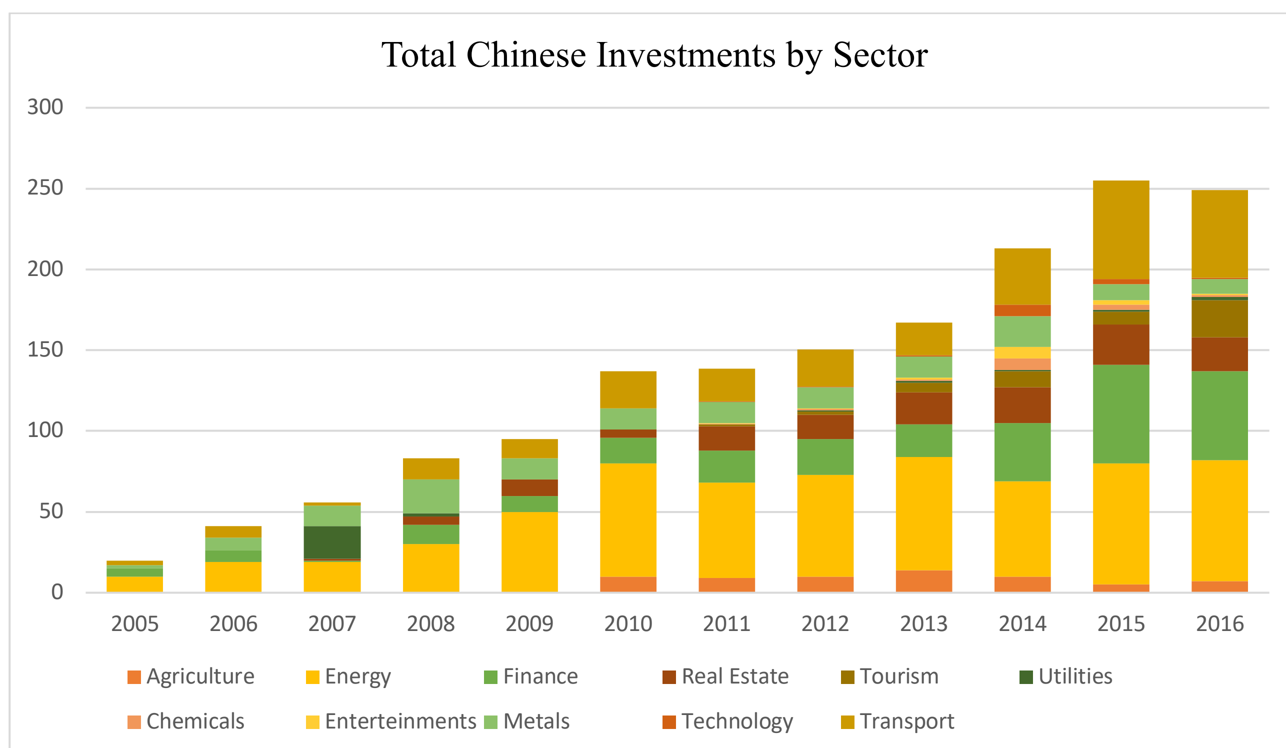
[11] China's Outward Construction Investments, according to BRI and non-BRI countries, source: China Investment Tracker.
[12] China's Outward Construction Investments, according to developing and developed countries, source: China Investment Tracker.



Graph 9[13]

From 2014 to June 2017, data from CGIT show a total of $170.11 billion investment in construction projects and $99.87 billion investment to BRI countries, which are represented, divided by sector in graph 10. This graph confirms the previous results on the most Chinese investment-intensive sectors: energy and transportation (Chen & Chuanhao, 2018).

[13] Time trends of China's Investment and Construction by sector, source: China Investment Tracker



Graph 10[14]

2.3.3 – The Determinants of FDI

As the pattern of the FDI is analysed, the determinants of the investment decisions must be discussed. Among the World Bank Group studies, in their work "Foreign investment across the Belt and Road- patterns, determinants and effects", Chen and Chuanhao provide an interesting empirical analysis of the factors influencing foreign investments, with focus on the roles of transportation cost and infrastructure. They explore the heterogeneity both across different types of transportation cost and infrastructure and across countries and time. Through this in-depth study, they estimate the impact of BRI on countries' ability to attract FDI by reducing different types of transportation cost and improving host-countries' infrastructures.

The determinants of FDI flows are found to be correlated with GDP, transportation costs and other variables, that are introduced by the Markusen and Venable's gravity model (2000).
In the model, they regressed the Bilateral FDI between two countries, controlling for GDP of the host and source countries, for the differences in human capital, for the trasportation costs - including air distance, sea distance, driving distance and driving time - for infrastructures

[14] China's Outward investment in BRI countries by sector, source: China Investment Tracker.

