The Belt and Road Initiative:

Inclusive globalization and poverty reduction

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Abstract

The Belt and Road Initiative aims to increase connectivity between regions and countries that market forces excluded from the previous wave of economic globalization. Foreign direct investment (FDI) can create the conditions for the economic takeoff of least-developed countries (LDCs) and developing countries. Although Chinese foreign direct investment has nearly doubled since the launch of the Belt and Road Initiative (BRI) in 2013 compared to 2005-2013, it does not seem to be directed toward BRI member countries more than the non-member countries. One exception is South American BRI member countries, which have significantly increased their FDI inflows from China. This is not the case, however, for West Asian countries, where FDI growth has been lower for BRI countries than for the West Asian countries as a whole, and especially for sub-Saharan BRI countries, for which the amount of FDI has even decreased compared to the 2005-2013 period. The BRI's slow start and the countries' gradual entry may explain the delay in seeing the positive results expected from it reflected in the data.

Keywords

Belt and Road Initiative (BRI), poverty reduction, foreign direct investment, infrastructure, inclusive globalization.

JEL Classification

F21, F55, F63, I38

Introduction

Chinese President Xi Jinping, during his state visits to Kazakhstan and Indonesia, announced the Belt and Road Initiative launch in 2013 in two separate speeches. It took a few years before its details were worked out. While initially, as the name suggests, the regions expected to be included in the initiative mainly belonged to the Eurasian continent, later, its scope was extended to South America, Africa, and the rest of the world.

Despite reassurances from China, which portrayed the world as a community of shared destiny, the initiative raised some fears, especially from developed countries, primarily the United States (US), which saw it as a potential threat to its historic global economic and political leadership. It is a fact, however, that 144 countries (over 266 worldwide) have joined.

The Belt and Road Initiative (BRI henceforth) promises to increase connectivity among participating countries, providing investment in much-needed basic infrastructure, especially roads, ports, airports, railways, electricity, gas, telecommunications, and water. It is not difficult to foresee that these investments will be particularly welcomed by the least developed and developing countries, which are imperative for their economic development. The main expected effects, then, are on the receiving countries' GDP, employment rate, and poverty rate. Eradication of extreme poverty is the first of the UN Sustainable Development Goals. It would be a great accomplishment if the BRI could contribute to its achievement, especially given China's excellent performance in reducing its extreme poverty index to about zero over the past 40 years.

This article is organized as follows. The following section discusses the concept of inclusive globalization followed by China both before and after the announcement of the BRI and compares it to the neoliberal globalization process, which has shown its limitations with the recent waves of populism resulting from widespread discontent with the way globalization has progressed over the years. The next section studies the Chinese motivation for the creation of the BRI and why so many countries have already joined it. This is followed by the analysis of poverty and its theoretical relationship to infrastructure investment. Lastly, the BRI's expected effects on GDP and member countries' poverty rates are discussed, and the article closes with some concluding remarks.

Inclusive globalization vs. blank globalization

The global financial crisis of 2007/08 and the Euro area crisis of 2011-12, along with the political changes that occurred a few years later in the US (with the election of President Donald Trump) and

the United Kingdom (with the so-called Brexit), certainly marked the end of a phase of economic globalization shaped according to a neoliberal agenda (Della Posta, 2021a and Della Posta, 2021b). During this phase (which follows earlier ones dating back to at least the late 19th century), globalization evolved by implying a dramatic increase not only in trade in goods and services but also in capital mobility, both foreign direct investment (FDI) and portfolio flows.

The relocation of many Western firms and the creation of global value chains based on the relatively lower labor costs of developing countries, of which China is the most prominent, have resulted in the displacement from the West to the East of many relatively low-skilled manufacturing industries (Liu & Dunford, 2016).

This resulted in large current account deficits for importing countries, particularly the US, which had to be offset by capital inflows. It was precisely the resulting excessive liquidity flows to the US, together with the growing and uncontrolled income gaps resulting from such unbalanced globalization, that is identifiable among the main determinants of the 2007/08 crisis (Della Posta & Rehman, 2017).

China undoubtedly benefited from that phase of globalization, given the perfect timing with the economic reforms initiated in the country in 1978. China, however, followed its own globalization path and did not accept the prescriptions of the so-called Washington consensus. It has undoubtedly enjoyed the influx of FDI and the benefits of offshoring by many Western companies seeking cheaper labor. However, it asserted its conditions that had to be met by the inflow of capital, such as that any joint ventures would be on an equal footing with foreign partners. Additionally, foreign companies seeking cheaper labor, in return, must give some leeway to the host country and allow China to take advantage of the large inflow of FDI for its development: (precisely the opposite of what the U.S.-owned maquiladoras in Mexico are, to cite a well-known example). The opening of international markets also implied that Chinese exports could be favored. While it did not impose any import substitution policies that might have undermined domestic incentives for efficiency, it followed an export-oriented growth model.

Capital controls, however, have also been applied to portfolio flows to protect China's domestic economy from the vagaries of short-term capital movements. This allowed the Central Bank to accumulate foreign reserves to be mobilized abroad to avoid upward pressure on the Yuan Renminbi, the Chinese currency, and thus keep Chinese competitiveness intact. The foreign reserves were invested abroad, buying short-term government bonds (mostly US Treasury bonds), thus enabling the sustainability (at least temporarily) of the system, with the US offsetting its current account deficit with a positive capital account and vice versa for China. Ultimately, I would say that

what made the difference for China during that phase of neoliberal globalization was that it did not give up on the idea of following its own industrial policy, thus combining some limited protectionist policies with export-oriented growth (Jomo, 2013).

China's reserves have steadily increased over the years due to the large current account surpluses. Figure 1 shows current account surpluses and the record flow of foreign reserve accumulation, which reached $500 billion over several years to a stock of about $4 trillion before the decline experienced in 2015 (Siu, 2019).

