

KEY DIRECTIONS OF FDI IN CHINA'S INITIATIVE "SILK ROAD"

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The purpose of this article is to outline the main directions of FDI flows in industry and countries for stimulating their economic growth within the China's initiative "Silk Road". It will also consider changes in the economies the initiative is bound to make as well as the feasibility of the project, taking into account recently created financial infrastructure and the amount of investments they have already made. Moreover, the article touches upon some challenges that potential investors face. Eventually, it will suggest possible influences on the China's economy and its world rank.

Key words: foreign direct investment; FDI; China; China's "Silk Road"; "Silk road" Fund; Asian infrastructure investment Bank; Development Bank of BRICS.

It is undoubtedly clear that the People's Republic of China is a vivid example of a country that has risen significantly in the world economic rankings. In recent decades, it has managed to catch up with the United States and become the country that can be called a worthy and strong competitor. It is noticeable that China is moving to a new level, where innovations, large-scale capital exports and domestic consumption will be the main drivers. Given this, in the September 2013 President Xi Jinping put forward the idea of the "Silk road" [10, p. 9]. Therefore, it would be reasonable to consider the change in Chinese FDI flows in the light of this initiative (pic. 1).

It is noticeable that the amount of FDI directed abroad has significantly increased. Firstly, China is investing the funds into the construction of ports, railways, highways, transport infrastructure and high-speed transport as well, linking more than 60 countries [5]. This infrastructural assistance for a number of African countries along the "Silk road", the UN has called the "infrastructural revolution" [3, p. 19]. For example, China has built in a number of modern ports such as Gwadar in Pakistan, Hambantota in Sri Lanka, Chittagong in Bangladesh, Chowdhury in Myanmar, as they are of great importance in implementing economic corridors "China-Pakistan" and "India-Bangladesh-Myanmar-China". Hence, the challenge is to enhance the existing infrastructure adding, if necessary, missing elements, which will increase the speed of operations and reduce it to 10 days [10, p. 39].

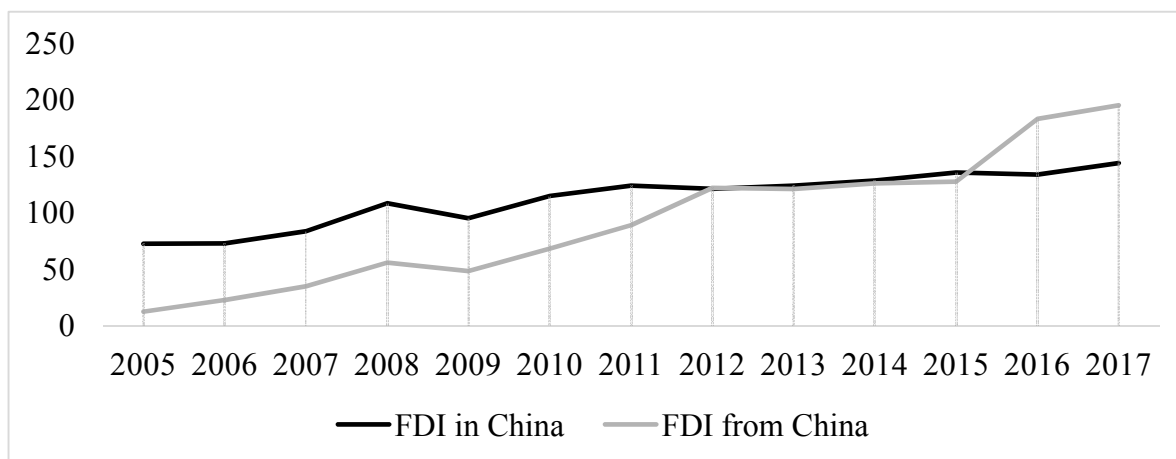


Fig. 1. Dynamics of China's FDI, billion \$ USA, 2005–2017 yy.
 Note: own development based on [9]

Thus, the initiative is creating a special logistics network, which is to reduce the cost and time of transportation goods and services, improve the transport infrastructure of countries along the “Silk road”, particularly in South-East Asia, Africa and the Middle East. Moreover, it is supposed to provide Chinese producers with access to relatively cheap foreign markets of raw materials and labor, and with control over the flow of exports and imports so as to ensure the maximum load of the industrial sector [10, p.21].