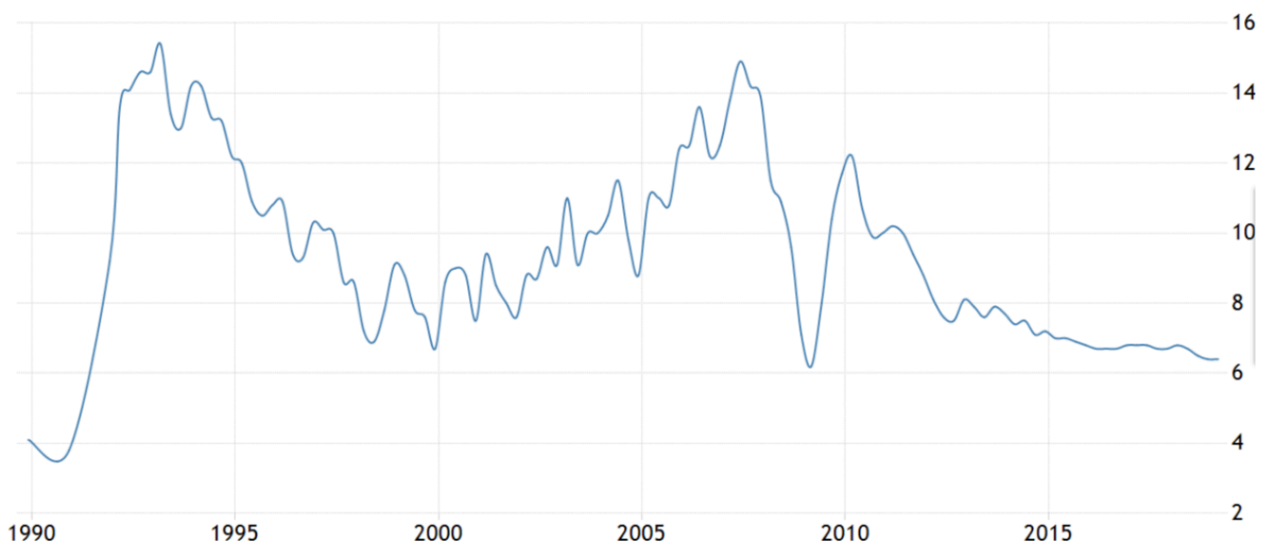
quality – railway, airway and port conditions – and for trade agreements between the two countries.
They found out a positive and statistically significant correlation between FDI inflows and host countries' GDP per capita – correlation 0.3767.
Positive results are found also for the correlations between FDI inflows and school enrolment (correlation 0.372), logistic performance (correlation 0.588) and port infrastructure quality (correlation 0.475).
These data are evidences that the higher the efficiency of infrastructures, the growth of the economies involved and the interconnection among the countries, the more investments are attracted.
Moreover, they explain the positive correlation obtained between China's construction projects and outward investment: a 10% increase in the value of construction contracts is associated with a 7% increase in investment for the first year and with an incrase of 16% in two years (Chen & Chuanhao, 2018). A high number of construction contracts established by a country is a relevant signal that that country is willing to invest in growth. This is the main reason why investors look at these data before deciding where to capitalize their financial wealth.

To conclude the analysis over the Chinese investment, it is noteworthy to highlight that the BRI transportation map can also stimulate growth in non-BRI countries through a spill over effect – e.g. non-BRI countries in Sub-Saharan Africa may also benefit access to improved ports in Kenya and consequently attract more FDI.
Therefore, as the overall infrastructures' condition and efficiency are improved, the trade costs will be reduced, more investments will be attracted in primis in the BRI economies, in secundis in the non-BRI ones: the whole world economy will enjoy the benefit from trade.

Chapter 3

How the Chinese Economic Objectives can affect the World Trade

From 1990 to 2015 the Chinese GDP grew at an average pace of 9,6% per year. The graph below shows that the GDP growth rate is currently at the minimum historical level since the beginning of the Chinese economic expansion.



Graph 11[15]

An interesting economic analysis points out that the cause of this slowdown lies in a cyclic phenomenon, generated by the progressive reduction of Chinese export demand (Lin & Zhang, 2015).

Therefore, the main question nowadays is whether the Belt and Road initiative has been planned by the Chinese government to relaunch the national economic growth once again, through trade facilitation reforms and more efficient infrastructures. Data about Chinese performance record that in 2018 the Chinese exports with BRI countries grew by 16,3%, 3,7 percentage point higher than with all the rest of the world. However, the imports level has risen as well by the 24% with respect to 2017 (Amighini, 2019), proving that the New Silk Road tries to boost the overall world trade.

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[15] Chinese GDP Growth Rate from 1990 to 2018. Source: National Bureau of Statistics of China, 2018.

These premises will be analysed further in the following chapter, underlining the benefits enjoyed by the countries involved in the project.

