

The Belt and Road Initiative:

A new means to transformative global governance
towards sustainable development





*Empowered lives.
Resilient nations.*

The Belt and Road Initiative

**A new means to transformative global governance
towards sustainable development**

United Nations Development Programme
China Center for International Economic Exchanges

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Foreword

In 2012, recognizing China's rapidly growing role on the international stage, UNDP in partnership with the China Center for International Economic Exchanges (CCIEE), launched the Global Governance Initiative. This aims to put forward new thinking and solutions that can contribute to the development of China's position as a leading figure among developing countries on global governance.

The 2017 report entitled "The Belt and Road Initiative - A new means to transformative global governance towards sustainable development" builds on discussions at the 3rd High-Level Policy Forum on Global Governance on November 2016. This report argues that the BRI offers a window of opportunity for sustainable development across and within countries. By aligning with the 2030 Agenda for Sustainable Development, the BRI can serve as an accelerator for achieving the Sustainable Development Goals (SDGs). This in turn would help China to position itself as a bridge-builder and responsible partner in international development cooperation.

The analysis highlights that the transformative potential of the BRI will largely depend on strategic management to link country contexts, ensuring that there is mutual understanding between China and partner countries of respective priorities, policies and regulations. The key assumption of this report is that this linkage can be strengthened by closely aligning the BRI partner countries' engagement with the implementation of the SDGs. This implies that the BRI will aim not only to contribute in the areas of basic infrastructure, regional development, connectivity and industrialization – as per its stated goals - but also aim to extend and upgrade the initiative to explicitly pursue sustainable transformation of the countries along the routes. Such a transformation could focus on poverty reduction, environmental sustainability and inclusive social development, key elements for the success of the initiative long-term.

This report looks in-depth at the role of China as well the other countries that are engaged in the BRI, by highlighting the importance of institutional set-ups, policy domains and international cooperation, and offering specific recommendations for consideration. It is our hope that the content of this report will add value to ongoing debates and inform the work of policy makers and practitioners in China as well as around the world.



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Executive summary

The Belt and Road Initiative (BRI) offers a window of opportunity for sustainable development across and within countries. It represents an enormous potential for economic growth. Focused on the basic infrastructure that is critical for development and with a vast geographical scope, the BRI has the potential to influence sustainable development outcomes. Ambitious in its reach and scope, to ensure complementary advantages, the BRI needs appropriate coordination across participating countries to promote convergence of their development strategies.

This third Global Governance Report is dedicated to the potential contribution of the BRI to a sustainable development-centered global governance agenda. This is critical because while regional and global economic governance is progressing incrementally, it is doing so in a fragmented way. With its policy-informing approach, our analysis highlights that the transformative potential of the BRI largely depends on strategic management from within, by linking the home and host contexts. The BRI has the means to be a key driver of economic dynamism and rising prosperity across its regions of impact.

How can the BRI contribute to a transformative agenda at a global level? Inclusive growth has to be sustained by a coordinated and sustainable approach, creating solidarity and peace across the regions involved. Deepening economic globalization, migration, trade and capital flows, climate change and activities involving global public goods make coordination and coherence vital. The rise of emerging economies, including China and other developing countries, is evidence that policies and international arrangements for collective decision-making have not kept pace with global change. Putting in place an enabling and inclusive system of global governance would promote effective participation and strengthen global partnerships for development in many ways; such partnerships would result in the production of more coherent frameworks for achieving sustainable development at regional and national levels.

Economic, social and environmental benefits and risks differ across the BRI. Given the broad scope of the initiative, its ambition can only be fulfilled if there is an aggregate vision of strengths and weaknesses across its vast scope. The quality of the BRI's results is dependent upon the promise of mutually beneficial outcomes. In the end, governance will only be viable if it is coherent, with stakeholders aligned and engaged. Policy frameworks must be in place with adequate and accessible information and sufficient capacity, while promoting integrity and transparency.

This report has a two-part structure. Each part contains two chapters, the latter chapters building on the insights and analysis of the former ones.

Part 1 *“The Belt and Road Initiative, global governance and the implementation of the SDGs”* provides a snapshot into the current global governance setting and its ability to address global challenges. Then taking the 2030 Agenda for Sustainable Development as the global roadmap for future development, it explores the potential of the BRI to contribute towards sustainable development:

- [Chapter 1](#) reviews the current panorama of global trends and pressing challenges, as well as multilateral responses in global governance structures. Global, regional and domestic governance is tied to the dynamics of decision-making. Likewise, it is tied to forms of political, social and economic integration dominant in various geographical regions and across various fields of policy. This chapter highlights the importance of getting governance arrangements right, implying the need for greater coherence and coordination between actors. The principles of the 2030 Agenda for Sustainable Development offer a comprehensive global framework for sustainable development through an inclusive and cooperative approach. But the way towards its implementation is not straightforward. Rather, it will depend on the

effective mobilization of commitment, actors and resources that will be guaranteed only if traditional powers, emerging economies and developing countries work together.

- [Chapter 2](#) describes China as a new global power and financier and highlights its role as a bridge-builder in the global governance setting. It then features the Belt and Road Initiative (BRI) as a potential game changer, a China-led contribution to global governance and public goods provision. It highlights how the BRI can maximize its positive impact by aligning with the 2030 Agenda to promote development dividends. It argues that an effective way to do this would be to align the BRI countries' engagement with the national SDGs implementation strategies. This report suggests that this will be a way to guarantee BRI countries leadership and ownership necessary for the effective and sustainable implementation of the BRI long-term.

Part 2 "*How to implement BRI towards sustainable development?*" attempts to analyze how and in what ways the BRI can be transformative in addressing development bottlenecks across the regions, considering its implications for participating countries and beyond. This part explains the role of policy domains and institutional set-ups in achieving the desired BRI impact with sustainable development at its core:

- [Chapter 3](#) argues that by offering a comprehensive approach to the three policy domains of trade, finance and investment (TFI), development dividends will be better streamlined to achieve win-win outcomes. This is because trade, finance and investment are the three 'vehicles' within which all the economic activities of the BRI – building physical infrastructure, sales of goods and services, and related economic activities – will take place. As the BRI projects increase in scale, the shaping of a robust architecture for TFI is essential. Support is needed in marketplace development through marketization, risk identification and management, and the digitization of trade, finance and investment. Above all, there is need to ensure that approaches are consistent with and supportive of sustainable development, in order to bring global public goods and well-balanced benefits to both provider and recipient countries.
- [Chapter 4](#) examines the possibility of developing a reliable roadmap to achieve sustainable development. This means embedding social and environmental sustainability into BRI projects to develop responsible approaches to infrastructure construction, trade, finance, investment and connectivity in and across BRI countries. The attempted roadmap should start from governance responsiveness. With major policy domains and institutional set-ups being strategically used, the BRI has the potential of effectively tackling economic exclusion (income poverty and inequality), and the causes and characteristics of social exclusion and vulnerability.

The question being posed – how may the BRI serve as a means to transformative global governance towards sustainable development – is one in which China and its BRI partners have a critical stake and for which international expectations are high. Through the implementation of new and existing BRI-related projects with sustainable development embedded in its own actions and international engagements, China is in a position to take advantage of this opportunity and reinforce a positive global reputation. At the same time, BRI countries must ensure that their national objectives are being met within the framework of this initiative, and are also in line with the SDGs. This would render the initiative game-changing and would contribute greatly towards the achievement of the SDGs globally. Trust and confidence among states will be a core dimension as both a starting point and as an outcome. Here, regional and multilateral policy frameworks will be an essential step for ensuring real win-win opportunities.

In the end, China, as well as the other countries engaged in the BRI, will have to ensure that institutional capacities, policy domains and international cooperation are strategically used to meet all parties' objectives. This report concludes with policy recommendations. These are structured around the ingredients essential for addressing inclusive governance across the BRI: inclusiveness, alignment, coherence, coordination and capacity.

Without being exhaustive, the recommendations suggest:

1. **Make inclusiveness the core of the BRI** to boost its economic potential and leverage it to work with other countries towards a more balanced, multi-polar international architecture with China as a bridge builder.
2. **Strategically align each country's BRI engagement with the national implementation of the SDGs** as a mechanism to guarantee all countries' leadership and ownership, and as a basis for enhancing the transformative nature of the BRI's objectives.
3. **Enhance communication** at the national, regional and global level to consolidate policy coordination by convening and facilitating dialogue across sectors levels.
4. **Build capacity for leadership** to support effective and coherent policy making across the different BRI levels.
5. **Transform the BRI into a platform for green trade, finance and investment** by committing to policies that incorporate green trade, finance and investment as part of the BRI's project packages.
6. **Enhance the creation of job opportunities** for local communities through systematic support for SMEs development and life-long learning training in line with each BRI country's needs.
7. **Facilitate private sector participation** by providing support for the creation of an enabling policy, legislative and regulatory environment for private sector development across the BRI.

List of Acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
AEC	ASEAN Economic Community
Agenda 2030	2030 Agenda for Sustainable Development
AIIB	Asian Infrastructure and Investment Bank
AMF	Asian Monetary Fund
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BOC	Bank of China
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
BWIs	Bretton Woods Institutions
CAFTA	China-ASEAN Free Trade Area
CASS	Chinese Academy of Social Science
CDB	China Development Bank
CMI	Chiang Mai Initiative
COP	Conference of Parties
CRA	Contingent Reserve Arrangement
DFIs	Development Finance Institutions
EU	European Union
FDI	Foreign Direct Investment
G7	Group of 7 including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
G20	The members include 19 individual countries Argentina Australia Brazil Canada China France Germany India Indonesia Italy Japan South Korea Mexico Russia Saudi Arabia South Africa Turkey United Kingdom United States along with the European Union (EU).
GDP	Gross Domestic Product
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
LDCs	Least developed countries
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MOI	Means of implementation
NDB	New Development Bank
NDCs	Nationally Determined Contributions
NAFTA	North American Free Trade Agreement
PPPs	Public private partnerships
PTA	Preferential trade agreement
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
RCEP	Regional Comprehensive Economic Partnership

RIAM	Risk identification and management
RMB	Renminbi
SDGs	Sustainable Development Goals
SDR	Special Drawing Right
SOEs	State-owned Enterprises
TISA	Trade in Services Agreement
TPP	Tans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
UNEP	United Nations Environment Programme
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
UNRISD	United Nations Research Research Institute for Social Development
USD	United States dollar

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Introduction

Global governance is at the heart of addressing pressing challenges around the world. How may governance arrangements at the national, regional and global levels promote transformative approaches aimed at the achievement of sustainability in economic, social and environmental terms? The 2030 Agenda for Sustainable Development provides an opportunity to engage with these issues in a coordinated, coherent and collaborative manner. This would enable more effective and inclusive approaches to be translated into national and regional governance, thereby ensuring the achievement of sustainable development globally.

China's rapid rise onto the international stage and its expanding influence is unprecedented. In 2013, China launched the Belt and Road Initiative (BRI) during President Xi's visits to Central and Southeast Asia. The BRI is a strategic vision for trade and investment flows based on the concept of connectivity, as epitomized by the old Silk Road. The potential impact of the BRI has generated global interest and goodwill due to its potential as a powerful platform for economic growth and regional cooperation; such growth and cooperation is envisioned to involve more than four billion people living in the Asian, European and African regions, in countries that are for the most part emerging and developing.

This report, entitled "The Belt and Road initiative: A new means to transformative governance towards sustainable development", argues that the BRI has the potential to offer a window of opportunity for sustainable development across and within countries. With its key theme of connectivity, the BRI aims at integrating regions not only physically, but also economically, socially and digitally. It attempts to provide an encompassing platform for coordinating the development strategies of participating countries, seeking complementary advantages and establishing a dialogue between converging interests.