Unlike neoliberal globalization (characterized by the almost exclusive role of market deregulation, privatization, and liberalization), in Chinese-style globalization, the roles of the state and the market complement each other, each playing an essential part in determining the best possible outcome. The results of this policy are evident. Not only has China been able to grow at double-digit rates, but it has also managed to wipe out extreme poverty.

As already noted by Galbraith (1979), 'some capitalist countries (e.g., India) have done worse than some communist countries (e.g., China) when it comes to poverty reduction.' Along with India, we can review the case of Brazil, as in Figures 2, 3, and 4, referring to the percentage of poverty headcount ratio as a percentage of population, respectively at a poverty level of $2.15, $3.65, and $6.85 (all expressed in 2017 purchasing power parity US dollars). Together with those countries we consider also, as a reference, the time path of the average of the upper-level income countries.

It was in this context that in September and October 2013, Chinese President Xi Jinping, during his visits to Kazakhstan and Indonesia, announced the launch of a 'Silk Road Economic Belt' and a '21st Century Maritime Silk Road,' respectively, which were later combined under the term 'One Belt One Road Initiative' or 'Belt & Road Initiative.' This program symbolizes China's new direction in its foreign economic policy (Liu & Dunford, 2016). China also proposed some accompanying international projects to meet the financing needs of the BRI, namely the Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank (NDB).

The first official Chinese government document (White Paper) on the BRI was released in March 2015, when the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MFA), and the Ministry of Commerce (MC) of China (2015), with the authorization of the State Council, published the 'Vision and Actions for Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road' (Liu & Dunford, 2016). In the two years between 2013 and 2015, only ten countries formally joined the initiative signing a memorandum of understanding (MoU) or cooperation agreement. In 2015 the BRI began to grow, with 17 more

countries joining, and in 2017, China opened the BRI to South America as well. Around the end of 2017, the BRI became an integral part of the Chinese Communist Party's constitution. Since then, the membership of new countries has been increasing until it reached 144 member countries as of August 2022.

In 2015, a new strategy, 'Made in China 2025,' was launched to pursue industrial and technological progress to ensure national autonomy for China's future energy and industrial needs. As a result of technological advances and the ensuing supply capacity, a natural outcome was to seek new export markets (Chan, 2018).

Another significant coincidence was the almost simultaneous launch of the UN Sustainable Development Goals in 2015, which included, among other goals, poverty eradication and the reduction of economic inequality. This variable had been neglected by the UN's previous program, the Millennium Development Goals.

The BRI follows the same steps as the 'tempered,' 'reasonable,' or 'inclusive' globalization undertaken by China in the previous 30 years. In inclusive globalization, the economy is not the sole driving force, and there is no expectation that everyone wins and that there are no losers. Only by involving all stakeholders, considering all the effects of liberalization processes, including the otherwise generic goal of efficiency derived from the virtues of economic incentives, can we hope to gain all the benefits from a globalization process. In many countries, the neo-liberal economic model has not fulfilled the promise of increased growth and, indeed, as mentioned above, has not paid attention to the goal of poverty alleviation, which has been left solely in the incapable hands of the market (Huang & Liu, 2019).

One of the reasons the BRI can be interpreted as evidence of a more inclusive type of globalization is that the previous phase left out many geographical areas that did not guarantee sufficient returns for the investments to be made. This is the case for the entire African continent and the landlocked regions of the western part of the Asian continent to the borders of Europe. It is precisely in this part that the BRI focuses its attention. Since multinational companies and the entire market economy do not find sufficient reward, public funds are needed to undertake the necessary investments to develop those areas. This is where China plays a role, providing funds to expand the number of regions and people benefiting from a more inclusive globalization process.

It is noteworthy that the phrase used by the Chinese leader when referring to a 'Community of Shared Destiny' for which all nations should work together is in stark contrast to the 'America First' motto launched by former US President Donald Trump in his election campaign.

Thus, the globalization path followed by China, both in the past and in the setting of the current Belt and Road project, does not deviate from Rodrik's idea of balanced globalization as opposed to hyper-globalization. In the 'trilemma', he identifies between market liberalization, state sovereignty, and democratic approval of citizens; 'empty' globalization made while preserving state sovereignty leaves out the most important actors, the citizens (Della Posta, 2018). I agree, then, with those who say that the difference between neoliberal globalization and Chinese globalization is that the latter aims to combine 'market instruments with state involvement to promote international cooperation, expand trade and investment, and spread the benefits to areas and people who have not benefited from neoliberal globalization' (Liu & Dunford, 2016).

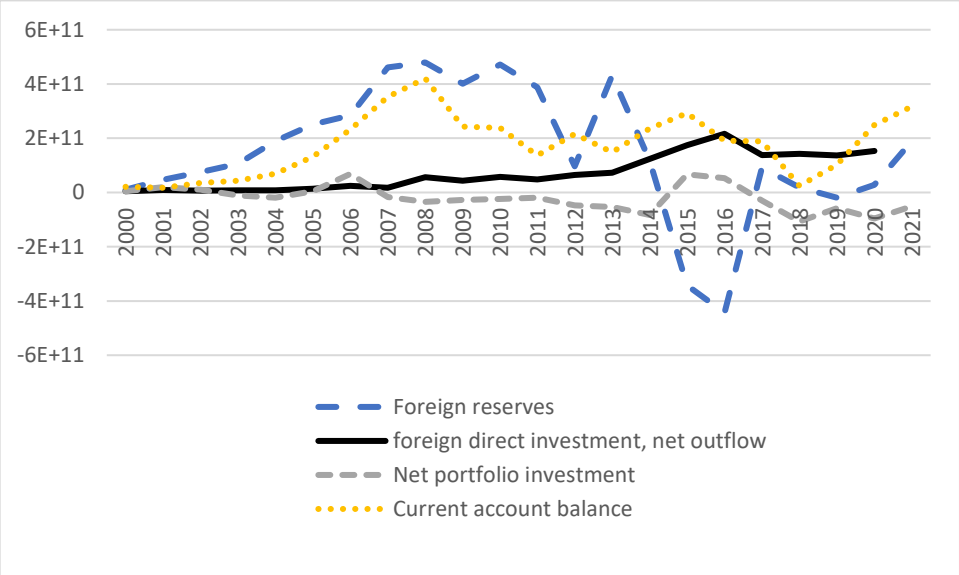

Figure 1: Foreign direct investment, portfolio investment, and their sources of financing

Source: World Development Indicators of the World Bank (2022a).