3.1 – Estimation of Trade Cost Reduction

Dornbusch, Fischer and Samuelson (1977) modelled trade costs as an "iceberg" phenomenon: part of the cargo decays (melts) in transit and in general, the amount of decay is proportional to transit time or distance. Formally, the model assumes that delivering one unit of a good from country "i" to "k" will require shipping $d_{ik} > 1$ units of the good, where d_{ik} will differ among country pairs.

The Belt and Road plan aims at circumnavigating the "iceberg" that the authors referred to. The goal is to reduce trade barriers – including shipping time, barriers, etc.– so that $d_{ik} = 1$, which clearly will lead to both a reduction of the overall costs of trade and an increase of the world benefits.

Therefore, if the trade cost level is quantified, a general understanding of the impact on trade can be delivered.

The report of De Soyres, et al. (2018) provides a useful database of trade cost changes across sectors and country-pairs, offering an analysis of the systemic impact of the initiative on the world trade based on the estimation of shipment time reduction. By increasing the number of rail and port connections as well as the speed at which they are constructed, they show that the Belt and Road Initiative can significantly contribute to reduce the shipping time between a large number of city pairs in both BRI and non-BRI economies, boosting international trade.

A crucial concern is how to deal with the new transportation path once it has been built. Hence two scenarios are delineated: in the first one, countries decide to keep the pattern of trade unchanged, so that the improvement in shipping times is due solely to a tightening of the commercial network. In the second scenario instead, countries choose new routes, turning some previous maritime connections into rail ones, experiencing larger gains in time.

In the first scenario, the average decrease in time has been estimated to be 1.2% across all country pairs, whilst in the second one 2.5%. Hence, the results suggest that in any case, positive effects are ensured.

Nowadays modern production chains are heavily reliant upon offshoring and trade of intermediate goods, that have to be shipped back and forth during the entire production process. This increasing internalization of value chains justifies the need to switch to railways, that can

ensure faster delivery time, in a world where it is a crucial prerequisite of an efficient production process.
Immediately, air cargos come into mind as faster transportation means. Despite they can guarantee just-in-time delivery, weight and size are of significant relevance in assessing their costs, which can easily skyrocket. On the contrary, these factors are not such an issue for rail transportations, representing a good compromise between expenses and speed.

Before the Belt and Road, the typical shipping time for all country pairs was 22.9 days. The Chinese project is expected to reduce this average by 7 to 15 hours across all country-pairs in the world, which correspond to a reduction of the 1.2% and 2.5% of the overall costs, respectively. To have a better sense of the aggregate consequences, Table 2 shows the proportional decrease aggregated by regions. As expected, the East Asia and Pacific region is experiencing the largest decrease in shipping times vis-à-vis all the other regions – first column. The highest gains are between the East Asia and Pacific and South Asia, with the average reduction of costs reaching 4.67%. It is important to notice that every single country will benefit with at least one partner.

	East Asia & Pacific	Europe & Central Africa	Latin America & Caribbean	Middle East & North Africa	North America	South Asia	Sub-Saharan Africa
East Asia & Pacific	2.01						
Europe & Central Africa	2.70	1.15					
Latin America & Caribbean	0.71	0.75	0.00				
Middle East & North Africa	2.99	0.38	0.05	0.14			
North America	1.06	0.74	0.00	0.18	0.00		
South Asia	4.67	0.88	1.15	0.70	1.49	3.59	
Sub-Saharan Africa	2.54	1.06	0.55	0.91	0.47	2.59	0.97

Table 2[16]

[16] Proportional decrease in shipment time aggregated by region. Source: (De Soyres, et al., 2018).

These evidences are proof of the systematic impact of the initiative, that will reduce trade costs also for all the surrounding countries, that are not directly part of the initiative. For example, the improvement of Djibouti's port will contribute to a decrease in shipment time between Australia and Ethiopia by 1.2%.

The shipment time can be considered as a form of trade barrier, since any delay in serving different market may impact the associated trade flows, especially if both goods and customers are time sensitive. Therefore, shipment time and time value are strictly correlated among each other. If we consider trade costs as the sum of shipment time, time costs and tariffs, a reduction of the shipment time, either with an improvement in infrastructure and routes or through an increase in the efficiency of the clearing process at the border, is likely to reduce trade costs and to increase trade flows.

If we consider the improvements of all these factors, the final effects on trade costs are different from the one previously analysed, as summarized is Table 3.

For instance, the trade costs between South Asia and East Asia and Pacific area, that were not affected before, will be now reduced by the 3.55%.