China and the other BRI countries nevertheless face a major challenge in their attempt to feasibly integrate the initiative into a sustainable development path. This is because the implementation of a green and sustainable Belt and Road will require them to thoroughly examine the core strategy and principles behind the initiative, as well as ensure that local communities at provincial and regional levels along the routes are fully engaged.

Given the immense potential the BRI offers, the delivery of its desired outcomes should bring long-lasting results with sustainable development at its core. This report argues that the BRI could maximize its outcomes if they are aligned with the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs). This implies that the BRI aims, on the one hand, to assist participating countries achieve their goals, in the areas of basic infrastructure, regional development, connectivity and industrialization. On the other hand, it would also extend and upgrade the initiative to explicitly seek a sustainable transformation of the countries along the Belt and Road, ensuring BRI policy domains contribute meaningfully to poverty reduction, environmental sustainability and inclusive social development, all key elements for the BRI's long-term success. In doing so, the BRI would serve as an accelerator, an effective 'vehicle' for achieving the SDGs. Aligning the BRI with the SDGs will allow the BRI to better advance the common good of its participating nations in every area of development.

The engagement structure of the BRI itself is complex and multi-level, encompassing bilateral, sub-regional and regional layers. BRI countries comprise a diverse set of governance mechanisms and practices. However, to varying degrees, they all face the same challenges and opportunities when it comes to their engagement in the initiative. For instance, the balance between national development objectives and the need to respond to the growing demand for investment opportunities; the development and strengthening of mechanisms in the policy environment for the effective delivery of development goals; and capacity building to channel and create spillover opportunities.

The BRI has a lot to offer as a complementary framework to existing global governance, but this will require strong partnerships and good governance mechanisms to fully unfold its transformative approach. The role and content of international cooperation, institutional set-ups and policy domains will be, therefore, strategic.

This report has been developed based on a comprehensive review of the global, regional and local underpinnings of the BRI and its contribution as an innovative governance approach ensuring global goods provision. The report has been drafted in light of the discussions that took place at the third High-level Policy Forum on Global Governance held on the 10th November of 2016, and is based on a number of the main proposals raised by participants. With the theme, 'Belt and Road, New Path to Regional Development', the Forum was designed to provide support to the Chinese Government's desire for the BRI to serve as a platform for "shared prosperity", and one that is linked explicitly to the Sustainable Development Goals (SDGs).

This report is structured around two parts, each containing two chapters.

Part 1 *"The Belt and Road Initiative, global governance and the implementation of the SDGs"* provides an overview of global governance and the BRI's contribution to sustainable development.


Part 2 *"How to implement BRI towards sustainable development?"* explains the role of policy domains and institutional set-ups in achieving the BRI's desired impact with sustainable development at its core.

Expectations of the BRI to address cross-cutting development issues are high. Trust and confidence among states will be a core dimension. Here, regional and multilateral policy frameworks will be an essential step for ensuring real win-win opportunities.

Our hope is that the recommendations proposed in this report are timely, useful and actionable, and that China's leaders, as well as others along the Belt and Road routes and globally, will continue to aspire to eradicate poverty and promote sustainable development in the coming decades.

PART I

The Belt and Road Initiative, global governance and the implementation of the SDGs



Chapter 1

Opportunities and challenges in current global governance



KEY MESSAGES

Opportunities and challenges in the implementation of the SDGs

The principles of the 2030 Agenda offer a coherent and inclusive framework for developing an international policy approach for sustainable development, with a strong focus on development cooperation. But the way towards its implementation is not straightforward. Rather, it will depend on the effective mobilization of commitment, actors and resources. Policymaking in the field of sustainable development results from the interaction of political, social and economic interests at global, regional and domestic levels. This makes policymaking for sustainable development a complex task. Rightly done, however, governance offers opportunities to further realize the SDGs.

Multilateralism and inclusiveness as the way ahead

Recent socio-economic, political and environmental trends have presented changes in the global landscape, and highlighted challenges for sustainable development. This has led to a revisiting of the effectiveness of the existing global governance regimes. Institutions and actors have been changing, and producing a more complex institutional sprawl. The rise of emerging economies, in particular, have brought attention to their needs, particularly their desire to increase their representation and participation in global governance. How to accommodate such demands in multilateral collaboration, as for instance in the implementation of the 2030 Agenda, is of high pertinence if a more robust governance system is to be achieved.

Sustainable governance is key

Global challenges require the strengthening of governance at all levels, to ensure long-term development impact. There is a constant need for greater coherence and coordination between actors across different levels, leaving scope for collective action and more effective interaction. Enhanced policy communication is of utmost importance between national, regional and global levels, in order to consolidate policy coordination; such consolidation is to be achieved through the convening and facilitation of dialogue across sectors levels and by effective coordination between stakeholders.

Introduction

Global, regional and domestic governance is tied to the dynamics of decision-making. Likewise it is tied to forms of political, social and economic integration dominant in various geographical regions and across various fields of policy. This chapter reviews the current panorama of global trends and pressing challenges as well as the relevant multilateral responses to today's global governance structures. It highlights the importance of getting governance arrangements right, implying the need for greater coherence and coordination between actors. The principles of the 2030 Agenda offer a coherent international policy framework for sustainable development through an inclusive and cooperative approach. But the way towards its implementation is not straightforward. Rather, it will depend on the effective mobilization of commitment, actors and resources.

Chapter one is structured as follows. Section 1.1 underlines how the strengthening of governance towards sustainable development needs to address different governance levels and their related policy domains. Section 1.2 addresses how multilateralism is at the heart of global governance, referring particularly to the framework provided by the 2030 Agenda for Sustainable Development and the United Nation Conference on Climate Change (COP21), which resulted in the Paris Agreement on Climate Change and the Addis Ababa Accord for Financing for Development. In light of these agreements, section 1.3. addresses current global trends and the risks and opportunities involved in the implementation of the global agenda. Sections 1.4 and 1.5. provide an overview of traditional global governance architecture in comparison with the rise of countries from the Global South and their increasing role in global and regional political and economic organization. This trend reinforces the steady move toward a multipolar world.

1.1. Strengthening governance towards sustainable development

Governance is one of the key challenges and premises for achieving sustainable development. While the conditions and arrangements of governance are experiencing rapid change, it remains the core feature to be addressed. This is because the quality and content of governance directly impacts the planning and execution of broader development objectives. Governance is 'the process of decision-making and the process by which decisions are implemented (or not implemented). Governance can be used in several contexts such as corporate governance, international governance, national governance and local governance.' (ESCAP, 2009). For our purpose, it is helpful to further look at a still broader conceptual division of governance.

Figure 1. Defining governance: structures, processes and mechanisms

We have identified three levels of governance. It can be viewed as:

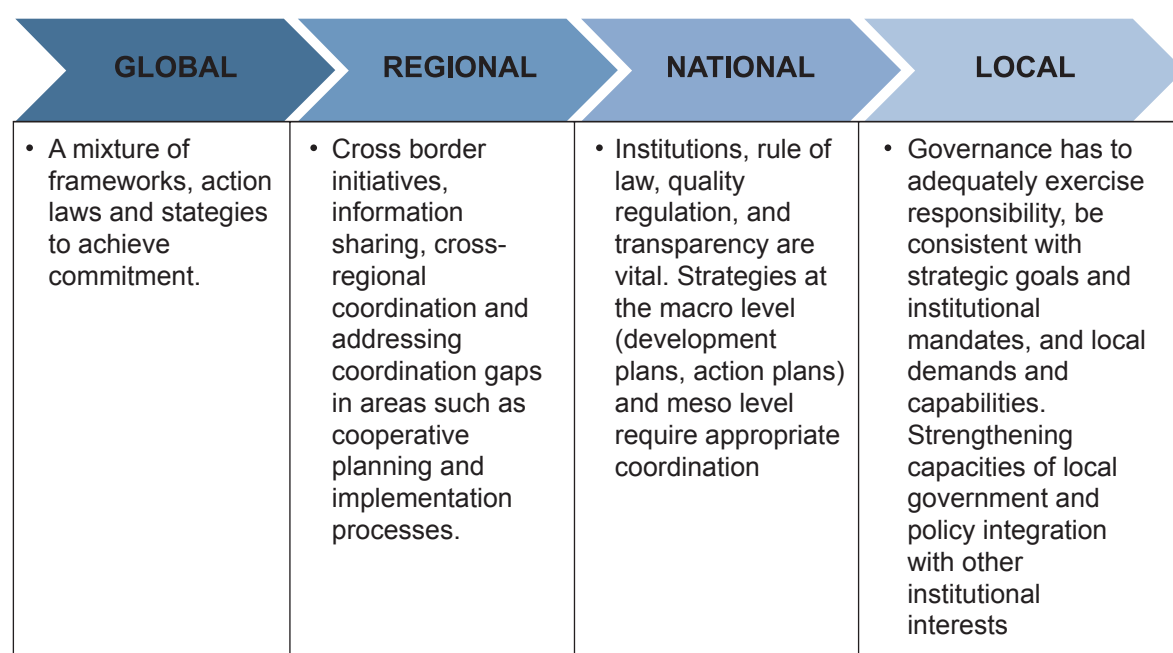
1. A structure, as 'systems of rules' or 'institutionalized modes of social construction'. Governing is undertaken through historically shaped rules and systems that are institutionalized and maintained by an existing group of powers.
2. A process, characterized by interaction and participation among different actors to coordinate and manage issues as they arise; it is therefore a 'norm-generating processes through different 'practices of governing.' Kooiman (2003) argues that sociopolitical interactions are central to governance, that is, being cognizant of the reality that several actors share the responsibilities of governing.
3. A mechanism. Governance is about decision-making and developing the mechanisms and institutions required for achieving desired policy outcomes (Kooiman and Jentoft, 2009). This aspect deals with the extent to which existing governance mechanisms are effective in addressing problems, thereby bringing their efficacy into question.

Source: UNDP First Global Governance Report (2013, p.11)

Therefore, this report looks at governance very broadly, and in terms of processes, structures and mechanisms.

- **Levels of governance:** It is helpful to look at the different levels in which governance and its arrangements may take place. The figure below presents these levels, which are vertical in nature, as global, regional, national and local. Interactions also take place at horizontal levels (e.g. intra-governmental). Despite overlapping and continuities between these levels, such a differentiation shows there are multiple sites of governance and a multitude of relevant actors, implying that the achievement of governance objectives means finding ways to coordinate action and cooperation.

Figure 2. Governance levels



The different levels of governance arrangements may be generally applicable beyond a specific policy domain.

- **Institutional set-ups:** Institutional frameworks cross-cut the different governance levels and include components that aid decision-making, such as policy priorities, action plans, resources, and time-lines. Depending on the set-up, different actors can be involved, such as government departments and local authorities, the private sector, women, civil society, academia, youth, and vulnerable groups. Overall, the institutional set-up can offer programmatic and strategic inputs for developing a strategic vision towards the achievement of coherent development outcomes at policy level (effective policy resourcing, implementation and monitoring.) At this level, not only management capacity, but also strategic leadership is necessary to set the visions for policy level.
- **Policy level:** Governance and institutions touch on different policy domains. At the policy level, cross-cutting issues can, for example, involve various complex interactions and be differently integrated across different policy circles.