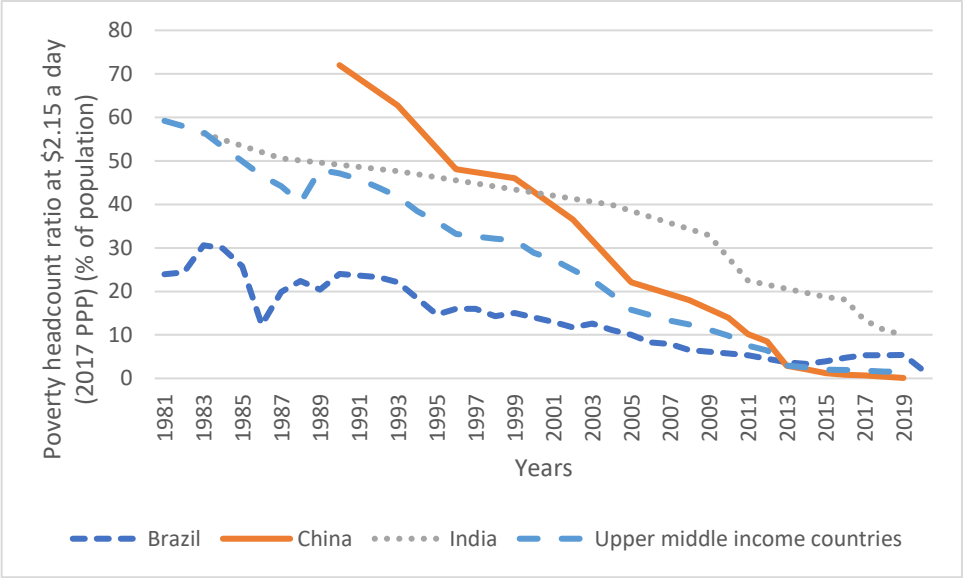

Figure 2: Poverty headcount ratio at $2.15 a day (2017 PPP) (% of population)

Source: World Development Indicators of the World Bank (2022a).

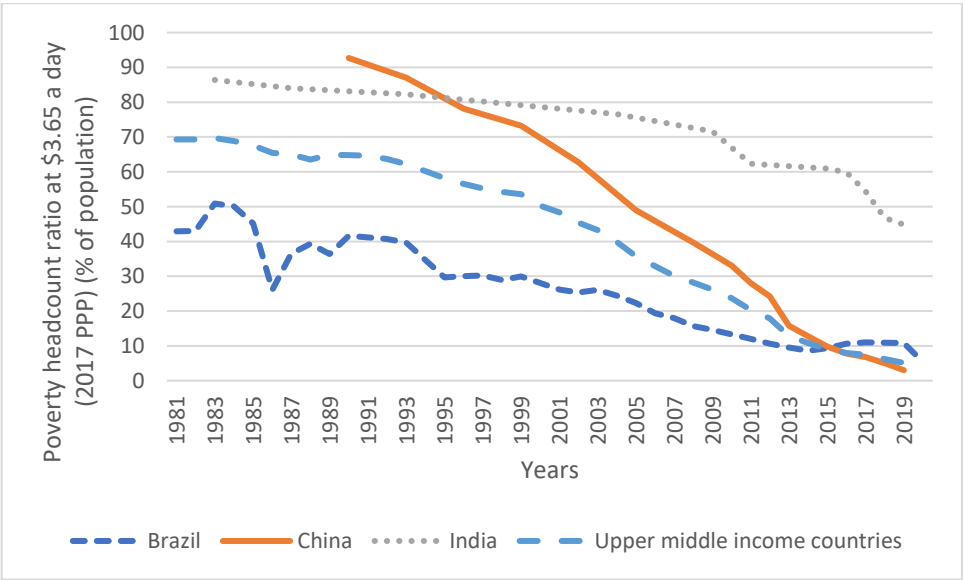

Figure 3: Poverty headcount ratio at $3.65 a day (2017 PPP) (% of population)

Source: World Development Indicators of the World Bank (2022a).

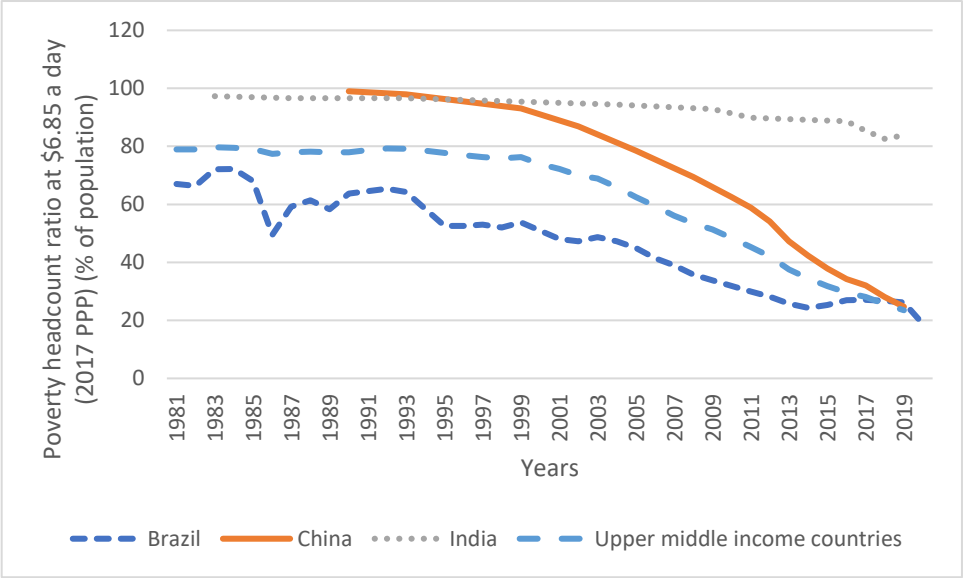

Figure 4: Poverty headcount ratio at $6.85 a day (2017 PPP) (% of population)

Source: World Development Indicators of the World Bank (2022a).