	East Asia & Pacific	Europe & Central Africa	Latin America & Caribbean	Middle East & North Africa	North America	South Asia	Sub-Saharan Africa
East Asia & Pacific	1.46	2.42	0.64	2.50	0.96	3.55	2.19
Europe & Central Africa	2.39	0.91	0.72	0.32	0.70	0.74	0.95
Latin America & Caribbean	0.65	0.71	0.00	0.04	0.00	1.08	0.51
Middle East & North Africa	2.69	0.31	0.04	0.11	0.17	0.56	0.79
North America	0.99	0.66	0.00	0.15	0.00	1.21	0.41
South Asia	3.84	0.81	1.06	0.57	1.32	3.17	2.30
Sub-Saharan Africa	2.40	1.03	0.53	0.85	0.45	2.44	0.86

Table 3[17]

[17] Proportional decrease in trade cost aggregated by region. Source: (De Soyres, et al., 2018).

It can be concluded that the BRI will surely stimulate a complex reallocation of comparative advantages across the world trade players, changing the share of every partner in each country's aggregate imports and exports basket.
Moreover, the welfare effects of the transport projects would be four times higher if participating countries reduce by half the delays at the border and tariffs, stressing the importance of complementary reforms.
Because of their relevance, in the next section, the trade policies and their positive impact on trade are analysed.

3.2 – Trade Facilitation Reforms

The focus so far has been on the impact of BRI-related transport infrastructure projects on shipment time and, more generally, on trade costs. What if the Belt and Road Initiative could boost the efficiency of the trade logistics, through more effective customs, lower border delays or better management of economic corridors? Trade logistics performance is directly linked to important economic outcomes such as growth, trade expansion and export diversification: countries with better logistics grow faster, become more competitive and increase their trade-related foreign investment. (Arvis, et al., 2007).
Numerous studies indicate that increasing logistic performance in low and middle-income countries could enhance trade by around 15% and benefit all consumers and firms via low prices and better access to competitively priced services.
The implementation of complementary policy reforms for BRI countries magnifies the positive impact on trade logistics performance, especially along the corridors. For instance, if border delays were reduced just by half, the reduction of shipment times along corridors would range from 7.7% for the China-Indochina Peninsula Economic Corridor to 25.5% for the China-Central Asia-West Asia Economic Corridor. Similarly, trade costs would fall by 5.6% for the former and by 21.6% for the latter (Bartley, et al., 2018).
Thus, trade facilitation reforms are of central importance in order to maximize the economic impact of the BRI, as the costs of inefficient trade process constitute a decisive share of the overall trade costs globally.

Bartley, et al. (2018) found out that trade facilitation performance is below average along BRI corridors. There are several common themes that should be prioritized if an improvement is set as goal. To start, a greater coordination is needed within both the private sector and the BRI

economies. In this logic, the NTFC (National Trade Facilitation Committees) should intervene, setting new reforms in the world context.
Then, regulatory transparency needs to be improved, otherwise countries will not trust each other, and no trade will be encouraged. Information-sharing can also support risk profiling so that resources can be directed more efficiently. To do so, authorities must develop reform action plans for each corridor, that need to reflect an appropriate balance of reforms implemented regionally. Lastly, referring to the principle over which the BRI has been imagined, participating countries should enter in an active collaboration among themselves to encourage the exchange of data, operational information and best practises, to build regulatory consistency and address trade facilitation-related problems.
Connectivity initiatives like the BRI can only realize their full potential when economically-grounded investments in infrastructures are combined with investments in trade facilitation reforms that lower transaction costs and boost reliability and transparency.
In addition, the strength of international supply chains is function of the weakest links and the benefits from investments in one area cannot be fully gathered unless complementary investments are made in all the other areas involved. To support what has been just said, estimates highlight that the positive welfare impacts will increase at a slower pace than expected because of the poor performance of the border management in lower middle-income countries. Being of such crucial significance, the Government of China dedicated a full section of the vision and action plan to trade facilitation policies. In the document it is mentioned that countries along the Belt and Road should promote customs cooperation such as information exchange, mutual regulations' recognition, mutual law enforcement assistance and that they must work to ensure that the WTO Trade Facilitation Agreement takes effect and it is correctly implemented.

Trade facilitation is expected to reduce the level of unpredictability through five key principles: simplification, harmonization, standardization, reform for modernization and transparency.
Simplification refers to the process of eliminating all unnecessary elements and duplication in formalities and processes. Harmonization deals with the alignment of national procedures, operations and documents with international conventions. If reached, it will lead to the third and fourth principles of standardization and reforms implementation. Lastly, transparency will be applied to trade and to the way in which transactions are conducted.
Nonetheless, achieving meaningful improvements is not either a straightforward nor easy process and faces significant challenges. Trade facilitation reforms encompass a broad range of

activities, such as food safety, immigration, revenue collection, intellectual property, national security and safety standards. Not by chance, all these tasks are central in the main political reforms that countries are implementing nowadays. If the difficulties encountered by each government in both the formulation and the application of this policies are pointed out, the complexity of their implementation at the world level can be easily grasped.