Another strong point is that China is going to solve the problem of environmental security that was raised at the forum in Boao in 2016. China has planned to create an infrastructure to generate 10 billion watts of solar energy as well as to restore about 500 thousand hectares of desert land. Desertification control is under way, the construction of solar power plants and the preservation of the unique ecosystems of certain territories are continuing. The initiative will also create about 200,000 new jobs. The implementation of this project is under control of the development banks of China (in 2016 they invested about \$ 9.5 billion USA) [6].

Furthermore, the investments are to narrow the gap between cities and provinces of China. Thus, investments from \$10 to \$100 million USA, investments in energy and natural resources at the provincial level are processed within three working days with the assistance of an electronic application, which greatly simplifies the procedure [2]. Thus, the initiative "Silk road" is the best option for their involvement in those areas and provinces through which the “Silk road” passes. Investments aimed at the long term will reduce the underdevelopment of these regions and provide their residents with new workplaces [10, p. 39]. Despite the speed and forecasting income, some drawbacks made potential investors doubt. They are business operation constraints in the region, weak cross-border regulatory measures, deficits in top managerial know-how, weak branding of the provinces, Governance issues

and red tape, ambiguity in interpretation of laws, and difficulties obtaining work permission for the best foreign workers. This is the formidable challenge that China faces holding the initiative.

To Finance the project the “Silk road” Fund” was registered in Beijing in December 2014 with an initial capital of \$10 billion USA. It is important that the main sources of financing are the State Administration of foreign exchange of China, the Chinese Investment Corporation, the Export-Import Bank of China and the Development Bank of China, with a share of 65 %, 15 %, 15 %, 5 %, respectively. So, all the resources of the Fund are from China, although in the future it is planned to attract institutional investors from other countries that are willing to make long-term investments [11]. The Fund invested \$1.2 billion USA in construction, industrial development and the development of financial projects between countries interested in this initiative (pic. 2).

Moreover, on 16 January 2016, the Asian infrastructure investment Bank (AIIB) started its work as a financial institution, whose aim was financing several major infrastructure projects in the countries founding the Bank and fostering their economic development. The initial capital was formed by 57 countries, 37 of which belong to the Asian region, and was amounted to \$100 billion USA. Russia, Germany, China, the Republic of Korea and India made up the top-five co-founders [7]. According to official data, \$1.7 billion USA was invested (pic. 2).

The Development Bank of BRICS was set up on 27 February 2016. Its purpose is to mobilize resources for infrastructure and sustainable development projects in BRICS countries and other emerging markets, while complementing the activities of other international financial units [8]. In 2017, it attracted nearly \$2.5 billion USA (pic. 2).

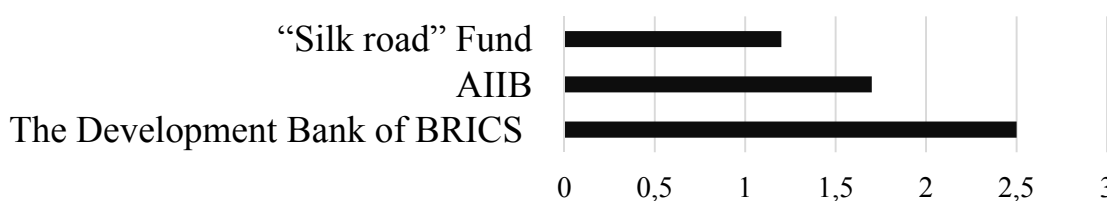


Fig. 2. The amount of FDI input, billion \$ USA, 2017 y.
 Note: own development based on [7, 8, 11]

It is known that from the European countries, the UK first joined the AIIB and was followed by Germany. However, Japan and the United States remain aloof from this project and do not participate in the AIIB [7].

The newspaper China Daily recognized the Russian Federation as the friendliest country to the Chinese "Silk road". Russia expressed its desire to work together and put forward the idea of cooperation between the "Silk

road" initiative and the "Northern sea road" to stimulate economic and investment activity. Thus, the maximum amount of investments almost \$6.9 billion USA arrived in Russia in 2014 [4].

The establishment of these financial institutions allows expanding financial transactions and, consequently, strengthening the Yuan as a third global currency after the Dollar and Euro, which confirms the entry of China into the global financial system as the main player [1, p. 46].

Thus, FDI flows in terms of "Silk road" initiative are to ensure the well-being of the countries along the road and bring the expected high revenue to investors.

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