

## Research on the Current Status of Financial Connectivity in the Belt and Road Initiative

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**Abstract :** After the 2008 global financial crisis, China's sound macroeconomic regulation boosted its economic recovery and international influence, on the basis of which President Xi Jinping proposed the Belt and Road Initiative (BRI) in 2013. Adhering to the principle of consultation, cooperation and shared benefits, the BRI has become a vital international cooperation platform focusing on the "Five Connectivities", with financial connectivity as its core pillar. Thanks to the deepening of infrastructure and financial cooperation, a bank loan-dominated diversified financial support system for BRI financial connectivity has taken shape with expanded scale and optimized structure. Yet it still faces severe bottlenecks due to growing global uncertainties, deglobalization and unbalanced financial development among participating countries. As high-quality financial connectivity is critical to advancing the BRI and deepening international economic and financial cooperation, this paper analyzes the current status of financial connectivity between China and BRI countries, identifies its key influencing factors and puts forward targeted recommendations, aiming to provide a reference for the healthy development of BRI financial connectivity and mutual benefit of all participating countries.

**Keywords:** Belt and Road Initiative; Financial System; Capital Mobilization; Emerging Multilateral Financial Institutions

**Methods:** Combining qualitative and quantitative analytical approaches with comparative analysis, this study explores factors influencing the development of capital mobilization based on theoretical analysis of operational mechanisms. **Lead:** As an open cooperation initiative, the Belt and Road Initiative comprises five interconnected and mutually reinforcing components known as the "Five Connectivities." From the origins and starting point of the Belt and Road Initiative, strengthening trade cooperation and promoting regional economic division of labor and shared development form its fundamental basis. Considering the development patterns of international trade, the division of labor, exchange, and flow of goods among nations naturally require the support of infrastructure connectivity and financial connectivity, which in turn necessitate the assistance and safeguarding of policy coordination and people-to-people bonds. As this foundational goal gradually materializes, it becomes evident that most Belt and Road projects involve infrastructure construction. These projects demand substantial capital, feature long investment payback periods, and often lack the patience typically associated with securities investments. Furthermore, China, as the initiative's foremost proponent, operates a financial system dominated by indirect financing methods like bank loans. These factors have led to bank loans becoming the primary financing method for Belt and Road projects, with Chinese financial institutions either holding significant equity stakes or serving as the sole funding source. According to the financial accelerator theory, finance exhibits strong procyclical characteristics: investment and financing increase during positive economic expectations, creating a virtuous cycle. However, during negative shocks, high leverage and credit contraction can amplify downward economic pressures. Moreover, the financial markets of participating countries remain significantly underdeveloped compared to mature markets. They exhibit weak resilience to external financial risks and are highly susceptible to economic fluctuations in other nations. These markets often serve as prime targets for international hot money speculation and are particularly vulnerable to attacks by arbitrage capital.

This paper proposes the following recommendations to advance financial connectivity: First, develop a rational roadmap for progress. Given the broad scope of the Belt and Road Initiative and the significant variations in development environments across participating countries, it is essential to enhance understanding, design a roadmap and timetable for financial connectivity, and implement targeted, phased, and gradual advancement. Second, adopt differentiated financial connectivity policies for countries along the routes. Given the diverse and complex national conditions across the regions, differentiated policy orientations are crucial. Only by promoting financial connectivity development in a targeted manner, based on factors affecting its effectiveness, can rapid and high-quality economic growth be achieved within the region. Finally, based on the empirical findings of this paper, it is recommended that efforts to advance financial connectivity development focus on four key areas: regional governance, infrastructure construction, trade exchanges, and financial cooperation. This approach will foster an external environment conducive to the financial connectivity development of the Belt and Road Initiative, thereby promoting regional infrastructure construction among participating countries and achieving shared regional economic development.