3.2.2 – Trade Facilitation Reforms Differences Across Corridors

Focusing more in detail to the corridors that compose the New Silk Road, data indicates that there are significant differences in trade facilitation between regions. The European economies involved, followed by countries in East Asia tend to have the fastest time to export and import, whilst the Middle-Eastern and North-African ones show the weakest performance.
Traders face differences in times to import and export that are above the global average across all corridors except the New Eurasian and China-Pakistan ones. It is a straightforward result if it is considered that governments tend to impose greater regulatory requirements on products entering their own markets than on products transiting or exiting their market bounds for others. Despite the performance of the customs and other border agencies has improved in the two years between 2016 and 2018, the Belt and Road is not particularly strong compared to global averages.
Among the weakest performances, the China-Mongolia-Russia, China-Central Asia-West Asia and China-Pakistan corridors need to be mentioned.
The main reason that could explain the poor results of the China-Central Asia - West Asia corridor is the critical high number of countries involved, which makes the performance's improvement possible only if a simultaneous implementation of reforms in all these countries is promoted.
The China-Mongolia-Russia Economic Corridor has a key role in facilitating China-Europe trade. Despite that, there is a huge number of reasons for delays at Mongolia's border checkpoints, involving congestion, inefficient procedures, limited use of electronic systems for document submission. Customs have implemented a series of reform proposals, whose impact has not been widespread unfortunately.
For what concerns the China-Pakistan Economic corridor, the essential difficulty is that traders who want to enjoy the advantages of improved infrastructure connectivity face significant delays associated with meeting borders management requirements.

Trying to find a pivotal solution, the two states' governments released the "2017-2030 Long Term Plan": focused on infrastructure development, it targets the opening of a new route for shipping goods in and out of Western China via Pakistan's ports.

However, the plan does not consider the two main complexities involved, which regard Pakistan and China individually.

On one hand, the national security in Pakistan imposes additional trade barriers especially at land border crossings and the reforms implemented resulted only in inefficient automated processes, still based mainly on outdated and complex regulatory practises.

On the other, when Pakistani firms, as well as other exporting firms, use the corridor to trade with China at lower costs, they face challenges in complying with Chinese border clearance requirements.

From this example, the modification of the Chinese trade facilitation regime before all the other BRI countries appears as a priority. Therefore, a mild overview of the recent Chinese performance is provided.

3.2.3 – Chinese Trade Reforms Performance

Unexpectedly, numerous international indicators show that China underperforms in trade facilitation compared to the levels required to cover a central role. The Chinese authorities recognized that to be the most important hub of such huge-scale project, an ambitious reform agenda had to be planned to improve the overall performance.

Coherently, in March 2016 the Chinese government instituted the State Council Trade Facilitation committee to strengthen inter-agency coordination and its engagement in the private sector, in a way that goes beyond the simple legal compliance with the WTO-TFA.

Whether Chinese Government's plan will be successful depends on its ability to leverage on the coordination between central and local governments in implementing trade facilitation reforms. Indeed, as it has been previously demonstrated by the China-Pakistan corridor, no matter of the level of infrastructures' length and speed, they will not be as efficient as they should if a coherent framework of policies is not implemented.

Both the substance of the reforms and the methods in which they are implemented are crucial and will have an impact on the results of the Belt and Road Initiative. Moreover, the action plans need to be underpinned in a detailed form given the large number of countries participating, avoiding the "one-size-fits-all" approach.

In conclusion of this analysis, if the trade costs across the Belt and Road corridors will be correctly adjusted and the trade facilitation reforms will be consistently adopted, the results of a quantitative trade model indicate that the BRI will increase GDP between 2.6% and 3.9% on average in developing East-Asia and Pacific countries, which is higher than the expected whole world benefits (Bartley, et al., 2018).

This ambitious and hoped results are mitigate by the cost of building the infrastructures needed to reach them. Many countries in the world will benefit from the new or improved infrastructures and faster shipping time, but only few of them will pay the cost of those upgrades. Resources used to pay for the projects planned will not be available for consumption in those countries, reducing drastically the welfare gains or even causing welfare losses according to the financial scheme used.

This creates a significant mismatch between the geographical distribution of costs and benefits, impacting the way in which the initiative is perceived in different countries.

Each country must therefore consider all the risks and all the opportunities that the Belt and Road initiative can deliver and decide whether to participate or not accordingly.

In the next chapter, the main risks and potential benefits are presented, together with a focus on the position of Europe in this framework.

Chapter 4

Risk and Opportunities of the Belt and Road: a European Perspective

The previous chapters pointed out that China is investing a significant amount of resources and effort in the Belt and Road Initiative, believing in an enhancement of both its own and participants' economies, in a phase of particular growth slowdown. Despite the benefits seem particularly appealing, the risks involved cannot be ignored.
Hence, in the last chapter a general comparison of the threats and opportunities will be provided.
Moreover, it could be interesting to thoroughly present the EU position in this framework.
The following chapter will investigate the implications of the BRI on the European equilibrium, providing a mild overview on the Italian role as the centre of the vast infrastructural programme.