International cooperation for joint responsibility and strong impact

International cooperation can play a strong role in mainstreaming challenges and opportunities by setting strategic visions. Societies are in constant change, often reflecting problems of inter-related domestic,

regional and global interdependencies. International cooperation can systematically integrate priorities at country and even sector levels, touching on different policy domains and institutions. Delivering a high quality of governance across different system levels (local, regional, and national, international) is a constant preoccupation and needs to be addressed thoroughly. Quality international cooperation must be a constant aim within global governance efforts and should be a key factor for developing common objectives to achieve the strongest impact.

Achieving an acceptable quality of global governance is not straightforward, but is a complex and multi-layered matter. Elements for achieving impact necessarily involve systematic coordination between actors and institutions, their integration and coherence:

- (1) Coordination amongst actors generates positive synergies and spillovers between actors and policies, and helps ensure that policies are consistent with desired outcomes.
- (2) Integration of policies across vertical and horizontal levels ensures greater effectiveness.
- (3) Coherence of policies ensures comprehensiveness and adds legitimacy.

Different policy domains, e.g. economic policy, including trade, investment and finance, can be addressed within such a framework. The role of comprehensive frameworks for different policy domains has been pointed out (UNCTAD, 2016; OECD, 2015). Well-designed frameworks can result in increased policy effectiveness, accommodating the specific demands of the actors it impacts. This can be a key advantage when facing challenges at global, regional, national and local levels.

1.2 The multilateral response to global challenges

The world is dealing with increasingly demanding and inter-related challenges that often go beyond the capacity of nation states to tackle on their own. Overall, reinvigorating the multilateral institutions which were established to solve shared problems is at the core of finding solutions. However, changes also need to be made to the traditional global governance structure itself, in order to provide appropriate answers to new challenges. In this environment, new actors are shifting global power structures and demanding reform and representation. That said, the outlook for the coming decades will have to accommodate an agenda of increasingly diversified demands and challenges.

This raises two fundamental points in addressing global governance:

- (1) Global governance is required in order to tackle challenges beyond the capacity of nation states to resolve on their own.
- (2) Effective governance needs tools to provide quick but reliable capacity to actors to collectively react to crises and turning points.

Both theoretically and practically, globalization debates emanate from their relationship with governance and market structures. As Stiglitz (2014) notes, global public goods, economic stability and international decision-making processes in the public arena interact in an inter-related way. Global crises with regard to climate change, food, health, finance, and the economy have sparked debates about the legitimacy and effectiveness of various institutional actors to adequately and rapidly responding to regional and global challenges.

Many of the challenges facing global governance are inherently multi-faceted. They are by nature complex, inter-linked, constantly evolving, often generating unintended consequences, and, thus, ideally addressed by highly flexible, nimble, informed and participative policy processes that allow for collaboration, innovation, and adaptation (Ritchey, 2005). Multilateralism as a way to debate and reach consensus on policy platforms that respond to systemic global challenges is at the heart of global governance. In 2012, UN member states agreed that the forthcoming sustainable development agenda should rely on the principle of universality,

implying that both developing and developed countries should commit to change and overcome the dichotomy between the North and South. This agenda should reflect the changing of actors and institutions and the repositioning of emerging economies in global governance settings.

Following up on the Millennium Development Goals (MDGs), the year 2015 emerged as an agenda-setting year, with all 193 member states at the United Nations General Assembly adopting the 2030 Agenda for Sustainable Development. The 2030 Agenda for Sustainable Development challenges domestic and international actors to achieve substantial breakthroughs in the economic, social and environmental arenas. The 2030 Agenda identifies 17 new Sustainable Development Goals (SDGs) that represent a multidimensional approach to development that is directed to all countries.

In the same year, the Conference of Parties to the UN Framework Convention on Climate Change adopted the Paris Climate Accord, thus paving the way towards advancing international climate protection, and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, thereby updating the international financing for development framework and creating a new global disaster risk reduction framework, which was adopted in Sendai, Japan. Positioned as a universal approach covering different policy fields, including education, infrastructure, environmental protection, decent work, climate change and innovation, these multilateral events set forth ways for nations, individually and collectively, to implement actions towards sustainable development in the forthcoming years.

This gradual change in governance arrangements continued through 2016. For example, the World Humanitarian Summit outcomes promoted new ways of working together for humanitarian and development actors; the UN Conference on Housing and Sustainable Urban Development (Habitat III) in Quito proclaimed the New Urban Agenda to guide sustainable urbanization through 2030; and new commitments were made at the first ever Global Sustainable Transport Conference, convened by the UN Secretary-General in Ashgabat, Turkmenistan.

Set within this context, this section examines three major milestones adopted by the international community in 2015 as multilateral responses to global challenges. These are:

- The 2030 Agenda for Sustainable Development
- The United Nation Conference on Climate Change (COP21), resulting in the Paris Agreement on Climate Change.
- The Addis Ababa Accord for Financing for Development

The implementation of these ambitious endeavours require great coordinated efforts for their achievement. Greater co-operation and mutual solidarity is needed, along with effective and fair multilateral institutions and processes for bringing about the required transformative changes.

1.2.1 The 2030 Agenda for Sustainable Development as the new way forward

The 2030 Agenda for Sustainable Development is a holistic framework adopted by world leaders in 2015 to guide the course of world development between 2015-2030. On August 2nd 2015, a document titled “Transforming Our World: the 2030 Agenda for Sustainable Development” was presented at an informal meeting during intergovernmental negotiations. The document was later adopted as the post-2015 development agenda at the UN Summit in New York, USA, on 25-27 September, 2015. According to this document, the 2030 Agenda builds on the Millennium Development Goals, seeking to complete what was not achieved in the previous 15 years. It includes 17 Sustainable Development Goals, with 169 specific targets. Since its adoption, the 2030 Agenda has raised global expectations that it will pave the way towards inclusive, equitable and sustainable growth around the world.

Preceding the 2030 Agenda, the eight Millennium Development Goals (MDGs) laid out by the United Nations at the beginning of this century, consisted of international development goals for the year 2015. They were established in the context of the Millennium Summit of the United Nations in 2000, building on the adoption of the United Nations Millennium Declaration. The 2030 Agenda for Sustainable Development places greater emphasis on national and international equality than the Millennium Development Goals. The Millennium Development Goals mainly focused on attaining basic living standards in developing countries, whereas the 2030 Agenda for Sustainable Development recognizes that goals are “global in nature and universally applicable to all countries, while taking into account different national realities, capacities and levels of development” (OCHR, 2015). According to a study by the Stakeholder Forum, an international organization committed to advancing sustainable development, the different goals and targets of the 2030 Agenda are representative of the challenges facing and ambitions of the world; this, therefore, implies that all countries, regardless of the developmental stage, are included in the agenda. Accordingly, countries share differentiated responsibilities in the implementation of the 2030 Agenda for Sustainable Development. Some of the goals and targets are calibrated to suit the needs and demands of developing countries, while others are delineated to chart out the responsibilities of the developed countries to assist the developing world (Osborn et al., 2015).

Former UN Secretary-General Ban Ki-moon praised the adoption of the 2030 Agenda as “a triumph of multilateralism, inclusiveness and universality.” (UN, 2016). He noted that “no department or country can implement the 2030 Agenda alone. Success will depend on close partnerships among all the various groups and institutions concerned – governments, [the] private sector and civil society” (UN, 2016). The new Secretary-General António Guterres has reiterated that the United Nations should provide support to Member States in achieving the Sustainable Development Goals, in order to meet the commitment to “leave no one behind”. To that end, the United Nations will place sustainable development at the center of their work and undertake a comprehensive reform of the UN system at both the central and country levels, in order to make the UN fit for this purpose (UN, 2016).

Next to sustainable development, the new Secretary General highlighted the importance of peace and security as pillars of the 2030 Agenda for Sustainable Development, without which sustainable development cannot be achieved. Peace and sustainable development are mutually-reinforcing and the basis for sustainable development to be achieved.

Figure 3. The 2030 Agenda for Sustainable Development



Figure 4. The 17 Sustainable Development Goals



1.2.2 The Paris Agreement and the challenge of a sustainable development path

The United Nation Conference on Climate Change (COP21), completing a four-year negotiation process, culminated in a series of decisions, among which the Paris Agreement is the most important. The agreement set the goals on climate change for Member States as “(1) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change; (2) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; (3) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.” (UNFCCC, 2015).

The Paris Agreement establishes a new model in global climate governance centered on "Self-Contribution + Supervision", which aims to involve all parties in the process of slowing down and adapting to climate change. This model, based on the principles of the United Nations Framework Convention on Climate Change (UNFCCC), clarifies the responsibilities of developed and developing countries, in order to mobilize all parties to take active parts in climate change initiatives and promote sustainable development through voluntary contributions. The document also encourages actors, other than the parties to the Convention, to participate actively in the responsive actions to climate change, and welcomes the introduction of markets and nonmarket institutions in order to mobilize funds for green and low-carbon development.

The Paris Agreement entered into force on 4 November, 2016. As the second legally binding international agreement on climate change following the Kyoto Protocol, it is therefore considered to be a milestone in international cooperation on climate. It also fills the legal gaps that have existed since the expiry of the first commitment period of the Kyoto Protocol in 2012. The success of this agreement marks a new stage in global climate governance, and has delivered a strong signal to promote green, climate-adapted and sustainable development globally (Chao et al., 2017).

According to the United Nations Framework Convention on Climate Change, a total of 197 Parties have signed the Paris Climate Change Agreement, 132 of which have ratified the agreement (UN, 2016). China, the United States, France and other major powers made a significant contribution to the achievement of the "Paris Agreement". The joint, pre-conference statements on climate change published by China, the United States and France made possible a consensus on the core focus of the negotiations, which later became the basis of the Paris Agreement (He, 2016). The agreement also received support from multilateral organizations. As of April 2017, however, the United States, led by President Donald Trump, has proposed sweeping cuts to US financial support for the global fight against climate change. Though, as of now, no firm actions have been made on these proposals; time will tell what role the US will take.

1.2.3 The Addis Ababa Accord for Financing for Development

Achieving the 2030 Agenda for Sustainable Development will require large and diverse financing support and strong political coordination from all parties, including governments, international organizations, the private sector, civil society, and philanthropists. Though official development assistance (ODA) remains crucial, particularly for countries most in need, aid alone will not be sufficient. Building on the foundation of the 2002 Monterrey Consensus and 2008 Doha Declaration, the Addis Ababa Action Agenda (AAAA) was a groundbreaking outcome of the third International Conference on Financing for Development, which was held from 13 – 16 July, 2015 in Addis Ababa (UN, 2015a).

Addressing the challenges of financing for sustainable development and overhauling global financing practices, in the context of a post-2015 financial environment, the AAAA agreements provide policy recommendations

in seven main areas, namely, on a) domestic public resources; b) domestic and international private business and finance; c) international development cooperation; d) international trade as an engine for development; e) debt sustainability; f) addressing systemic issues; g) science, technology, innovation and capacity building, and h) data, monitoring and follow-up (UN, 2015a, p.5). The AAAA also has several new commitments agreed to by the governments involved, including a new social compact to provide public services and social protection; a global infrastructure forum to bridge the infrastructure gap; an 'LDC package' to support the poorest countries; a Technology Facilitation Mechanism to advance the SDGs; enhanced international tax cooperation to assist in raising resources domestically; and advocating women's empowerment as part of the financing for development (UN, 2015a, p.4). The agenda highlights the importance of effectively utilizing domestic public resources and mechanisms in order to curtail illicit financial flows and enable better information-sharing in financial markets. It also calls for the development of regulatory frameworks to foster more sustainable domestic and international private business activities and encourages investment and innovation, such as labor rights and business incentives. In addition, countries agreed to cooperate in providing public financing (concessional and non-concessional) for projects and initiatives. Building on WTO commitments, the AAAA aims at creating inclusive and sustainable growth through transparent, well-regulated and open international trade for long-term and substantial production capacities. The AAAA also commits to promoting debt sustainability by various measures, including aiding heavily indebted poor countries with debt management, debt financing, and debt relief.