Economic motivations of the Belt and Road Initiative

According to China's White Paper on BRI, the latter aims to 'promote connectivity of the Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among countries along the Belt and Road, create all-dimensional, multi-tiered and composite connectivity networks, and achieve diversified, independent, balanced and sustainable development in these countries.[1] Enhancing connectivity between these areas, fostering regional economic integration between Asia and Europe first, but then broader economic integration with the Eurasian continent, Africa, and later with Central and South American countries, is undoubtedly the main goal.

The point, then, is to understand why 'connectivity' with these geographic areas is so economically crucial for China.[2] One of the reasons could be the decline in exports and industrial processing trade with developed countries, which implies the need for China to seek a different base for its industrialization and economic growth (Chan, 2018). Hence, China will need to shift from an economy whose growth is export-led and whose production process is labor-intensive to a more

[1] According to the White Paper, the BRI proposes five cooperation priorities: policy coordination, facilities connectivity, trade facilitation, financial cooperation, and people-to-people bonds. See Liu and Dunford (2016) for a more detailed overview of those priorities (Zhang, 2018).

[2] The Belt and Road Initiative certainly has also geostrategic and political motivations, but they go beyond the scope of this work.

innovative, balanced, and sustainable model (Liu & Dunford, 2016). However, an outward flow of FDI would allow China to meet the overcapacity of its heavy and high-tech industries by exporting related capital goods to other countries (Huang, 2016; Wang, 2016,). It is no coincidence, therefore, that after 2013 Chinese outbound direct investment exceeded inbound direct investment (Chan, 2018).

In addition, new export markets could be obtained by fostering the economic development of regions and countries that remained on the sidelines of the previous phase of globalization. This is certainly made possible by the large accumulation of foreign reserves that could be channeled to provide investment to BRI member countries, rather than, at least in part, to the less profitable portfolio investments in US government bonds (Liu & Dunford, 2016). Figure 1 shows the relationship between foreign reserves, FDI, portfolio investment, and current account balance. It can be seen among other things, that when FDI began to increase at a faster pace as a result of the effort made by the Chinese government with the BRI, given the simultaneous increase in portfolio investment, the cost was a reduction in foreign reserves. It can be agreed, therefore, that regarding the BRI, China aims for broad cooperation with member countries to foster and enhance global development (Chen et al., 2019).

A further motivation, closely related to the previous ones, has to do with the need to create conditions for the development of China's landlocked Western provinces. These provinces had been somewhat excluded from the development, compared to the Eastern coastal provinces and furthermore, are adjacent to those in Central Asia, which the BRI also targets. This was initiated as early as 2000 according to the Western Development Strategy (Yang, 2021), and trade with the Association of Southeast Asian Nations (ASEAN), South Asia, the Middle East, North Africa, and Sub-Saharan Africa increased from 3.6 percent and 7.2 percent in 1992 and 2000, respectively, to 15.0 percent in 2014, clearly indicating the potential of 'Going West' (Liu & Dunford, 2016).

The need to secure strategic resources is a final motivation worth mentioning (Omoruyi et al. 2017).

Currently, 144 countries have joined the BRI, most of which are less developed. Their primary aim is to create a solid infrastructure base to increase their international connectivity, which will provide a foundation for their development. Alternatively, the infrastructure will fulfill the need to reduce costs and trade uncertainties,[3] giving them a chance to move out of the 'poverty trap' in which

[3] Some authors, however, wonder whether the BRI might induce an increase, rather than reduction, of uncertainty (Siu, 2019).

they find themselves. Development will not be possible without adequate infrastructure, but at the same time it will not be possible to invest in infrastructure if the country does not develop.

We now turn to the issue of poverty, presenting first the data on extreme poverty worldwide, and later the effects that the flow of infrastructure investment implied by the BRI may have on the poverty rates of member countries.[4]

The dimension and effects on poverty of the investment in infrastructure of the BRI

Poverty rates and the experience of China in poverty reduction

Poverty eradication is the first goal among the 17 Sustainable Development Goals (SDGs) proposed by the United Nations. The extreme poverty standard has been set at $1.90 per day by the World Bank and is recognized as the global poverty line. According to the latest World Bank estimates, 656 million people lived below the extreme poverty line in 2018, accounting for 8.6 percent of the world's population. Considering the poverty line of $3.20 per day and $5.5 per day, the percentage rises to 23.2 percent and 42.9 percent, respectively.[5]

Countries around the world suffer varying degrees of poverty, and extreme poverty affects 44 percent of people living in East Africa, 38.3 percent in sub-Saharan Africa, and 30.5 percent in West Africa in 2018 (estimates for 2019). The corresponding percentages in 1990 were about 55 percent for all African countries. Data for South Asia report 15.3 percent of people living in extreme poverty (down from 49.5 percent in 1990) (see Figure 5 for details on global and regional extreme poverty). Also noteworthy is the remarkable progress made by East Asia and the Pacific, whose extreme poverty rate was 60.9 percent in 1990 and reached 1.1 percent in 2018, mainly due to China's strong performance. In 1990, China had 752 million people living in extreme poverty (it was 875 million in 1981). As already observed, it is particularly striking to compare the reduction in extreme poverty achieved by China with India and Brazil (see Figures 2, 3, and 4 for the three different poverty lines).[6]

[4] While the large majority of these countries are attracted by their need for infrastructure development, however, some are joining as they do not want to miss the opportunity to be part of the regional development process that might originate from the initiative (Siu, 2019).

[5] https://blogs.worldbank.org/opendata/april-2022-global-poverty-update-world-bank

[6] Higher poverty lines become more appropriate for the measurement of poverty as countries move up along the poverty ladder (see Jolliffe & Prydz, 2016; Ravallion et al., 2011) who discuss the concept of relative poverty lines.