4.1 – Potential Opportunities and Threats

It is important to start by analysing the principal benefits that China aims to achieve for itself, before focusing on the participating economies.
As previous explained, it is believed that the BRI will lead to the restart of the Chinese economic growth thanks to both the improvement of commercial exchanges and higher employment level.
In this way, Beijing will settle itself as the main leader in high value-added and high-technological sectors.
Moreover, the initiative could be the answer to enrich the hinterland areas and to discover new available industries able to absorb the surplus of steel, coal, concrete and other raw materials, entering smaller markets which has been never penetrated before.
The New Silk Road will favour the development of the autonomous province of Xinjiang, considered one of the poorest Asian regions. Thanks to its strategic geographical position, it will represent one of the major hubs of the project, augmenting its exports and stability.
The incredible size and scope of the plan will enable the exploitation of the substantial unexploited potential by all of the joining countries which account for one third of the global GDP and trade, and close to two third of the world population.
International companies will have access to a greater number of new market and will enjoy better performing infrastructures thanks to the huge amount of capital provided, allowing the improvement of all those factors which inhibit the full integration of the world economy.

The Belt and Road will build a tight connection network among Beijing, Central Asia, Teheran, Venice, Moscow and Berlin, which will stimulate innovation by fastening the exchange of information, ideas, goods and technologies and reducing the cost of trade. It will lead to higher levels of efficiency and collaboration among countries.
Despite it will improve the participants' terms of trade and consequently their national welfares, there are several potential threats that should concern them.
First of all, using the BRI as a way to export raw materials' excess, China could damage smaller productive industries, competing with local enterprises, causing a significant welfare relocation.
As richly elucidated in the second chapter, several interested nations are rated as high-risk countries, implying that they could potentially inflate their debt to unsustainable levels, if the Chinese investment level surges.
Moreover, the high risks involved with major infrastructure projects associated with potential social, corruption and environmental distortions must not be forgotten. These concerns tend to be decisive in poorly governed countries. Nonetheless, they could be alleviated by the support of multilateral development banks that can enhance the implementation of high environmental, social and governmental standards for BRI investments.
Last but not least to be mentioned, there is the risk related to the possible impenetrable barriers of customs, borders and restriction on foreign direct investment in BRI countries. This main issue has been examined abundantly in the third chapter and a possible solution has been identified in the trade facilitation reforms.

As it can be deduced, the risks are as many as the benefits. However, the most important question still remains the actual sustainability of the new model for the economic development, which has clearly the potential of altering the current world equilibrium, for which by now there is not a clear answer.

4.2 – The European Reaction to the BRI

Both the European Union and all the world economies are perfectly aware that the Chinese economic system's stability is for the government of Beijing an absolute priority. In the last six years, China has bet both on the incredibly fast growth rates it was able to target and on the considerable financial capital available to assert itself as a new super-global power.

The intense economic diplomacy embraced by the Chinese president Xi Jinping, of which the BRI is just the latest example, represents a strong acceleration of the policy "open-to-the world" adopted by the leadership since two decades.
Under this perspective, the health of the internal economic system and the likely impact on the foreign economies are two faces of the same medal, on which the Chinese Government is building its plan for global leadership within the 2050.
In this context, the EU-China relation is certainly of great importance. It has been firstly established in 1975 and from that moment onward the commercial flows between the two reached incredible intensities, with China representing respectively the 35% and 45% of the overall European exports and imports. The railway traffic from Beijing to Europe has increased by the 450% between 2013 and 2016 and by the 250% the other way around and the value of goods transported reached $23 billion, amount that is assumed to triple before 2020 (Riela & Gili, 2019).
The pathway toward a more articulated dialogue between the two economies has been enshrined with the officialization of the EU-China 2020 Strategic Agenda for Cooperation, jointly singed in 2013. In this agenda, themes such as peace, security, prosperity, sustainable development and people-to-people exchanges are touched, with the aim of making the two world powers more interdependent with each other. Henceforth, the Belt and Road Initiative represents a further new additional piece in the puzzle of this relationship.
The interest of Beijing in the Eurozone has been lately justified by the potential of the latter to be a possible solution to the new questions arising in China, caused by the economic and social transformations. The boom experienced in the first ten years of the 2000 started a radical change of the productive system, from an industrial to a post-industrial one, encouraging China to move toward a service economy. This evolution coincides with the parallel improvement of the life standards of the Chinese middle class, whose needs are now based on new services that China lacks, but western economies could provide.
Therefore, in a nutshell, it can be said that the Chinese leadership found in the western developed economies an answer to how fill the gap between its existing supply and the radically changing demand. Xi Jinping's objective to tie closer the Eurasian continent is a laudable one, as deeper trade and connection could be beneficial to all.