Working towards a consistent and cohesive international financial and monetary structure, by strengthening the participation of developing countries in economic global governance and calling on International Financial Institutions (IFIs) for support, is also central to the agenda.

Adopted after a long process of intergovernmental negotiations between 193 UN Member States, the agreement marks a milestone in augmenting global partnerships that foster economic prosperity for all, improve people's well-being, and protect the environment. Most importantly, the AAAA established a strong foundation to support the implementation of the 2030 Agenda (UNDP, 2015). It is a framework that concretized the financial Means of Implementation (MoI) for intergovernmental cooperation and negotiations. While the Action Agenda underpins creating coherence and synergies across countries, it also acknowledges the difference in each country's development level in the context of common but differentiated responsibilities. (FFD, 2015).

1.3 Current global trends

The coming years will be a critical period for the world to fully commit to its goals for sustainable development. This section will look at current global trends in order to understand the challenges and opportunities ahead in implementing the SDGs.

So far in 2017, the world has been on the verge of change - global trends are taking place in complex political and social settings. The 2015 UNDP Human Development Report shows that while globalization has led to the rise of new actors, including the BRICS, emerging economies, and other fast-growing newly industrialized and developing countries, considerable changes in employment conditions in traditionally high and low-wage countries, along with new digital technologies that have changed the ways in which work is organized, have profoundly impacted people's lives.

Without being exhaustive, this section provides a snapshot of economic, demographic and technological trends. Taken together, these trends confirm that the opportunities and risks in economic and social governance have to be addressed closely- as they have the potential to create large-scale social, economic, political, environmental and technological changes. Understanding these potential impacts will inform the strategic engagement of state and non-state actors and be a reference point for cooperative initiatives directed

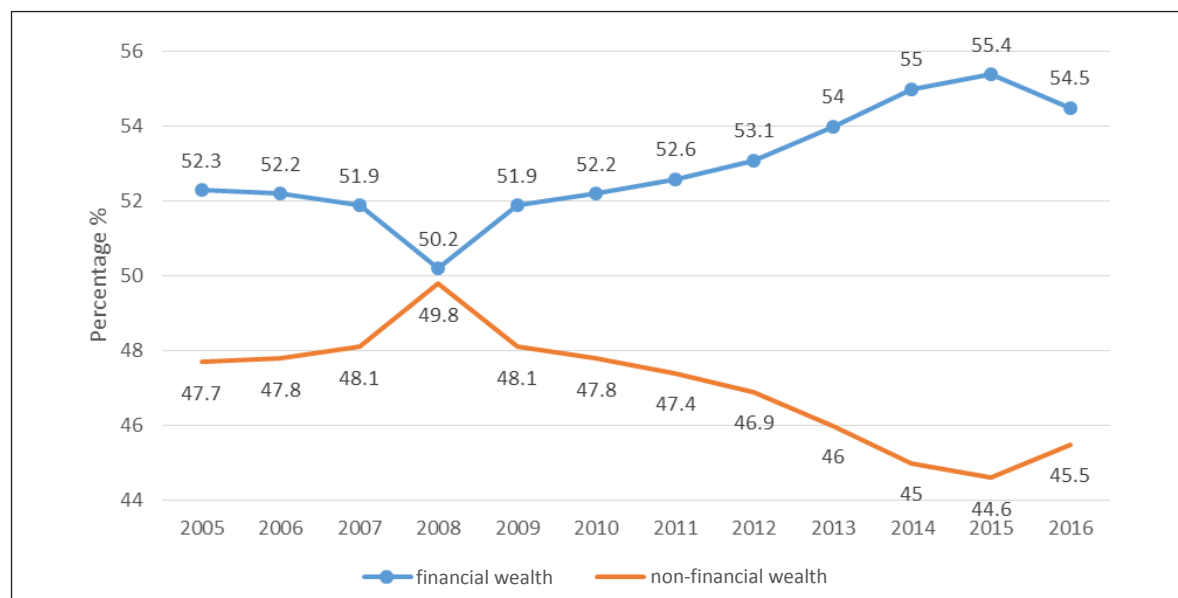
at cultivating synergies between multiple political processes that address climate change and sustainable development.

1.3.1 Economic outlook after the 2008-09 financial crisis

Though almost a decade has passed since the 2008 financial crisis, many of its ramifications and consequences can still be felt. The development of new financial instruments by insurers, investment banks, and fund managers in order to boost income and hedge against monetary and financial risks since the 1980s, has led to the expansion of financial markets, some of which have become larger than some country's GDP.¹ Furthermore, securitization played a major role in spreading financial risks from the US to the rest of the world, thereby affecting global financial markets between 2008 and 2009, and raising questions about appropriate future prevention and mitigation strategies.

The widening gap between financial and non-financial wealth, that was believed to be one of the contributing factors to the 2008-09 financial crisis, shows that economic growth should balance income and capital growth. However, the past decade has seen an even greater discrepancy emerge between the global average of non-financial and financial assets.

Figure 5. Components of global wealth, global average 2005 – 2016



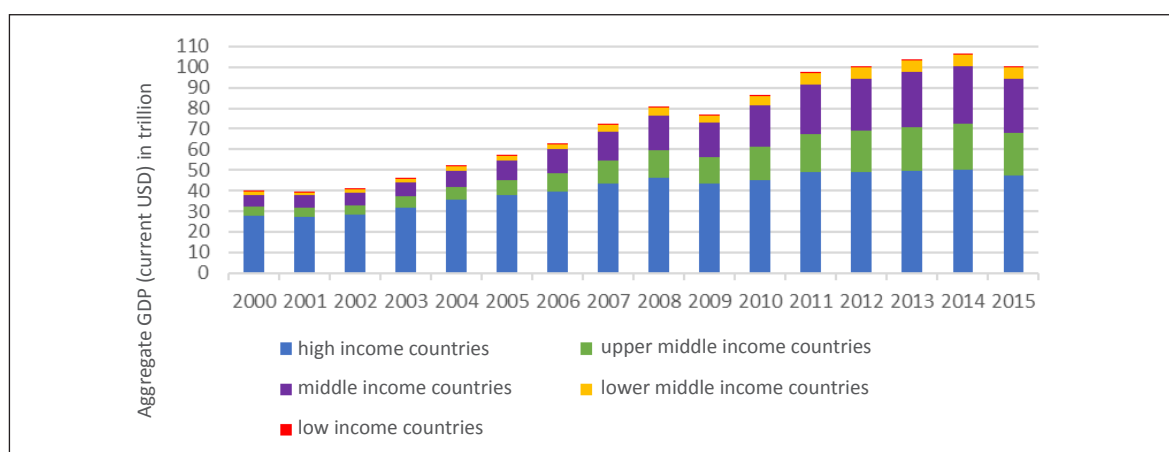
Source: Credit Suisse Research Institute (2016)

Figure 5 shows that high income countries remain the countries with the largest share of GDP. High-income countries used to comprise 81% of the global GDP in 2000 (USD \$27 out of \$33 trillion dollars). However, by 2015, their share had shrunk to 63%. Part of the decrease in their share is due to the increase of upper middle and middle-income countries in absolute numbers. The absolute numbers of GDP in upper middle and middle-income countries has increased significantly from USD \$4.5 and \$5 trillion to USD \$20.5 and \$26 trillion, respectively, between 2000 and 2015. On the other hand, data shows that low income countries only contributed USD \$390 billion to the global GDP in 2015, which was merely 0.8% of the total GDP of high-income countries.



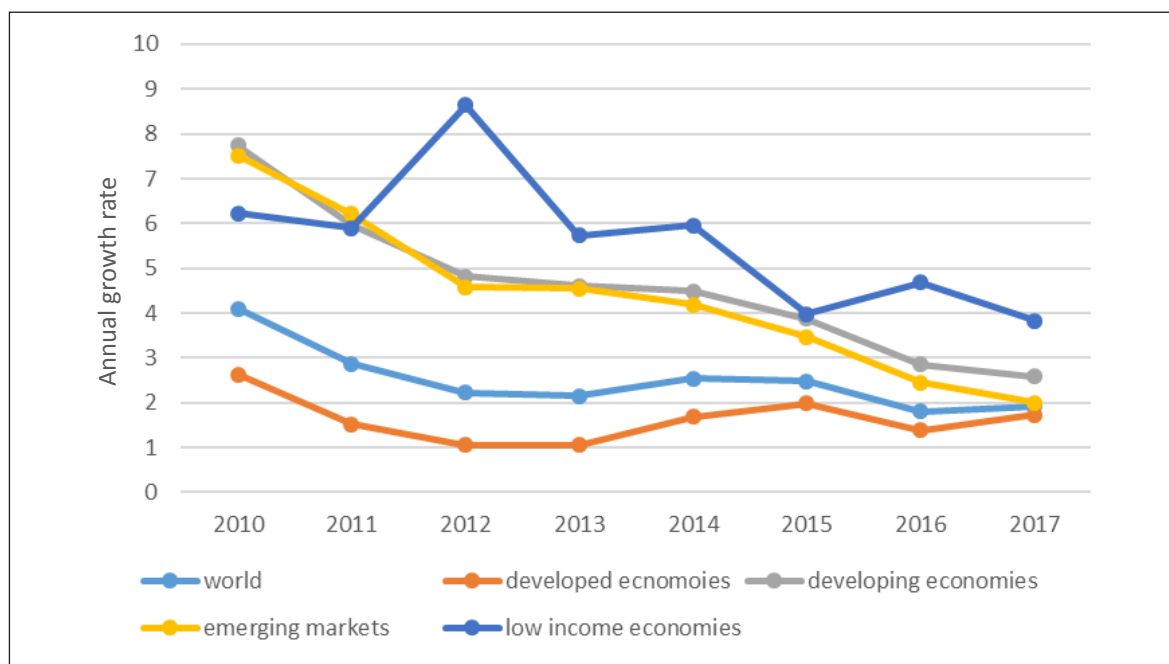
1. For example, the value of US financial assets was less than five times larger than US GDP in 1980, but was over 10 times as large in 2007 (Crotty, 2008).