### Discussion:

Finance serves as the cornerstone of the modern economy, and capital flow—as the concentrated manifestation of finance within the Belt and Road Initiative—is the safeguard for the initiative's long-term development. Therefore, establishing an efficient and unimpeded capital flow network is essential. Capital flow represents one of the key directions for advancing connectivity between China and countries along the Belt and Road routes, embodying the collective financial support underpinning the initiative's development. While traditional international financial institutions possess robust lending foundations and extensive management expertise, they alone cannot meet the immense capital demands of Belt and Road projects[1]. Traditional international financial institutions have broad regional coverage, yet their funding capacity remains far from sufficient to bridge the hundreds of billions of dollars in funding gaps faced by Belt and Road countries. As China's economic strength grows, domestic commercial banks, open policy banks, and regional financial institutions spearheaded by China are increasingly becoming vital sources of funding for Belt and Road projects, providing robust support for capital needs. Currently, multilateral financial cooperation for the Belt and Road primarily takes the following forms: First, joint financing. This collaborative financing model involves government agencies, development financial institutions, and the private sector, commonly used for large-scale infrastructure projects in developing countries. It serves as a vital tool for risk mitigation and cost reduction in project development. Examples include the Asian Infrastructure Investment Bank (AIIB) and World Bank partnership supporting the Manila Metropolitan Flood Management Project in the Philippines, and the joint support for the Trans Anatolian Natural Gas Pipeline Project in Azerbaijan. Second, blended finance. Blended finance integrates diverse funding sources—such as commercial loans, concessional loans, and grant funds—to ensure sustainable financing for projects with high upfront costs and extended payback periods. Third, syndicated loans[2]. Led by one or more banks, syndicated loans involve multiple banks and non-bank financial institutions collectively lending to a single borrower. This structure enables risk sharing while meeting funding requirements and loan terms. China's commercial banks primarily support infrastructure development through syndicated loans. Fourth, interbank cooperation mechanisms. Examples include the Shanghai Cooperation Organization Interbank Consortium initiated by the China Development Bank and memoranda of cooperation for Belt and Road projects. From a financing model perspective, a preliminary framework has emerged where development credit and the Silk Road Fund serve as government-guided capital. This framework facilitates the participation of commercial capital, such as commercial banks, in the Belt and Road's financial connectivity through diversified financing instruments like syndicated loans, stocks, and bonds. Investment and financing risks are managed through various credit enhancement methods, including collateral guarantees and export credit insurance. This approach effectively leverages financial instruments to mobilize private sector funds, enhancing project investment efficiency while achieving risk diversification. In fact, within the framework of international financial cooperation, Chinese financial institutions adhere to multilateral rules and actively engage in multi-tiered financial collaboration with international financial organizations and multinational commercial banks[3]. They have established cross-border communication and coordination mechanisms such as the Shanghai Cooperation Organization (SCO) Banking Consortium and the Belt and Road Interbank Regular Cooperation Mechanism, further strengthening regional financial cooperation. Through diverse financing methods including hybrid financing and syndicated loans, they have formed a risk-reward sharing framework for diversified investment and financing. From China's perspective, initiatives like RQFII, Panda Bonds, and Belt and Road special

bonds, China has expanded the two-way opening of its capital markets. It has coordinated the development of regional offshore financial centers like the China-Kazakhstan Cooperation Center as connectivity platforms, while progressively advancing the use of cross-border RMB infrastructure—such as the multilateral central bank digital currency bridge and the cross-border RMB payment system—in partner countries. These efforts have significantly enhanced the convenience of RMB for cross-border trade and investment settlements and continuously improved liquidity in offshore RMB financial markets. Policy banks, represented by the Export-Import Bank of China (hereinafter referred to as "Eximbank"), play a leading role in the Belt and Road Initiative. Policy banks primarily provide financing support to relevant enterprises and cooperative projects through services such as financing and financial advisory, commercial loans, and establishing industrial funds. It is worth noting that as Belt and Road projects deepen and financing scales expand, the complexity of investment and financing cooperation and capital guidance mechanisms will increase. China should actively address current risks and challenges while scientifically seizing strategic opportunities[4]. Take HSBC China as an example. The institution supports the development of Belt and Road partner countries through loans, interbank transactions, capital markets, and project financing. HSBC acted as the lead arranger and lender for a \$225 million buyer credit financing facility for Bahrain Aluminium in the Middle East. This financing was backed by a 15-year export buyer credit insurance policy from China Export & Credit Insurance Corporation (SINOSURE), providing credit enhancement for the bank loan.

The Silk Road Fund initiated by China and various specialized investment funds serve as crucial investment channels for the Belt and Road Initiative. Established in 2014, the Silk Road Fund is a medium-to-long-term development-oriented official fund focused on investing in Belt and Road projects. It provides diverse financing services including equity, debt, funds, and loans, while also supporting initiatives through co-investment funds established with domestic and international financial institutions. Over 80% of the Silk Road Fund's investments are made through equity participation, targeting greenfield and brownfield projects, corporate and asset acquisitions, IPOs, and pre-IPO investments[5]. Beyond the Silk Road Fund, China has established multiple specialized investment funds targeting specific industries or regional/country cooperation, deploying capital in Belt and Road partner countries through fund-of-funds or joint investment structures. These primarily fall into three categories: First, bilateral cooperation funds established through joint initiatives between Chinese state-owned banks or official institutions like the Silk Road Fund and counterpart banks in other countries, such as the Overseas RMB Fund, the China-Latin America Industrial Capacity Cooperation Investment Fund, the China-Africa Development Fund, and the China-Eurasia Economic Cooperation Fund; Second, regional specialized investment funds primarily targeting industrial parks and infrastructure in partner countries to achieve mutual benefits for host economies and Chinese enterprises' international expansion. Third, Belt and Road industrial investment funds combining policy capital with private investment. These funds operate more commercially, typically employing equity investment alongside loans to support Chinese enterprises' overseas investment strategies and enhance their M&A capabilities abroad[6].