From its side, the EU looks with an increasing interest toward China: in a moment where the United States have withdrawn on more protectionist attitude, creating dangerous empty space in the global leadership, Europe is discovering new convergence with Beijing. In addition, the

evolution of the international order of the last five years, together with the Chinese intention to strengthen its ties with foreign countries, have brought the European Union to re-evaluate the terms of the EU-China partnership and to find new ways to shape it according to the new global dynamics. Accordingly, the EU has adopted a cautious and pragmatic approach toward the proposal, considering all pros and cons.

Attracted by the pros, in September 2015, the European Commission and the Chinese government signed a Memorandum of Understanding for the realization of the EU-China Connectivity Platform, whose aim is the promotion of cooperation on infrastructures, technology and standards' settings.

In this occasion, China became the first extra-European country to contribute to the European Commission's Investment Plan for Europe and in January 2016 it joined the European Bank for Reconstruction and Development.

Despite this formal cooperation, both the differences existing between the two parties on technical regulations and the lack of a clear understanding of the project forced Brussels to consider the cons as well.

Indeed, to countervail the Belt and Road Initiative, last 19th of September, the High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, and the European Commission proposed a unified strategy to connect Asia and Europe. Its immediate approval and the connectivity it targets are clear indicators of its high strategic purpose.

Surprisingly, the proposal does not exclude the Chinese participation; on the contrary it aims at the creation of established synergises with the BRI. Despite the two projects might seem strictly similar, especially on the geographical perspective, they differ dramatically on the modus operandi of the involved institutions.

The Commission's plan perfectly reflects the increasing mistrust of some member states on the Belt and Road, but in light of some governments' interest in the initiative, the EU struggles to respond coherently and in unison. Even more and more countries are expressing their curiosity in the project, as the engagement with Chinese firms is recognized as a valuable instrument to both reach Asian markets and stimulate local growth.

Eastern and Central Europe has been the most receptive areas: created on China's proposal in 2012, the consultative mechanism of EU "16+1" is a clear evidence of such closeness. More in depth, the "1" is China and the "16" are East-European countries (11) and Balkan nations (5).

It is therefore clear that the East of Europe is the most interested in Chinese supply of FDI, due to a strong demand for infrastructures. However, the problem among the sixteen countries lies

in the group's incapacity of acting as a cohesive entity: each country believes to exclusively benefit of a special relation with China.

The results of this tight relations have been experienced in Czech Republic, Greece and Hungary. The Chinese investments in the first country faced an outstanding growth in the last two years, in particularly due to the CEFC China Energy, which acquired important and diversified shares in different sectors of the Czech economy.

In Greece, the "China Ocean Shipping Company" obtained a 35-year control of the Pyrenean port, in 2008. From that date, the port experienced a flourishing phase due to new technologies and better infrastructures. In six years, the maritime traffic has increase by the 300% becoming one of the most important ports in Europe (Riela & Gili, 2019).

Hungary has been one of the first European country to establish commercial relations with Beijing, starting with the railway from Belgrade to Budapest.

Western and Northern Europe adopted a colder approach toward the initiative. They already established good trade relation with China, and they have a limited need for Chinese infrastructure investments by now– e.g. in a report of 2019, the Federation of the German industries suggests to German firms to limit their dependence in the Chinese market diversifying their sources of profit.

On the other hand, Southern Europe is the most promising scenario for the Belt and Road Initiative to express all its potential, but countries have not responded with well-defined strategies yet. The most important players are Greece, Spain and Italy.

Greece has already been mentioned before. For what concerns Spain, the railway and the port authorities expressed interests in establishing contacts with Chinese investors – e.g. Barcelona and Valencia.

In this framework, Italy hungers to exploit its strategic geographical position to become an important actor in the project, considering also the perspective of the political and economic results the BRI offers. This justifies the Italian decision to sign the Memorandum of Understanding last March 23rd whose reasons will be analysed in the next section.

4.3 – Italian Position with respect to the BRI

Geographically located at the heart of the Mediterranean Sea, where the Middle East, North Africa and Southern Europe cross, Italy is the historical and geographical ending land of the road connecting the Far East with the West.

The Italian curiosity to the project has been firstly showed in 2017, when the Prime Minister, Paolo Gentiloni, joined the Belt and Road Forum for International Cooperation in Beijing, representing the only leader of G7 countries. Recalling the millennial friendship between Chinese and Italian cultures and civilizations, Gentiloni denoted the new silk road as a special tool at China and Italy's disposal to boost their bilateral relations and to set the bases for a win-win cooperation in third markets, favouring mutual knowledge and political trust.

Along with the investment opportunities for developing new infrastructures, Italy aims at improving the channels of direct exchanges with China, which have been already reinforced in 2015 when the Italian Civil Aviation Authority (ENAC) and the Civil Aviation Administration of China (CAAC) reformulated the agreements over the bilateral aviation relation. In numbers, in 2017 the flow of passengers and goods along the Italy-China route increased by 15,4% and 31% respectively (Manenti, 2018).