Figure 6. World GDP (countries based on different income levels)



Source: World Bank Databank (2017)

Figure 7. Overview of the world economic growth projections



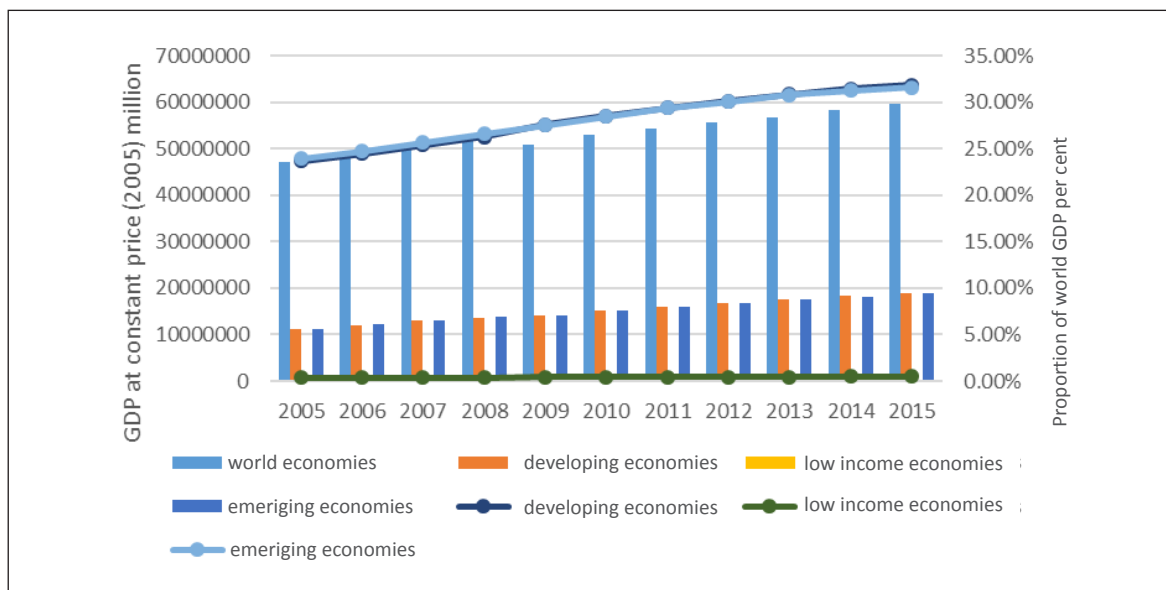
Source: UNCTAD (2017)

After an overall stagnant performance in 2016, world economic activity is projected to increase in 2017. As shown in Figure 7, the projected average growth rate for the world is 1.9%. Developed economies are estimated to grow at a rate of 1.72% - an improved outlook as a result of somewhat strong activity in the second half of 2016, and an anticipated fiscal stimulus in the US. For emerging markets and developing economies, it is estimated that their annual growth rates will slow down in 2017. In particular, despite rapid development and stimulus policies in emerging and developing countries, the growth prospects have slightly worsened.

Considering the global trend without developed countries, Figure 8 shows the participation of emerging economies, developing economies and low income economies within world economic growth patterns. Due to

overlapping categorization, developing economies and emerging economies contributed a similar portion to global GDP growth. However, low-income economies stayed at the bottom in terms of economic growth. Low income economies account for less than 0.5% of global growth; though, the percentage increased slightly.

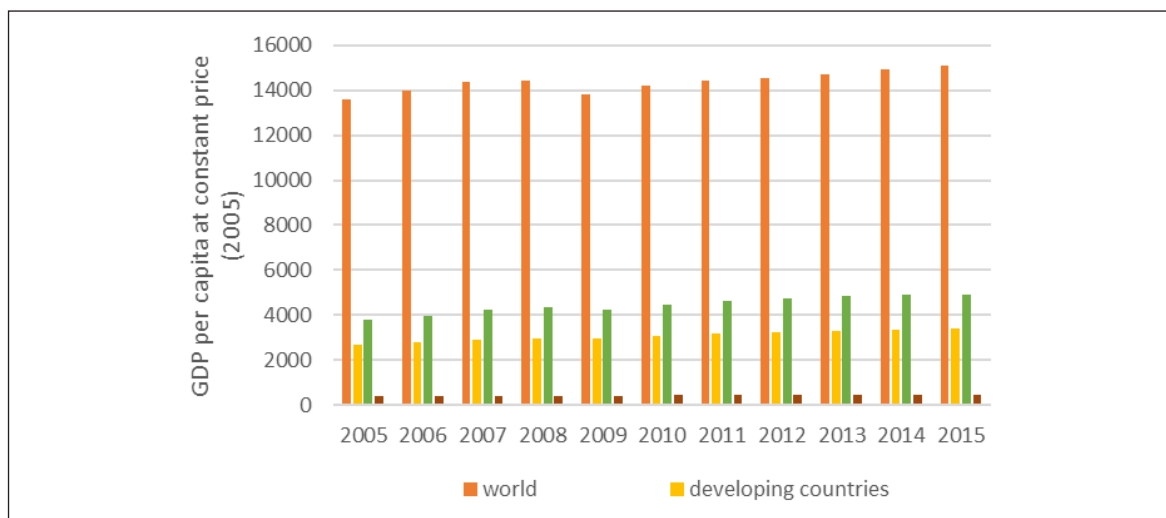
Figure 8. Economic growth trends of developing, emerging and low-income economies



Source: UNCTAD (2017)

GDP per capita, to some extent, reflects the income situation of countries. The average GDP per capita in developing countries, emerging markets and low-income economies remains at a low level compared to world averages (Figure 9). Slightly different from the total economic growth above (Figure 8), the average GDP per capita in emerging markets is higher than that in developing countries. The income level of emerging and developing economies in global GDP per capita is rising.

Figure 9. Average GDP per capita of developing, emerging and low-income economies

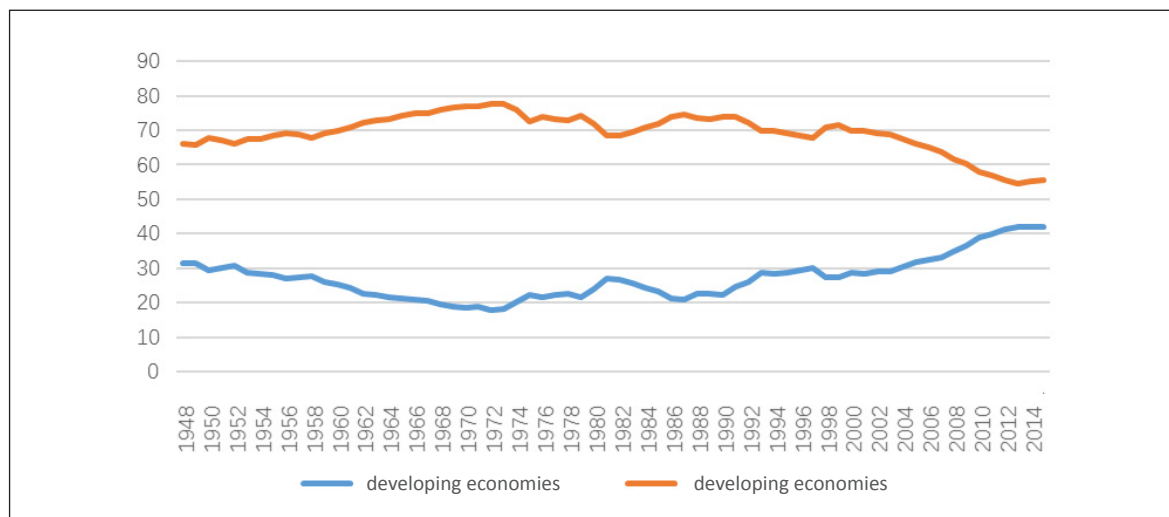


Source: UNCTAD (2017)

Trends of Trade

A comparison of world trade in developed and developing countries reveals that the share of trade volume in developed economies has gradually declined in recent decades, while developing economies have been playing increasingly important roles. The following figure demonstrates the trends of change in terms of exports between developed economies and developing economies. Exports from developed economies has stagnated since the 1970s, and has fallen sharply in recent years, particularly after the financial crisis in 2008. By contrast, the share of exports in developing economies has increased steadily over this period.

Figure 10. Trend of trade changes between developed economies and developing economies



Source: UNCTAD (2017)

Table 1. Comparison of imports and exports between developed countries and developing countries (Unit: USD 100 million)

Year	2008	2009	2010	2011	2012	2013	2014	2015
Developing countries								
Imports	57520.33	46477.97	60201.23	73423.41	76802.64	79629.36	79780.79	69717.29
Proportion of world %	34.93	36.63	39.04	39.87	41.24	42.11	42.00	41.98
Exports	63026.58	50061.61	64384.34	78994.7	82289.92	84240.55	84762.12	74110.99
Proportion of world %	39.03	39.87	42.08	43.07	44.49	44.48	44.62	44.78
Developed countries								
Imports	101631.4	76717.19	89469.24	104862.2	103302.2	103297	104667.3	92539.15
Proportion of world %	61.72	60.46	58.02	56.94	55.46	54.63	55.10	55.72
Exports	91217.1	70828.19	82545.6	96288.6	94458.39	97072.59	97548.73	86145.41
Proportion of world %	56.49	56.41	53.94	52.50	51.07	51.25	51.35	52.05

Source: UNCTAD Database

It can be seen from the previous figure that the proportion of imports and exports in developed countries gradually declined after 2008, while developing countries showed a slight upward trend. However, developed countries still held a high proportion of both imports and exports compared to the developing countries. As a whole, developed countries are net importers, while developing countries are net exporters.

Table 2. Trade structure of the developing countries and the developed countries

	Year	2008	2009	2010	2011	2012	2013	2014	2015
Developing countries									
Internal trade %	Export	50.62	53.39	54.75	55.55	56.83	58.41	58.21	57.95
	Import	56.30	55.90	57.24	58.04	58.73	58.71	59.38	59.13
External trade %	Export	49.38	46.61	45.25	44.45	43.17	41.59	41.79	42.05
	Import	43.70	44.10	42.76	41.96	41.27	41.29	40.62	40.87
Developed countries									
Internal trade %	Export	72.14	70.98	68.57	68.12	66.54	66.02	67.18	67.29
	Import	62.47	63.03	60.40	59.63	58.46	59.64	59.93	60.24
External trade %	Export	27.86	29.02	31.43	31.88	33.46	33.98	32.82	32.71
	Import	37.53	36.97	39.60	40.37	41.54	40.36	40.07	39.76

Source: UNCTAD Database (2017)

According to the previous table, the proportion of imports and exports in internal trade was higher than that of external trade in both developing countries and developed countries. The difference between internal trade and external trade in developed countries was higher than that in developing countries, which illustrates that the trade structure of developed countries was inclined towards internal trade within the developed countries themselves. Since 2008, the proportion of imports and exports in internal trade in developing countries has shown an upward trend, indicating that trade circulation has turned into internal trade within developing countries, rather than into trade with developed countries.

1.3.2. Inequality and long-term poverty

The United Nations defines poverty as “a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information.” (UN, 1995) This multidimensional conceptualization of poverty recognizes that poverty refers not only to low incomes, but also to a deficiency in capabilities and opportunities across multiple dimensions (UNDP, 2016, p.54). UNDP notes that great gains have been made in poverty reduction over recent decades, with the number of people living in extreme poverty (USD \$1.90 a day) having dropped to below 11% of the world’s population in 2013. However, this means that on top of the 766 million people who still live with incomes below USD \$1.90 a day, 795 million people experience chronic hunger, 758 million adults are illiterate, 663 million lack improved water sources and 2.4 billion lack access to sanitation facilities (UNDP, 2016, p.30).

Inequalities between countries has declined, with the Gini coefficient dropping from 0.73 in 1976 to 0.62.5 in 2013, largely because of rapidly rising GDP in China and India (World Bank, 2017). However, at the same time, inequalities within countries are on the rise. From 2008 to 2013 income gaps widened in 34 of the 83 countries monitored by the World Bank; income increases in these countries were largely enjoyed by the top. Global wealth is being increasingly concentrated, with 50% of the increase in global wealth going to the top 1% of the world’s population, who control 46 percent of the world’s total wealth as of 2010 (UNDP, 2016). Economist Joseph Stiglitz notes, that in the case of America, 91% of income growth between 2009 and 2012

was enjoyed by the wealthiest 1% (Stiglitz, 2015). Just eight men own the same amount of wealth as the poorest half of the world in 2017, reports Oxfam in *An Economy for the 99 per cent* (Hardoon, 2016).