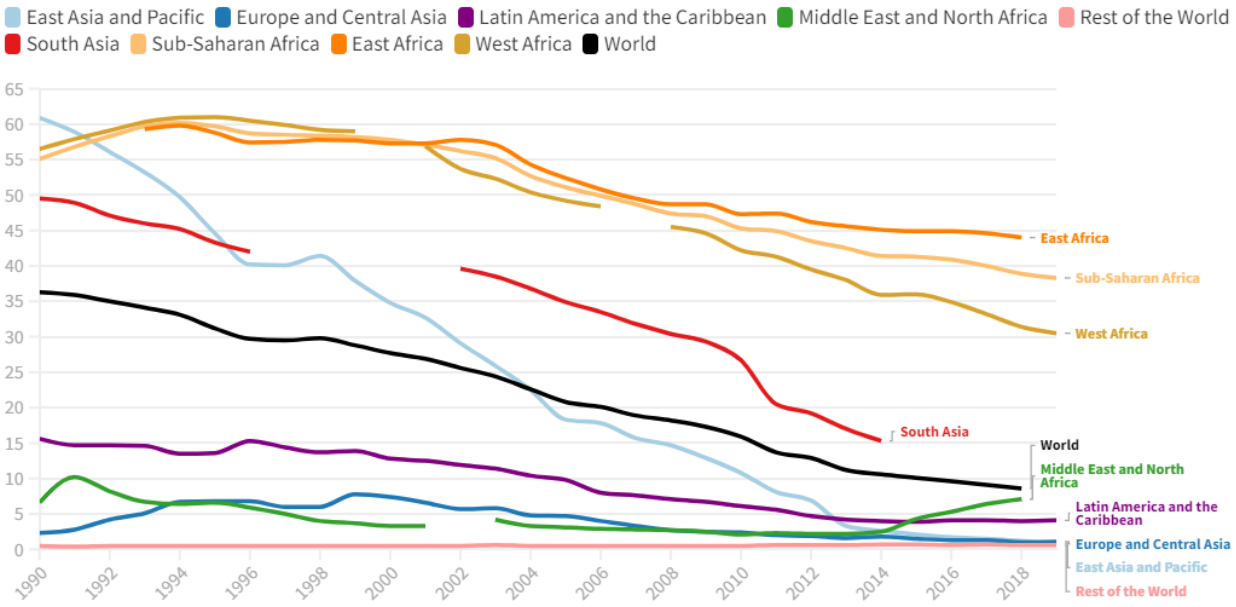

Figure 5: Extreme poverty ($ 1.9 PPP) at the world and regional level

Source: Poverty and Inequality Platform (PIP) of the World Bank (2022b).

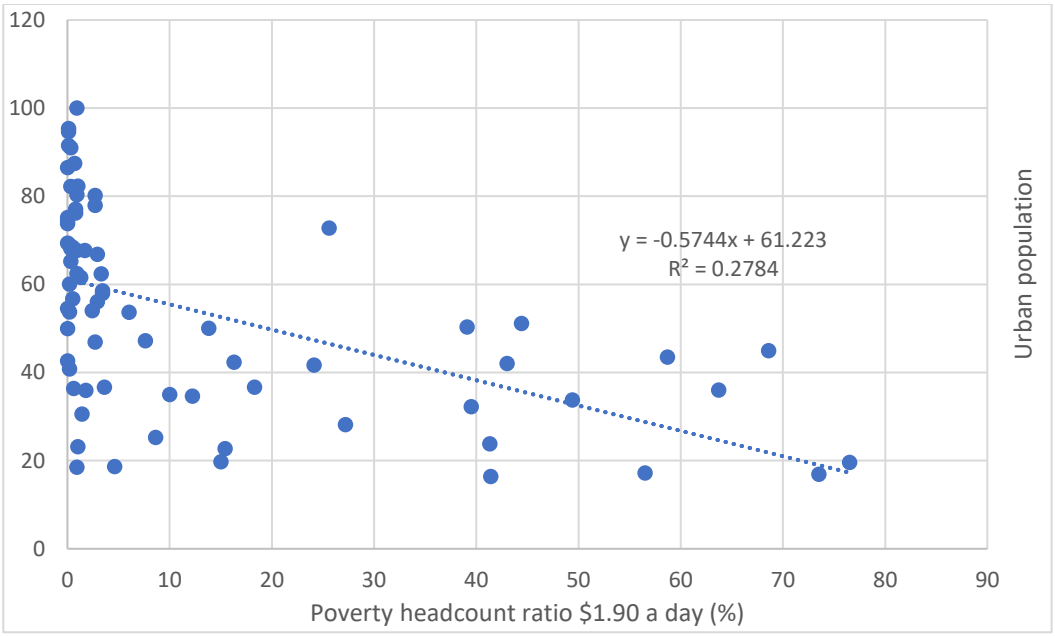

Figure 6: The negative correlation between urbanization (%) and poverty headcount ratio ($1.9 a day) (%).

Source: Author's calculations using World Development Indicators of the World Bank (2022a).

China's urban population increased by 394 million, accounting for 28 percent of global urban population growth from 1993 to 2013. This clearly demonstrates the negative correlation between poverty and urbanization (an estimated 75% of the worlds poor live in rural areas, although urban poverty rates are increasing (Ravallion, 2002; Ravallion, Chen, & Sangraula, 2007). Globally, urbanization has been, at least in recent decades, a key driver of development and poverty reduction. It is argued, therefore, that a sustainable urbanization process will be necessary to accelerate global progress and the quality of life of its citizens (UN-Habitat, 2016). In contrast, Figure 6 shows the negative correlation between urbanization and poverty rates worldwide.