Numerous companies are strongly involved and attracted by the project, one of which is Pirelli, which in 2015 has been acquired by the China National Chemical Corporation for $7,7 billion. The firms currently operating in the logistic and infrastructural sectors are the ones that could potentially benefit the most from the participation in the BRI, and because of that they pushed the Government to sign the Memorandum of Understanding last March.

The decision has been justified by the Prime Minister of the Italian Government with the necessity of rebalancing the $18 billion deficit. The MoU will provide the juridical framework to 29 agreements between Italian and Chinese enterprises for a value of at least $8 billion.

The enterprises touched by the document belong to a wide range of sectors: banking (Unicredit, Intesa Sanpaolo, Cdp), naval (Fincantieri, Rina), energetic (Terna, Ansaldo, Snam, Italgas, Enel, Eni), transport and steel (Carli, 2019).

The most striking added-value which Italy can contribute to the Belt and Road with is the quality and the location of its ports, especially those of Genoa, Trieste and Palermo, which guarantee to the Chinese projects efficient hubs for overland and sea trade with European markets (Manenti, 2018).

For what concerns the Sicilian port, local institutions estimated that the Chinese investments could increase its capacity from 10.000 to 16.000 TEU (exact unit of cargo capacity), beating the Rotterdam harbour. To reach this outstanding level, a $5 billion investment is needed (Thompson, 2019).

The recently signed document Memorandum of Understanding gives free rein to the operating arm of the Chinese Government, "China Communications Construction Company" (CCC), on the ports that have been attracting the Chinese investors' interest since 2015. Indeed, four years ago both Chinese and Italian investors started to finance the "Five Ports Alliance" initiative which covers the ports of Venice, Trieste, Ravenna, Capodistria and Fiume, all members of the North-Adriatic Ports Association (NAPA). The consortium aims to attract and serve the Chinese freighters arriving in the Mediterranean Sea through the Suez Canal. The Italian Ministry of Infrastructure and Foreign Affairs targeted the creation of an offshore/onshore locking systems by the creation of a huge platform near the city of Venice. Once operative, the platform will be able to manage about 3 million of TEU. Together with the five loading docks that will be simultaneously constructed, the project will shape a deep network able to reduce considerably the shipment time. It will cost about $2.2 billion, of which $390 million have been already provided by the Italian Government (Van Der Putten, et al., 2016).

Considering third markets, the partnership between Italian and Chinese firms could become a driver for local development, presented as a win-win solution to foster the development in scenario of common interest, like Africa, South and Southeast Asia.

However, the opportunity could go behind that: the historical value of Italy inside the EU on one hand and the well-regarded role played by the Italian actor in international scenarios, on the other, would give China a strong political interlocutor which refer to. Italy could represent for Beijing a way to overcome the current obstacles risen by the European authorities. At the same time, it would let Brussels to build confidence and trust in China as a partner with whom collaborate on an equal level and share the same vision of win-win global development. This perception could open the route for a more synergic and all-inclusive partnership that could be further broaden the BRI project, effectively shaping the contemporary and innovative concept of Eurasia.

Conclusion

The Belt and Road Initiative is one of the most ambitious projects that have been proposed in the last sixty years. Its core is the connectivity enhancement through multi-model transport corridors, both on land and through sea, which will lead to economic integration, free flow of goods and services.

It has been presented as a way to promote efficient resource allocation, market integration and economic cooperation aimed at injecting positive energy in international peace and development.

Despite that, an outstanding number of politicians, economists and thinkers are sceptic about the actual implementation of the plan, its impact on national debts and the real objective of the Chinese Government.

It is doubtless that Xi Jinping’s main intention is to relaunch Chinese GDP growth rate, favouring the development of the poorest countries and improving China’s commercial exchanges. In a moment of such economic and political difficulty as the one we are living now, where the United States are closing the doors to the world, it is difficult to establish the fine line between “win-win cooperation” and a real expansionist aim of Beijing.

However, it must not be underestimated the huge positive impact the BRI would have on the world economy as a whole if it would be correctly and efficiently implemented.

All these controversial evaluations explain why the reaction to the BRI in Europe has been so much diversified.

In this framework, the European Union finds itself at a crossroad: taking part of this huge-scale project, becoming one of the main Chinese commercial partners, or remaining anchored to the US, waiting for Donald Trump to be more flexible again.

Nevertheless, what seems the EU is not understanding is that it has both the resources and the power to be an equal partner in modelling a pan-Eurasian economy. This implies that it doesn’t have to consider itself as a second player, but as a main protagonist. As such it must be as eager to invest as Beijing, without losing the focus on its geopolitical and economic objectives, but more importantly, it must remain cohesive, in order to continue to represent the huge world power it is.

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