In addition, when analyzed against income distribution, growth indicators do not always translate into reduced poverty and inequality – the positive impacts of trade on aggregate income, and capital flows such as foreign direct investment for national growth stimulation, can often mask the real picture. Inequality impacts the potential for growth and economic performance to contribute to societal well-being (Morelly, et al, 2015; OECD, 2015). Poverty also tends to intersect with disadvantaged groups, reflecting another aspect of inequality; women, ethnic minorities, persons with disabilities, older people, migrants and refugees are more likely to have lower incomes and experience multiple deprivations.

The current growth rate and increase in national income does not hide the fact that inequality will eventually impact economic growth in the process of globalization. Decreases in economic growth is associated with inequality. OECD research shows that every three Gini percentage point increase in inequality correlates with a 0.35 percentage point decrease in economic growth per year for 25 years, which is equivalent to a cumulative loss in growth of 8.5 percentage points (OECD, 2014).

Inequality is not an inevitable consequence of market outcomes, globalization and technological progress. Instead, it is an outcome resulting from certain policy choices. These include focusing on financial outcomes as a means for rewarding businesses rather than emphasizing employment-oriented outcomes or the issue of inadequate support for social services, such as public housing (Stiglitz, 2015).

Inequality impacts not only material well-being, but also results in the exclusion of the poor from governance, thereby depriving them of their voice and a role in decision-making. It can also impact their access to justice and deprive them of their rights. While progress continues to be made on reducing absolute deprivations, rising inequality means that more people will be left behind to experience other types of deprivation. The 2030 Agenda is explicit in its intent that no-one should be left behind. By explicitly aligning with the 2030 Agenda, and ensuring that the poor and other marginalised groups are included in projects under the BRI, benefits will be shared and broad support for the Initiative will be ensured (UNDP, 2016).

1.3.3 Demographic trends

Population trends are the outcome of many forces that affect population growth, such as ageing patterns, migration and urbanization. These forces, in turn, are the result of complex socio-economic forces, such as healthcare, female participation in the workforce, and industrialization. This section looks at population growth, ageing, urbanization and migration and displacement trends. Changes in demographic structures and compositions can produce different risks and opportunities related to economic growth, poverty and the inequalities within and between countries. It may also impact production and consumption patterns, the use of natural resources and ecosystems, and social and cultural interactions.

A 2017 joint UNDP and UNRISD report on the challenges and opportunities of the SDGs, emphasized that global demographic trends are influenced by changing population size, age structures and migration. These elements will accelerate the path of achieving the SDGs. In the next 15 years, it is certain that the world will undergo a dramatic transformation in terms of economic development, poverty reduction, production and consumption patterns, engagement with ecosystems, and social and cultural interactions (UNDP and UNRISD, 2017).

Population growth

Over the last 12 years, the world's population has increased by about 1 billion people, reaching 7.3 billion as of mid-2015. Among them, 60% of the global population lives in Asia (4.4 billion), 16% in Africa (1.2 billion),

10% in Europe (738 million), 9% in Latin America and the Caribbean (634 million), and the remaining 5% in Northern America (358 million) and Oceania (39 million). In particular, China and India remain the two largest countries in the world, comprising 19% and 18% of the world's population, respectively (UNFPA, 2015; UNDP and UNRISD, 2017).

Africa had the highest rate of population growth - 2.55% annually - between 2010-2015. It is projected that between 2015-2050, global populations will rise by 2.4 billion people, of whom 1.3 billion, or 54%, will derive from Africa. Asia comes second in future global population growth, adding 0.9 billion people (37.5% of the total additional population) within the same period. Northern America, Latin America, the Caribbean and Oceania are expected to have much smaller increments. Europe is projected to have a smaller population in 2050 than in 2015 (World Bank, 2016; UNDP and UNRISD, 2017).

Among the 48 nations designated by the United Nations as the least developed countries (LDCs) in the world, 27 of them are in Africa. Population growth in LDCs remains especially high. With a 2.4% annual growth rate currently, the growth rate of the LDCs is projected to slow; yet the population of this group is projected to increase twofold from 954 million in 2015 to 1.9 billion in 2050, and then to 3.2 billion in 2100. Furthermore, the populations of 33 countries, most of them LDCs, have a high probability of at least tripling between 2015 and 2100. Among these 33 countries, the populations of Angola, Burundi, Democratic Republic of Congo, Malawi, Mali, Niger, Somalia, Uganda, United Republic of Tanzania and Zambia are projected to increase fivefold or more by 2100 (UNDP and UNRISD, 2017).

LDCs face more challenges than developed countries in achieving SDG 3 – Good Health and Well-Being - as they lack reproductive healthcare services and family planning. By improving health level in LDCs, couples would have a greater ability to determine their family size based on their own desires. Moreover, with the guidance of SDG 5 - Gender Equality - increasing female employment is a key to realizing demographic dividends, as it guarantees equal rights, safety and security at work (UNDP and UNRISD, 2017).

Ageing

The direction and pace of demographic change varies significantly around the world, with disparities found between high-income and middle-income countries, which are generally marked by rapid ageing, and low-income countries, many of which are characterized by high fertility rates (World Bank Group 2016). Populations in many regions are still young. In Africa, children under age 15 accounted for 41% of the population in 2015 and young persons aged 15 to 24 accounted for a further 19%. Latin America and the Caribbean and Asia, which have seen greater declines in fertility, have smaller percentages of children (26 and 24%, respectively) and similar percentages of youth (17 and 16%, respectively). These three regions were home to 1.7 billion children and 1.1 billion young persons in 2015, respectively. Globally, the number of persons aged 60 and above is expected to more than double by 2050 and more than triple by 2100, increasing from 901 million in 2015 to 2.1 billion in 2050 to 3.2 billion in 2100. 66% of the increase between 2015 and 2050 will occur in Asia, 13% in Africa, 11% in Latin America and the Caribbean, and the remaining 10% in other areas (UNDP and UNRISD, 2017).

UNDP and UNRISD (2017) point out that attention to the issues that accompany ageing is vital for the achievement of the SDGs. For example, the third goal of the SDGs indicates that older people need to be considered equally with the youth by governments and other development actors. In addition, other SDGs also emphasize the role of older women in sustainable development. For example, calling for an end to poverty (SDG 1); including targets that lift historic age-caps on data collection for gender-based violence (SDG 5); specifying the right to health “for all and [for] all ages” (SDG 3); promoting “lifelong” learning (SDG 6); encouraging the development of sustainable, inclusive, and accessible urban environments, including for older persons (SDG

11); reducing all forms of violence, including physical, psychological, and sexual violence among all persons, regardless of age (SDG 16) (UNDP and UNRISD, 2017).

Urbanization

Urbanization has a formative impact on the world economy and society and one's quality of life, as well as on the global consumption of resources and energy. Cities offer many opportunities for cultural, social and economic development, and for improving resource and energy efficiency. The global urban population is projected to increase from just under 4 billion today to 6.5 billion in 2050 – and urban infrastructures will need to grow with it (UNDESA, 2014). About two-thirds of humanity will then have their homes in cities. The force of the urbanization surge will primarily affect developing countries and emerging economies in Asia and Africa. Almost 90% of urban-population growth until 2050 is expected to occur on these two continents (UNDESA, 2014).

Of the world's 31 megacities (cities with populations over 10 million) in 2016, 24 are located in less developed regions, or the “global South”. China alone was home to six megacities in 2016, while India had five (UNDESA, 2016). Megacities are facing serious challenges. For example, some 82% of cities—home to 1.9 billion people in 2014—were located in areas that faced a high risk of mortality from natural disasters (UNDESA, 2016). Similarly, development levels are directly associated with the risk exposure of cities.

The 2030 Agenda creates a strong link to urbanization as fundamental to sustainable development. SDG 11 – Sustainable Cities and Communities - highlights the importance of building inclusive, safe and resilient human settlements. It also stresses the role of cities in promoting sustainable development. Based on past experience, urbanization brings both opportunities and challenges, which need to be balanced in the implementation of the 2030 Agenda (UNDP and UNRISD, 2017).

Migration and displacement

According to the International Organization for Migration (IOM), the number of international migrants in 2015 reached 244 million, with women making up the majority of international migrants in North America and Europe. South-South migration saw continuous growth in 2015 (IOM, 2015). In terms of migrant destinations, in 2015 the United States remained the most popular country, with Germany being the second most popular, and Russia the third. According to the World Bank (2016), among geographical regions, Latin America and the Caribbean had the most rapid growth rate of remittances - an estimated 4.8% in 2015 - owing to the recovery of labor markets in the United States. Remittances to East Asia and the Pacific increased by an estimated 4.2%, down from 7.4% in 2014. Remittances to South Asia rose by an estimated 2.0% in 2015. Such remittance activity can increase the social and economic livelihoods of communities and contribute to skill development, knowledge and increased global connections between individuals and communities. Countries receiving migrants have the ability to meet labor shortages, increase working age populations and address other socio-economic demands.

The situation is distinct for forced migration. During 2015 and 2016, risks and vulnerabilities linked to involuntary migration was experienced by the large numbers of internally displaced persons and refugees. The causes of involuntary migration were several – natural disasters, environmental degradation (often associated with climate change), political instability, extreme criminal violence and the collapse of livelihood opportunities (UNHCR, 2015). According to UNHCR (2015), measured against the global population of 7.4 billion, one in every 113 people is now either an asylum-seeker, internally displaced person or a refugee. From 10.4 million at the end of 2011, the number of refugees has increased steadily to 16.1 million as of the end of 2015. This trend continued into 2016 with an increase to 16.5 million refugees by mid-year, nearly 5 million more than seen in the middle of 2013.

International migration is a prominent phenomenon in contemporary world, it frequently happens as the population moving from LDCs to developed areas. The 2030 Agenda sees the potential of migrants to make inclusive growth and sustainable development (UNDP and UNRISD, 2017). However, as SDG 10 suggests, more well-managed migration policies should be made to deal with the increasing number of migrants

1.3.4 Environmental degradation and climate change

Environmentally, unsustainable production methods continue to worsen air quality and contribute to global warming, such warming being driven by greenhouse gas emissions, air pollution, changes in land use and energy and electricity production technologies. This has affected agriculture and food production, forests and biodiversity, threatened species, water resources, and climate variability, among other outcomes.

Human activity is linked to climate change and environmental degradation (IPCC, 2015). The Emissions Gap Report 2016 of the United Nations Environment Programme (UNEP) suggests that the world will still warm by 3.0 to 3.2°C, even if countries deliver on their Nationally Determined Contributions (NDCs) pledged during the COP 21 in Paris in 2015. This is evidenced in the data collected by UNEP (2016) on the projected Global Greenhouse Gas Emissions between 2025 and 2030

Environmental sustainability is under serious threat. Biodiversity loss caused by agriculture, infrastructure expansion and climate change will greatly affect these sectors. Moreover, it is estimated that 40% of land currently used for extensive agriculture will be lost by 2050, while at the same time agricultural output is projected to increase by 50% by 2030. Deforestation is another problem. Global forest areas declined by 129 million hectares (3.1%) from 1990 to 2015, and is now just under 4 billion hectares (FAO, 2015). This relates to the problem of water scarcity. Overpopulation and climate change have led to the deterioration and depletion of available water sources, which together with poor water resource management, have caused water scarcity. Water scarcity currently affects more than 40% of the global population and is projected to rise. Over 1.7 billion people are currently living in river basins where water use exceeds recharge.

Marine habitats are also under significant stress. Oceans absorb about 30% of the carbon dioxide produced by humans, buffering the impacts of global warming. As much as 40% of the world oceans are heavily affected by human activities, with outcomes that include pollution, depleted fisheries, and loss of coastal habitats (UN, 2015).