Between 2000 and 2020, the center of gravity of poverty is estimated to have shifted from east to west at a rate of 87.60 km per year (Shi et al., 2022), while, not surprisingly, the geographic center of the world economy is shifting eastward (Quah, 2011). Thus, the data clearly shows that China is one of the countries contributing the most to global urbanization and poverty reduction, in contrast to the neoliberal-led countries in the rest of the world, which have experienced an increase of 107.9 million extremely poor people (Chen & Ravallion, 2010). As stated, in China's case, 'the virtues of the invisible hand of the market' were balanced with 'the virtues of good governance' (Mahbubani, 2008). Needless to say, these figures make China a credible player in the fight against poverty in the world. The resulting BRI investments in developing countries promise to contribute in this direction significantly.

Indeed, while international migration and the resulting remittances, middle-income growth, and financial sector development policy have an important effect on poverty reduction in developing countries (Jalilian & Kirkpatrick, 2002; Adams & Page, 2005; Fosu, 2011), a much more important role can be attributed to investments, particularly in infrastructure, which are a precondition for any sustainable development process. Such investments are unlikely to be provided spontaneously by markets, given the lack of short-term financial rewards they promise and their nature as public goods, the benefits of which cannot be easily captured by those who make them. For this reason, it is necessary to activate a planning system managed by the public actor (Siu 2019).[7]

The BRI investment in infrastructure

[7] The import of cheap but reliable consumer products from abroad might also be considered as alleviating poverty, given the access to goods that would not be otherwise affordable. However, this is a rather contentious argument, given the crowding out effect that imports of goods from abroad might have on domestic production, therefore on a sustainable development (Omoruyi et al. 2017).

All waves of globalization have taken off with the advances in technology, transportation, and communications (about communications, one need only think of the role of the telegraph, telephone, and internet in accompanying the first, second, and third waves of globalization, respectively, Della Posta, 2018). There is no surprise, then, in advocating some significant improvements in these areas as a precondition for a sustainable development process. This is something that can be achieved through investment.

However, the least developed and developing countries lack the financial resources to undertake them and often lack even the basic necessities of life. For this reason, their support has usually taken the form of aid (so-called ODA, official development assistance) directed to them to meet these basic needs (Zhang, 2019).

While certainly understandable, this form of financial support is unlikely to set the stage for future development unless accompanied by a reliable and conspicuous investment. When domestic savings are insufficient to provide the necessary resources to undertake such investments, funds must come from abroad, again in the form of ODA or FDI. Suppose the investment needed to facilitate industrial development and the development of related industrial capacity-building materials, steel, etc., are those related to the country's basic infrastructure (roads, ports, airports, railways, electricity, gas and water, and telecommunications). In that case, it is rather unlikely that market forces would be willing to undertake them. This is why a state-led external planning agency must step in. This role is played by China's BRI (Liu & Dunford, 2016). This is not to say that ODA provided by OECD countries does not help recipient countries. Still, their aid in providing technical assistance, food aid, debt relief, and humanitarian assistance is directed to social sectors and primary education and is too often subject to strict conditionality.

China's aid, on the other hand, is based on a combination of economic cooperation, trade, and investment in capital formation (including human capital through scholarships awarded to students from LDCs), is much less subject to conditions and focuses on infrastructure and productive activities as the primary determinant of economic development (Zhang, 2019). This different approach can be summarized by the well-known phrase, 'The Chinese government believes in the idea that it is better to teach a man to fish than to give him a fish when providing aid and carrying out cooperation' (Omoruyi et al., 2017).

According to some authors, the distinction between Chinese aid and FDI is unclear (Omoruyi et al., 2017). Perhaps, because the Chinese assistance does not fall under the OECD criteria of ODA, implying that funds provided to a third country must be grants or interest-free loans. Instead, most assistance provided by China is in the form of loans or export credits (Robertson & Benabdallah,

2016). The term 'foreign aid' is used much more broadly in China than standard ODA to include economic, technical, material, human resource, and administrative support to recipient countries, and does not necessarily contain a grant percentage of at least 25 percent, which is necessary to qualify as standard ODA (Strange et al. 2015).[8]

An additional element in the case of China that would make it difficult to clearly separate aid from FDI lies in the principle of 'equality and mutual benefit' guiding Chinese development assistance. State-owned enterprises (SOEs) provide capital that is difficult to distinguish between investment or aid, given the preferential treatment SOEs receive in accessing capital in the market (Omoruyi et al. 2017).[9]

The world data displayed in Figure 6 show a negative relationship of - 0.0204 between infrastructure quality (I used the logistic performance index as a proxy) and poverty rates, with an R^2 = 0.2164. The estimated effect of BRI on poverty and other macroeconomic variables is discussed in detail in the next section.

Table 1 shows China's FDI over the past 18 years. The data are divided into two periods of approximately equal length, 9 years before 2013 and 8.5 years after 2013, to compare the flow of FDI before and after the launch of the BRI. The data refer to both total flow and FDI directed to specific regions. It indicates that after the launch of BRI, total FDI almost doubled from about $464 billion to $879 billion, an 89 percent increase from 2005-2013. The destination of flows to different regions, however, holds some surprises; rather than to countries with the greatest scarcity of capital supply, the largest increase (+314 percent) occurred with investments made in Europe, followed by the United States (+120 percent).[10] On the other hand, as might be expected given the BRI's ambition to foster the connectivity and development of LDCs, a large increase in FDI occurred in East Asia (+186 percent), followed by West Asia (+71 percent) and South America (+64 percent). On the other hand, Sub-Saharan Africa and Arab, Middle Eastern, and North African countries received about the same amount of FDI over the two periods (+4 and -2 percent, respectively). Finally, North America (excluding the US) experienced a 35 percent reduction in FDI in the BRI years compared to the previous period. A further observation can be made regarding greenfield investment, which increased by 71percent from the 2005-2013 figures, from a total of $97 billion to $160 billion.

[8] An additional concern, often reported in the media, has to do with the sustainability of the debt resulting from the realization of the investment in infrastructure.

[9] See Omoruyi et al. (2017) for additional institutional reasons contributing to a blurred distinction between aid and FDI.

[10] However, this is a well-known phenomenon that goes against the simplistic conclusion that capital should flow to where its supply is lowest. The point is that demand is just as important as supply, and it is the high demand for capital in advanced countries that determines its inflow, despite the relative abundance of capital supply.