Regarding bond investments: Compared to other financing tools, Belt and Road special bonds offer advantages such as large financing scale, low financing costs, high marketization, and diverse derivatives. They can complement other financing methods to meet various investors' asset allocation and risk-sharing requirements. Since the Bank of China successfully issued \$4 billion in Belt and Road special bonds in overseas markets in 2015, relevant financial institutions and enterprises from participating countries have progressively utilized bond markets to finance Belt and Road projects. Financial Infrastructure: Advancing RMB internationalization and enhancing cross-border trade and investment convenience[7]. As most Belt and Road partner countries are emerging economies with developing financial markets, most project-related credits or securities are currently denominated in US dollars. However, excessive reliance on the dollar system undermines these countries' monetary policy autonomy and financial stability, potentially diminishing project appeal to private investors. Therefore, under the Belt and Road framework, participating countries and multilateral financial institutions are actively exploring new international financial cooperation systems, establishing multilateral settlement and policy coordination mechanisms. Currently, China is actively advancing RMB internationalization through multilateral governance platforms, currency swaps, and cross-border RMB facilitation, enhancing trade convenience along the Belt and Road and increasing regional trade cooperation opportunities.

#### **In the financial cooperation of the Belt and Road Initiative, emerging multilateral financial institutions play an active role, including:**

##### **1. Shanghai Cooperation Organization Interbank Consortium**

The Shanghai Cooperation Organization (hereinafter referred to as "SCO") is a regional organization proposed and established by China, dedicated to maintaining regional security and promoting cooperation in political, economic, energy, and other fields. SCO member states are pivotal countries in the Belt and Road construction and are all important supporters and partners of the Belt and Road Initiative. In October 2005, the SCO Interbank Consortium (hereinafter referred to as the "Interbank Consortium") was established. As early as 2010, the Interbank Consortium had provided over \$10 billion in financing to member states through preferential loans and financing mechanisms, gradually becoming a vital financing platform for the SCO. In November 2010, the establishment of the SCO Development Bank (hereinafter referred to as the "SCO Development Bank") was welcomed by most member states. Beyond primarily funding infrastructure projects in member states, the SCO Bank has expanded local currency settlement cooperation among members, intensified the promotion of innovative financial instruments such as currency swaps, advanced regional transportation, trade, and investment facilitation, safeguarded regional financial stability, and effectively guarded against potential financial crises.

##### **2. BRICS Development Bank**

The New Development Bank (NDB), jointly initiated by BRICS nations represented by China, Brazil, and Russia, is a multilateral development bank established in Shanghai. Its primary objective in the investment sector is to provide funding for infrastructure development and sustainable growth in BRICS countries and select developing nations. The NDB utilizes member countries' domestic currencies for its investment and financing activities. This approach not only mitigates exchange rate risks for loan projects but also fosters the development of domestic capital markets by enhancing currency liquidity.

##### **3. Asian Infrastructure Investment Bank**

The Asian Infrastructure Investment Bank (AIIB) is a multilateral financial institution spearheaded by China, dedicated to infrastructure development. It has significantly promoted connectivity among nations and regional free trade. By the end of 2020, the AIIB had expanded its membership to 103 countries, a significant portion of which are located along the Belt and Road routes. Its financing projects span multiple infrastructure sectors including transportation, education, and public health. Beyond meeting the capital requirements for infrastructure development, the AIIB has advanced international financial cooperation and enhanced financial governance through continuous innovation in its operations and financing instruments.

#### **Factors Influencing Capital Allocation:**

**Institutional Quality.** In the 1950s, new institutional economists began studying the impact of institutions and institutional quality on the economy[8]. Within a sound institutional environment, actors operating according to established rules can facilitate specialization and division of labor, achieve technological and capital accumulation, and increase corporate output through larger transaction scales and lower transaction costs. Conversely, poor institutions constrain long-term economic growth and lead to economic and financial volatility (Hall & Jones, 1999). The World Bank employs the World Governance Indicators (WGI) to measure a country's institutional quality. This index encompasses six dimensions: political stability, government corruption, government efficiency, government responsiveness and accountability, legal framework, and regulatory systems.

**Therefore.** It can be concluded that political stability directly impacts the security of financial flows and development between China and countries along the Belt and Road. Compared to politically unstable nations, countries with higher political stability can provide a favorable environment for transnational infrastructure development, ensuring the viability and sustainability of bilateral economic cooperation while stimulating demand for financial flows. Additionally, from the perspective of financial institutions, banks impose stringent requirements on the political stability of host countries when considering overseas investments. Should political turmoil arise, they will promptly withdraw capital, which not only destabilizes the financial environment of the investing country but also impacts nations closely collaborating with it.