The human impact on environmental sustainability is creating future risks. Lowering environmental impact by improving the efficiency of resource use, and increasing investments in human and natural capital, is important. The 2030 Agenda emphasizes the significance of the sustainable management of ecosystems and natural resources (SDGs 6, 14, 15), sustainable consumption and production patterns (SDG 12) and urgent action on climate change (SDG 13). These goals provide support for the reduction of poverty, inequalities, as well as the promotion of inclusive and sustainable growth (UNDP and UNRISD, 2017). The 2030 Agenda, Paris Agreement and Sendai Framework for Disaster Risk Reduction 2015-2030 recognize the links between poverty eradication and resilience building, and the need to reduce exposure to shocks and disasters (UNDP and UNRISD, 2017).

1.3.5 Technological trends

Technological innovation is one of the leading phenomena of globalization, and is now a defining force in cross-border transactions, ideas and innovation. It can benefit the most diverse sectors, including the financial sector, and boost opportunities in employment, technological change and education. Digital technologies have dramatically expanded the world's information base, lowered costs, and created information goods. This has facilitated the searching, matching, and sharing of information, and has contributed to greater organization and collaboration.

The percentage of the world population owning a mobile phone jumped from less than 1% in 1990 to 90% in 2015 (World Bank, 2016d, p.6). The internet and related technologies have reached developing countries much faster than previous technological innovations. The number of internet users has increased more than threefold within 10 years—from 1 billion in 2005 to an estimated 3.2 billion at the end of 2015. In 2014, 31% of the population in developing countries had access to the internet, compared to 80% in high-income countries. China has the largest number of internet users, followed by the United States, India, Japan, and Brazil (World Economic Forum, 2017; World Bank, 2016).

Owning a mobile phone is more common than having access to electricity or sanitation in developing countries. 8/10 individuals in the developing world own a mobile phone. Among the bottom fifth of the population, nearly 70% own a mobile phone. The lowest mobile phone penetration is in Sub-Saharan Africa (73%), against 98% in high-income countries. Only about 15% of the world population can afford broadband internet service. (World Bank, 2016d). Nearly 2 billion people do not own a mobile phone, and nearly 60% of the world's population has no access to the internet. The world's offline population is mainly in India and China, but more than 120 million people are still offline in North America (World Economic Forum, 2017; World Bank, 2016d).

The future of work and employment will be heavily impacted by digitalization, with, for example, computing power, big data, the internet, and artificial intelligence impacting inequality and job security. Overall, challenges include the political, regulatory and business environments for technology and its innovative potential, and the dialogue with governments, the private sector and individuals. In-country inequality is a particular challenge for digitization, especially as it affects the potential to deliver basic social services, such as pre-school education and primary healthcare. Moreover, ICT infrastructure, its affordability and the skills behind it, needs to be addressed. (World Bank, 2016; McKinsey, 2015).

Technological innovations provide opportunities to build resilience and deepen connectivity, although it could also pose serious risks to sustainable development. It is recognized in the 2030 Agenda that technology is an important means for SDG implementation across economic, social and environmental dimensions, and is to act as a critical instrument for tackling existing and emerging challenges. (UNDP and UNRISD, 2017). Technology Facilitation Mechanism is one important component of the 2030 Agenda, and aims to deal with the disparities created by technology. This mechanism will promote the implementation of the SDGs by organizing a collaborative, annual multi-stakeholder forum on science, technology and innovation; it will also be a great platform for facilitating knowledge-sharing. In order to ensure that emerging technology is beneficial, strong research on business climates, good governance, entrepreneurship and investment is needed (UNDP and UNRISD, 2017).

1.3.6 Security and Peace

Sustainable development cannot be achieved without a peaceful and secure environment. Fragile and conflict-prone states² are unable to provide sufficient goods and services, thereby leading to rising costs of living, unemployment, and higher poverty levels. A vicious cycle is thus created where pre-existing conflicts aggravate criminality and public unrest, resulting in more unemployment and economic instability. This outcome entails grave development costs. At the moment, OECD (2016) estimates that 1.5 billion people live

2. Fragility is an extensive and sometimes controversial term when used to discuss and measure the level of social and political stability in countries. OECD defines fragility as “the combination of exposure to risk and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks,” including a framework that assesses the economic, environmental, political, social, and security aspects of a region or country (OECD, 2016). With a certain extent of consensus, UNDP (2012) characterized fragility as follows: 1) fragility is not a static state but a continuum; 2) fragile contexts are impacted by different types of crisis, and are vulnerable to conflicts if no external assistance is provided; 3) public authorities are have no absolute control over legitimate violence, lacking the capacity to provide services or collect public revenues (UNDP, 2015).

in places afflicted by fragility, whereas 53 countries were affected by some degree of political violence, thereby amounting to a total population of 3.34 billion over the past 15 years. One of the serious consequences of conflicts and violence is forced displacement, which jumped by 75% over the last twenty years, increasing from 37.3 million in 1996 to a record-high 65.3 million people in 2015 (UNHCR 2016). Among the displaced were 40.8 million people who were internally displaced, 21.3 million refugees and 3.2 million asylum seekers. Moreover, fragility does not occur in one income group only. Having identified 56 fragile contexts, OECD found that 27 of them are low income, 25 are lower middle income, and 4 are upper middle income (OECD, 2016).

Disasters and natural hazards have caused devastating outcomes during the past 20 years, with over 1.5 billion people killed between 1996 and 2015 due to disasters, and over US\$2.1 trillion in global economic losses over the same period from natural catastrophes (UNDP and UNRISD, 2017). The percentage of victims in less developed countries is higher. During the last decade, 68% of deaths in low and lower-middle-income countries were due to natural hazards, compared with 32% in high and upper middle-income countries. This disparity underlines the linkage between vulnerability to disasters and inequity. With regard to the geographical distribution of disasters, during the 1996-2015 period, Asia suffered the most attacks (3,093), followed by the Americas (1,832) and Africa (1,781). (UNDP and UNRISD, 2017). For disease outbreaks, the global incidence rates of HIV, malaria and tuberculosis (TB) have fallen since 2000. The number of deaths due to infectious diseases has decreased from 12.1 million in 2000 to 9.5 million in 2012. Since its peak in 2004, the number of AIDS-related deaths has fallen by 42%; the amount of the world population living with HIV has declined by 35% since 2000. Global tuberculosis cases decreased by about 40% and tuberculosis deaths dropped by 29% between 2000 and 2014. By reducing the price of antiretroviral drugs, the use of antiretroviral therapy (ART) fell from about USD \$10,000 per year in 2000 to about \$100 in 2011. In 2014, 14.9 million people living with HIV received antiretroviral therapy, compared with 69 million in 2000. Reduced drug costs have made HIV treatment more affordable and sustainable (WHO, 2015; UNDP and UNRISD, 2017).

1.4 Traditional global governance architecture and multilateralism under scrutiny

Future trends and impacts are not fully known. However, preparedness can hedge against potential constraints and encourage channel responsiveness. Reflecting the efforts being made in the area of sustainable development through the 2030 Agenda, trends and impacts have to be addressed comprehensively. Adopting a broad understanding of the challenges and their implications will clear the way for policy makers to draft sound responses. In the face of pressing global development challenges, which affect all countries, there should be a common, long-term interest for all countries to cooperate.

It is this pursuit of complementarities among the shared goals that has inspired much of the recent multilateral governance response. The multilateral framework of today was formed as a response to the Second World War atrocities and led to the creation of the United Nations in 1945 to promote peace, human rights, and development. In 1944, during the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, the Bretton Woods Institutions (BWIs) were created. At the conference, member nations agreed to create a family of institutions to address critical issues in the international financial system.

Since then, the BWIs have played a vital part in the world's financial system, contributing to global public goods and the protection and management of the global commons. However significant changes have occurred since the 1940s. The financial crisis of 2008-09, with its resulting economic instability, highlighted the need to include key emerging economies in global economic management. This awareness has not translated into clear institutional change. The traditional global economic governance architecture and BWIs have not been able to keep pace with global economic shifts and the requests from emerging economies to be included in global economic governance managing efforts. Agreement with the IMF's 14th General Quota Review in late 2015, and its entry into force in January, 2016, was welcome steps forward, with more than 6%

of the quota shares shifting to emerging markets and developing economies. The World Bank, too, has been pursuing reforms which aim to increase the voice of developing countries in its governance. Meanwhile, the range of finance available to developing countries is broadening with the founding of new inter-governmental institutions like the Asian Infrastructure and Investment Bank (AIIB), the New Development Bank (NDB) and others associated with major emerging market economies.

Concerning trade, the multilateral spirit, which saw the conclusion of the GATT Uruguay Round in 1993 and the launch of the World Trade Organization's³ Doha Development Round in 2001, has yet to achieve the conclusions of the Doha Round. The failure of the Doha Round implies that many countries have moved towards the negotiation of preferential trade agreements (PTAs) and the formation of new multilateral and bilateral frameworks - such as Transatlantic Trade and Investment Partnership (TTIP), Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and Trade in Services Agreement (TISA).⁴ Both the TPP and TTIP cover more than the WTO in addressing foreign direct investment policies, the protection of intellectual property, trade in services, the behavior of state-owned enterprises, the opening up of government procurement and the reduction of the trade-impeding effects of different product standards.

In recent years, major economies in the European Union and the United States have been struggling with a sluggish economic recovery due to the global financial crises of 2008-09. Slow growth rates, inflation and increased numbers of unemployed persons has led to the proliferation of domestic, and often populist, movements that oppose globalization and its spillover effects, and push for measures towards protectionism. Within this context, current dynamics have to be understood - for instance, Brexit and the new US policy led by President Donald Trump.

1.5 Changing actors, institutions and emerging economies repositioning in global governance

While policy platforms with universal frameworks, such as the 2030 Agenda, will be a critical instrument in addressing existing and emerging challenges and providing means for addressing challenges beyond the capacity of nation states to resolve on their own, developing and emerging countries have been voicing the need for increased participation and the recognition of their interests. With the institutional structure of global governance under renegotiation over the past decades, the active participation of sovereign states, especially developing countries, in multilateral institutions and the increase of trade agreements to form closer regional economic ties has sped up the flows of goods, human resources, and capital throughout the world. The implications of the 2030 Agenda for Sustainable Development is not only increased international cooperation, based on solidarity and global common goods, but also the adoption of the principle of universality. This means a development policy that enables developing countries and emerging economies to emerge as partners together with industrialised nations towards sustainable development.

As a consequence of the shifts in economic power, there has emerged space for the creation of new arrangements, coalitions and others types of groupings that reflect the demand for the reform of international institutions. These new configurations signify that the objective of restructuring the global economic governance architecture is underway. The G20 represents a milestone in this endeavour and a great success in terms of ensuring the inclusion of emerging economies within the global economic governance architecture. The G20 has increased in profile and formality in response to the 2008-09 financial crisis, when it became clear

3. The WTO was created to maintain the interests of the developed Western world, but failed to bring benefits for the developing world. Therefore, the WTO could not be taken as a proper multilateral mechanism, promoting comprehensive free trade.

4. A distinguishing feature of the TTIP, TPP, and TISA talks is that none of them include China or the other large emerging economies like Brazil and India. Conversely, RCEP doesn't include the EU or the U.S. In fact, there is no serious trade and investment agreement that spans either the EU or the U.S. and one or more of the large emerging economies – although the EU is negotiating with Brazil and India. This parallels the inability of these countries to conclude a deal in the long-running negotiations stemming from the WTO's Doha Round.

that the time had come to institutionalize the dialogue between advanced and emerging economies, where the latter could be effectively involved in global economic management efforts. While the G8 and G7 were previous competitors, the G20 is now considered the premier forum for international economic cooperation, and a place where key issues concerning finance, the economy, growth and development are discussed at the highest level. It is worth mentioning that the G20 accounts for around 85% of the world's economy, giving its members the right to ask for a more active role in decision-making processes. Correspondingly, the G20 also includes more than half of the world's poor population, a factor that makes the group particularly well suited for discussing and finding solutions to global development issues.