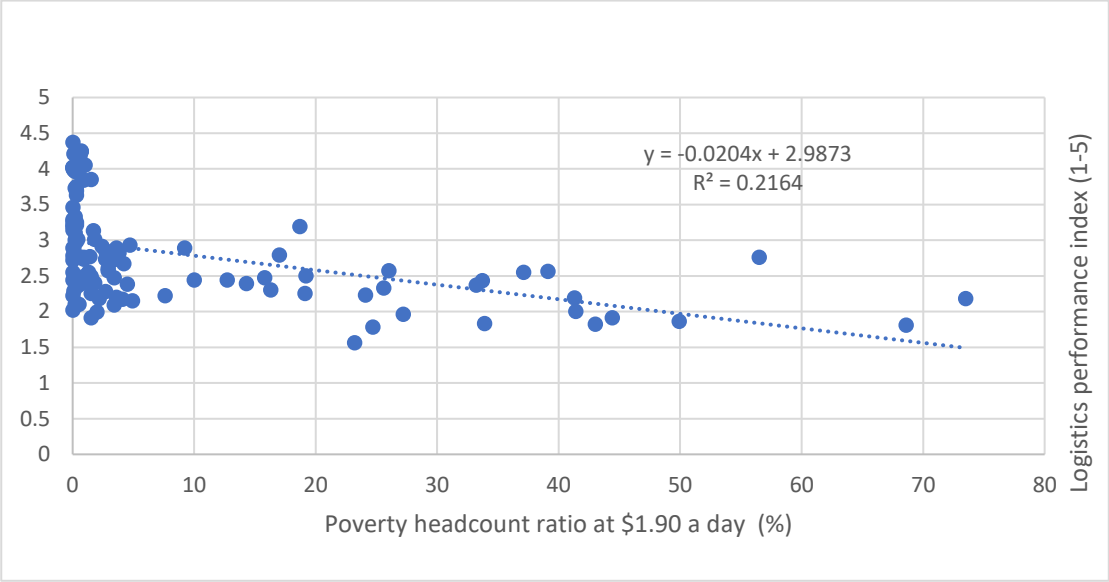

Figure 7: Poverty rate and logistics infrastructure as measured by the logistic performance index

Source: Author's calculations using World Development Indicators of the World Bank (2022a).

Further insight can be gained by observing the difference in the flow of FDI before and after the launch of the BRI, directed only to BRI countries, to see whether this has been a significant driving force of FDI. The amount of FDI directed to BRI countries during 2014-2022 shows that the BRI channels only 37 percent of total FDI directed from China to the rest of the world ($326,800/879,060). It should be borne in mind that in the period 2005-2013, the ratio of FDI directed to countries that will later become part of the BRI ($193,130) to total FDI ($463,580) was even higher, about 41 percent. So far, therefore, it is possible to conclude that the BRI does not seem to be able to channel Chinese FDI more significantly to its member countries. Moreover, while overall FDI increased by 89 percent between the years before and after the BRI, FDI directed only to BRI countries increased by a smaller amount or 69 percent.

Looking at the regional situation, the other elements to highlight concern FDI directed toward Europe, West Asia, South America, and sub-Saharan Africa. In the case of Europe, it can be seen that FDI to European BRI countries increased less than the increase in total FDI to Europe (+200% vs. +314%), implying that a larger share went to non-BRI countries. Similarly, in West Asia, total FDI increased by +71 percent, while that channeled only to BRI countries increased by only +16 percent. On the other hand, South American case, shows a positive effect of BRI creation, as FDI increased

by +160 percent for BRI countries, while total growth (including FDI also directed to non-BRI countries) was only 64 percent.

	FDIs 2005-2013 (million $)	FDIs 2014 - mid 2022 (million $)	Variation (%)	FDIs only to BRI countries 2005-2013 (million $)	FDIs only to BRI countries 2014 - mid 2022 (million $)	Variation (%)
Total	463.580	879.060	+89	193.130	326.800	+69
North America	41.190	26.710	-35	2.110	2.080	-1.5
USA	59.400	131.000	+120	0	0	0
Arab, Middle East, North African countries	25.410	24.890	-2	25.410	24.890	-2
East Asia	47.770	136.460	+186	40.850	115.590	+183
Europe	78.620	325.480	+314	17.590	54.180	+200
West Asia	48.450	82.970	+71	46.450	53.840	+16
South America	50.930	83.620	+64	14.950	38.850	+160
Sub-Saharan Africa	52.200	54.320	+4	46.280	40.280	-13
Greenfield Investment	97.380	160.290	+71	88.190	147.770	+68

Table 1. Foreign direct investment from China to different regions in the world (2005-2022)

Source: Author's calculations using China Global Investment Tracker (2022).

A further comment should be reserved for sub-Saharan African countries. Unfortunately, the picture for BRI countries is even more discouraging than in the general case, as, in the former, FDI has

declined since the creation of the BRI, while in the latter, it has remained almost stable. Finally, when Greenfield investments are considered, it can also be concluded that the BRI did not result in greater growth than FDI directed to BRI and non-BRI countries.

The expected impact on the GDP and poverty of BRI-receiving countries.

Maliszewska and van der Mensbrugghe (2019) provide some early estimates of the effects of the BRI. Making some reasonable assumptions about BRI investments, they find that by 2030 there will be a global welfare gain of 1.3 percent of global GDP, along with an increase in the global trade of 5 percent, with most of the gains accruing to BRI countries. They also report the findings of Villafuerte, Corong, and Zhuang (2016), who estimate assuming a 25 percent reduction in road transport margins and a 5 percent reduction in sea transport margins, and time savings due to the trade facilitation measures accompanying the BRI, an increase in BRI GDP of about 0.1 to 0.7 percentage points, and an increase in total exports by BRI countries of between $5 billion and $135 billion, depending on the assumed trade cost reductions.