**Level of Economic Development.** To date, threshold theory, bankruptcy cost theory, endogenous finance theory, and financial contract theory have each provided partial explanations for how economic development levels influence financial connectivity. To a certain extent, a country's economic development determines the advancement of its financial system and markets, as well as the depth of its financial cooperation

with foreign nations. These factors represent crucial development directions for capital flow under the Belt and Road Initiative, aiming to establish stable financing systems and strengthen financial collaboration.

**Infrastructure Development.** From a financial development perspective, information technology provides technical support for financial activities along the Belt and Road routes. Information and communication technology (ICT) can promote the internationalization of the renminbi by altering the form and functions of currency, enhance financial risk management, and ensure financial security and stability [10]. Furthermore, ICT not only enables rapid and efficient data collection and processing to improve the efficiency of financial intermediation but also reduces information processing and transaction costs in cross-border economic and trade cooperation. This expands the boundaries of financial transactions and enhances financial inclusion.

**The Level of Bilateral Trade Cooperation.** From a macro perspective, trade policy serves as the foundation for improving financial systems. Trade development imposes certain requirements on a country to promote capital flow and strengthen financial risk management. International trade activities play a vital role in driving the expansion of payment settlement and lending services, financial product innovation, and enhanced financial efficiency across nations. By fostering financial development and elevating the financial environment, it propels the construction of capital flow mechanisms. Unlike the market-driven paths of the US dollar and euro's internationalization, the renminbi's internationalization—having started later—necessarily relies on government and policy support. The establishment of offshore RMB clearing banks enhances fund settlement efficiency and strengthens business promotion[11]. This not only expands the renminbi's global influence but also accelerates the development of offshore markets.

### Conclusion:

Since China proposed and spearheaded the Belt and Road Initiative, guided by the "Five Connectivities," it has largely formed an interconnected framework of "six corridors, six routes, multiple countries, and multiple ports." Continuous improvements in institutional mechanisms have effectively promoted local economic and social development alongside multi-tiered regional cooperation, yielding substantial achievements. In its early stages, the Belt and Road Initiative adopted a traditional development financing model centered on policy bank loans, which effectively met the financing needs of large-scale projects with long investment return cycles and strong development attributes. Subsequently, as the number of participating countries expanded, project financing structures grew more complex, and project participants diversified, this model became increasingly unsustainable. There was an urgent need to explore and improve the financial support system for the Belt and Road Initiative. Consequently, China has engaged in extensive, multi-tiered financial cooperation with participating countries, actively exploring innovative financial support tools and financing methods that integrate international experience with the national conditions and project characteristics of partner countries. Currently, a diversified financial support system featuring multiple financing methods, a multi-tiered regional financial cooperation framework, and a multilateral coordination mechanism for investment and financing have taken shape. These mechanisms provide substantial financing support and complementary financial services for the steady advancement of Belt and Road projects, propelling the initiative toward high-quality development.

In reality, given the limited development levels of most Belt and Road countries, the current focus should be on promoting financial connectivity. For countries with frequent economic and trade cooperation with China and relatively developed domestic financial markets, it is recommended to promote financial connectivity in a balanced manner by developing their domestic financial environments and credit systems. For countries with weaker comprehensive strength and less solid economic foundations, it is advisable to first strengthen financial cooperation with regional countries and develop domestic financial institutions and markets, focusing primarily on improving their own financial environments to enhance the level of financial connectivity.

Regarding policy recommendations, this paper emphasizes tiered financial cooperation. Specifically, at the national level, strengthening financial cooperation with host country governments is crucial. Government backing not only secures political support and favorable policies for projects but also facilitates access to state investment and financial guarantees. Second, at the corporate level, strengthening financial cooperation with host-country enterprises—particularly with local financial institutions—can not only provide funding for large-scale projects but also reduce information costs by facilitating policy understanding through engagement with local financial partners, thereby safeguarding investment activities. By enhancing cooperation among financial institutions, exploring the establishment of a diversified and dynamic investment and financing system can provide robust, open, and vibrant systemic support for capital flows between China and Belt and Road countries. Finally, enhancing financial cooperation with host country residents by broadly absorbing idle social capital not only expands funding channels but also creates private-sector credit pressure on governments, thereby mitigating investment risks. Concurrently, strengthening regional financial regulatory cooperation can begin with effective measures like signing memorandums of understanding. Building a foundational regulatory cooperation framework based on mutual alignment, this cooperation should enrich and optimize regulatory content, refine coordination mechanisms, and broaden information sharing. Furthermore, establishing effective communication channels and exploring multilateral coordination mechanisms could unlock greater developmental advantages. To facilitate financial cooperation among nations, it is recommended that countries proactively provide assistance to high-risk financial institutions to mitigate exit costs, thereby effectively resolving financial risks.

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