The inflow of foreign capital into developing countries, however, could distort domestic competitiveness because of the possible real exchange rate appreciation it could bring. Of course, several alternative scenarios could be outlined, depending on the flow of imported goods and services into receiving countries that might follow BRI implementation (as mentioned in footnote 6, the import of cheap consumer products from abroad could induce crowding out on domestic production), and depending on alternative ways of financing capital formation (e.g., with higher taxes). The time savings become particularly significant in the transportation (by air, sea, or land) of perishable goods of animal or plant origin. An estimated delay of one day is equivalent to an ad valorem tariff of 4.9 percent. However, this value decreases in the case of nonperishable goods (such as textiles, silk, man-made fibers, and others).

The analysis conducted by Maliszewska & van der Mensbrugghe (2019) concludes that BRI member countries would enjoy the vast majority of gains, precisely 82 percent, with the largest percentage gain in East Asia (It should be observed that the data analyzed in Table 1 show that East Asia is one of the few regions in which investment has increased after the launch of the BRI, with a corresponding increase also of the FDIs directed to BRI members). In their simulations, trade cost reductions come from improved infrastructure. Different transportation switching scenarios result in different savings outcomes. Similarly, accompanying measures, such as trade facilitation reforms to reduce border delays, result in savings that can be quantified as tariff reductions. The largest

reductions in export costs are expected in Kyrgyzstan, Kazakhstan, Ethiopia, Lao People's Democratic Republic, and Cambodia, who are expected to be the largest beneficiaries of the BRI.

The cost of trade within countries is also reduced due to infrastructure investments resulting from the BRI. Gains range between 0.7 percent and 1.1 percent globally and between 1.2 percent and 2 percent for BRI countries, with a negative welfare effect on non-BRI countries due to a standard diversion effect. The reduction in trade cost benefits both households and businesses as consumers of final and intermediate goods.

The competitiveness of importing countries would also increase due to the higher volume of imports made possible by cost-reducing infrastructure improvements. In turn, increased net exports would stimulate economic growth in both BRI and non-BRI countries (albeit to a lesser extent) (Maliszewska & van der Mensbrugghe, 2019). Simulations carried out by Maliszewska & van der Mensbrugghe (2019) also show that BRI countries should benefit from an increase in global exports of about 2.8 percent, while non-BRI countries only have a slight increase (0.7 percent). Among the BRI countries, trade is expected to grow at the highest rate in Thailand, Malaysia, and Pakistan, while the rest of Eastern Europe, ECU, Poland, Nepal, and the Arab Republic of Egypt is at the lowest rate. The non-BRI area is expected to grow slowly in terms of exports (0.7 percent), with Latin America (-0.5 percent) and the rest of Western Europe showing negative values. The highest percentage growth in exports in the non-BRI area is projected for Ethiopia (3.9%), while import growth is also positively influenced by the BRI.

The results indicate that the BRI would be largely beneficial, with the percentage of people living in extreme poverty on less than $1.90 a day expected to decline from 8.6 percent in 2018 to 5.2 percent by 2030. This means that, globally, BRI could help lift 8.7 million people out of extreme poverty (5.1 million from the BRI area and 3.7 million from non-BRI countries).[11] Using a threshold of $3.20 per day in PPP to measure moderate poverty, the global percentage of people below that level was estimated at 23.2 percent in 2018 and is projected to fall to 10.2 percent (by 2030 and under business-as-usual conditions). This means 34 million people are expected to move out of moderate poverty, i.e., 29.4 million from BRI and 4.6 million from non-BRI countries (Maliszewska & van der Mensbrugghe, 2019).

[11] Maliszewska and van der Mensbrugghe (2019) also provide some more specific estimate of the effects of BRI investments: in Kenya and Tanzania, about a million poor people are expected to escape extreme poverty by 2030. In Pakistan the expected number is 1.3 million while in Bangladesh and India 0.43 million and 0.65 million, respectively. In Nepal, the number is estimated to be 52,000 people compared to the baseline case in the absence of BRI.

Concluding remarks

The Chinese government launched the Belt and Road Initiative in 2013, and it took a few years before it was more clearly outlined and before a significant group of countries joined it. The goal was to harness inclusive globalization that can avoid the limitations and problems of neoliberal globalization, which has condemned it to a dramatic decline. In this article, I have argued that the inclusive globalization model proposed by the Chinese government is not far from the more balanced globalization suggested by Dani Rodrik, among others. The BRI's goal is to reach where the market has failed, seeking to involve in the globalization process, both countries and populations that the previous wave had left behind. Investment in infrastructure provided by a country that holds a large number of foreign reserves due to its large current account surpluses, as in the case of China, could be an excellent opportunity for the development of countries that were left behind.

The good news from the FDI data is that since the BRI creation, China has almost doubled the amount of FDI from previous years. The data I have presented and discussed show that it is probably too early to observe accurate results, and in fact, it is even too early for the flow of investment to be directed to where it is most needed. This could be why the overall rate of increase in Chinese FDI between the two periods I used as a reference is lower for FDI directed to BRI members alone than to the entire group of countries worldwide. The same logic could explain that sub-Saharan Africa has not benefited from the greater flow of investment than before the creation of the BRI.

A further hypothesis could explain the slowdown in Chinese FDI directed toward BRI countries. Accusations raised by many observers against China that FDI was a way to take control of some key infrastructure abroad (such as ports, for example) may have prompted greater caution in undertaking FDI, especially to BRI countries. Future research may explore this point further.

The data also show that BRI membership is not a pre-requisite for FDI inflows; we observed how, in some cases, FDI went more to countries that did not join the BRI than to the members. Only in the case of South America did investment increase more significantly to BRI member countries than to other non-member Latin American countries. Nevertheless, the World Bank's estimates of the beneficial effects of the BRI are proof enough and provide a solid reason for hope. Time is still needed for its full and fruitful deployment.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest concerning the research, authorship, and /or publication of this article. He is professor at the Belt and Road School of Beijing Normal University, Zhuhai Campus (China).

Funding

The author received no financial support for the research, authorship, and /or publication of this article.

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