Emerging economies are also paving the way in forming cross-regional groups in a more proactive way, the BRICS grouping representing the most prominent example, including Brazil, Russia, India, China, and South-Africa.⁵ These five countries account for 43% of the world's population, 23% of global GDP, and 16% of world trade (Liu, 2016). Consequently, these emerging powers have not only demonstrated their substantial capacity and commitment to advancing global governance, but also challenged the conventional wisdom of western-led international institutions, many of which are in an urgent need of reform to accommodate global power shifts.⁶ The BRICS are also all members of the G20. This commitment to large, informal governance mechanisms reflects the interests-oriented rather than rule-based cooperation that emerging economies are engaging in.

Common political interests make this grouping a platform for contributing to the international order in a multi-polar way (Zhu, 2016). Despite their different socio-economic structures, emerging economies face a common set of challenges and opportunities. Common issues include rapid urbanization, rising middle classes, rising inequalities, large numbers of young people entering the labor market, the volatility of commodity prices, destructive levels of pollution and vulnerability to climate change.

Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) play a catalytic role in bringing investment into developing regions. Lack of funding and representation prompted BRICS members to establish the BRICS New Development Bank (NDB) and the BRICS Contingent Reserve Arrangement (CRA) as frameworks for the provision of support through liquidity and precautionary instruments, in response to short-term balance of payments pressures. In 2016, the China-led Asian Investment and Infrastructure Bank (AIIB) was established, and as of mid-2016, 57 countries have signed on as prospective founding members, with an initial authorized capital of USD \$100 billion. These two new international financial institutions reflect a key change in the structure of the global governance architecture. The slow response of the traditional BWIs to the demands of emerging and developing economies for more inclusiveness in their governance settings paved the way for new South-led institutions to be created to complement existing global economic governance mechanisms.

The contribution of emerging economies to global governance has been, as might be expected, both regionally and globally focused. Apart from the fact that certain issues are regional rather than global (such as regional trade arrangements) and others are global rather than regional (such as financial stability and climate change), coalition building to improve governance is often easier to accomplish when coordinated with existing groupings. The result has been a complex net of actors, including states, and interlocking regional or intra-regional organizations of different sizes, purposes and arrangements. Scholars have argued that the rise of countries from the Global South has led to the assertion of a multipolar world, increasing the level of political and economic organizations in these countries, thereby strengthening the general trend toward a “more



5. The grouping was initially known as 'BRIC' before the inclusion of South Africa in 2010.

6. What arose from high level meetings in 2006, prompted diplomatic alliance from 2009 and resulted in eight high-level meetings during their cooperation for the past decade. During this period, the rapid changes in the global situation helped the five countries largely broaden their common interests. All BRICS members are newly industrialized or developing countries, experiencing large, fast-growing economic development and influence on regional and global affairs.

regionalised international order” (Garzon, 2015; Acharya 2014; Buzan 2011). Thus, the role of regional powers and different forms of regional leadership have been discussed as the main drivers of regional transformation (Garzon, 2015).

Of all emerging economies, those in the Asia-Pacific have the most substantial voice. This is partly due to the region’s substantial GDP growth, relative to other emerging regions, and partly due to the presence of large emerging economies in the region, particularly China, India and Indonesia. Over the years, the rise of countries like China has led to a substantial increase in regional integration efforts. The evolution and strengthening of the Association of Southeast Asian Nations (ASEAN) can be seen as one of the most prominent examples of this process. The launch of the ASEAN Economic Community (AEC) in December, 2015 was a milestone for ASEAN economic integration; this is, however, an ongoing process. The AEC includes 10 of the fastest-growing economies globally, with an average growth rate of over 5 percent, and as a group represents the seventh-largest economy globally (Business Mirror, 2015). ASEAN cooperation with other regional members has also had positive results, for example, in the establishment of ASEAN +3 (which refers to the three East Asia nations: China, Japan, and South Korea). Though the proposed Asian Monetary Fund (AMF) was never established, the ASEAN+3 members introduced the Chiang Mai Initiative (CMI) in 2010 (Siregar and Chabchitrchaidol, 2013) as a multilateralised response to the 2008- 09 financial crisis.

With more regional and mega-regional free trade agreements under negotiation, global economies are fragmenting into more powerful trading blocs. Trade-regionalization dynamics are happening within the home regions of some of the large states that are widely acknowledged as emerging powers. 2014 saw the launch of the Belt and Road Initiative, further analyzed in the following chapter, a China-led initiative with an intra-regional cooperation framework. For example, regarding trade blocks, the Asia-Pacific Economic Cooperation (APEC), as a forum for 21 Pacific Rim member economies to promote free trade throughout the Asia-Pacific region, advocated during its leaders’ meeting held in Peru in November, 2016, the establishment of the Regional Comprehensive Economic Partnership (RCEP), a regional trade initiative made up of ASEAN countries plus China, South Korea, Japan, Australia, India and New Zealand.

The role of emerging economies has been vital in resolving tensions and deepening synergies. Electoral results underpinning the future of other trade blocks such as NAFTA, the US withdrawing from the Trans-Pacific Partnership (TPP) and fragmentation happening within the European Union, could pave the way for new and emerging actors to take the lead in the rebalancing of global governance dynamics.

Conclusion

The rise of emerging countries, such as China, and developing countries indicate that policies and international arrangements for collective decision making have not kept pace with global change. Putting in place an enabling and inclusive system of global governance would create an international environment and would strengthen global partnerships for development in many ways. This chapter pointed to the drivers of change in the international system and outlined recent multilateral responses, such as the adoption of the 2030 Agenda, the Climate Negotiations in Paris, and the Addis Ababa Accord for Financing for Development.

The 2030 Agenda leverages an integrated and sustainable approach to inclusive growth across regions. International cooperation plays a strong role in mainstreaming challenges and opportunities by setting strategic visions and putting the SDGs at the heart of the global effort. Governance remains a main means for achieving this because the quality and content of governance directly impacts the planning and execution of broader development objectives. The elements for achieving impact necessarily touch on systematic coordination between actors and institutions, their integration and coherence. The role of institutional set-ups will therefore need to be backed up by strategic management and effective leadership to ensure positive policy outcomes, and effective policy resourcing, implementation and monitoring.

FOOD FOR THOUGHT

Encourage the implementation of the SDGs towards a green and sustainable development path

- Success in implementing the 2030 Agenda will have long term benefits for people and planet, peace and security, and for the legitimacy and credibility of the multilateral system.
- The strategic engagement of state and non-state actors and cooperative initiatives can create synergies between the multitude of political processes that address climate change and sustainable development.
- Instruments and processes for the implementation of green and sustainable development paths for consultation with countries and stakeholders should be adopted. There is a need to develop, implement and evaluate strategies to secure ongoing support for commonly identified goals and priorities.

Make global multilateral governance more accessible to emerging and developing countries

- Continued attention should be given to the interests of emerging and developing countries.
- There is a need to enhance established and newly established mechanisms to proactively provide coordination and representation, in order to engage emerging and developing countries towards sustainable development.

Strengthen alignment efforts across different governance levels towards long-term results

- There is a need to secure ongoing support and strengthen commitments at the highest political level to develop clear objectives and frameworks for global governance, development and policy across multilevel governance spaces (national, regional and global).
- Global-regional-local linkages should aim to ensure long-term impacts, the coordination and development of functions and capacities, the use of existing structures and the alignment of frameworks to achieve effectiveness.

Chapter 2

The Belt and Road Initiative and its potential

KEY MESSAGES

China as a bridge builder and the BRI as a game changer

The BRI reflects China's global role as a bridge builder. Increasingly recognized throughout countries and with cooperation frameworks being signed, expectations are high that the BRI will address cross-cutting international development cooperation issues. The BRI can contribute to global governance by placing inclusiveness at its core and by offering an effective implementation mechanism towards a more balanced, multi-polar and multi-lateral international architecture. A gradual multilateralisation of the BRI would increase legitimacy and credibility.

Transformative nature of the BRI for sustainable development and global goods provision

If the BRI builds on the SDGs as its overarching framework, it will augment the quality of its impact and enhance complementary advantages. The Agenda 2030 for Sustainable Development, which is being subscribed to by all countries along the Belt and Road, depends on concrete actions taken at global, regional, national and sub-national levels. Furthermore, the BRI could serve as an accelerator, an effective enabler to achieve the SDGs. Aligning with the SDGs will allow the BRI to advance the common good of participating nations in every area of development. Here, regional and multilateral policy frameworks are an essential step for ensuring real win-win opportunities.

Leadership and ownership as the basis for effective engagement

While auspicious in its reach and scope, the BRI touches on the need to ensure inclusive and interconnected development within and among countries. Entry points for aligning strategies on recipient countries' BRI engagement should draw on national SDGs mainstreaming efforts. While investment, trade, industrial policies and regulation will be key in producing spillovers in the BRI's supply chain, recipient countries will have to ensure sound policy and institutional structures. Country cooperation within the BRI should rely on the implementation of the SDGs at national levels and their integration with policies, plans and strategies. This would provide the proper means for an engagement that could enhance the transformative nature of the BRI's objectives and reflect each BRI country's ownership and leadership throughout the process, thereby building trust and confidence among states.

Introduction

The Belt and Road Initiative (BRI) is gaining momentum as a promising development framework. Increasingly recognized throughout countries and with cooperation frameworks being signed, expectations are high. Overall, the BRI covers a geographically vast area of the world economy and a massive population across many countries, and has the potential to impact, directly and indirectly, the countries involved. While auspicious in its reach and scope, the BRI requires international cooperation, institutional set-ups and policy domains to be used as strategic sites in defining the direct and indirect BRI outcomes envisioned. Getting investment, financing and infrastructure connectivity right is not entirely a technical issue; rather, it will deepen platforms, create governance mechanisms and strengthen partnerships.

This second chapter is structured as follows. Section 2.1 provides an outlook on China's political and economic rise as a global power and global financier. Section 2.2 introduces the Belt and Road Initiative as a China-led initiative and presents the vision and general framework behind the initiative. It also looks at the current progress of the initiative. Also in section 2.2, there is an assessment of the BRI as a China-led initiative to complementing the existing global governance system. It stresses the role of linking the BRI to the 2030 Agenda for Sustainable Development and the potential of the BRI in furthering a development-oriented agenda and providing for global public goods. Lastly, it argues that to maximize outcomes, participating countries need to base the national implementation of the SDGs as the basis for BRI engagement, while guaranteeing BRI country ownership and leadership as the building blocks of the BRI's sustainability.

2.1 The Belt and Road Initiative: a China-led initiative for global economic growth

An analysis of China's contribution to the multilateral system shows its unprecedented rise and commitment to global governance, which is anchored in its 13th Five-Year Plan (Xinhua, 2016). With this increasingly outward-facing approach, China has become a major actor in global investment and finance over the past decade and aims to move itself in the direction of advanced economies, playing technological catch-up and espousing a leapfrogging approach to development. While linking domestic, regional and global outreach, China's rise has brought opportunities for being a building block in strengthening mutually beneficial cooperation between countries. The Belt and Road Initiative (BRI), launched in 2013, and encompassing the land-based Silk Road Economic Belt and the oceanic 21st Century Maritime Silk Road, is a framework for triggering domestic and international development.

The BRI initiative is a China-led initiative with international implications. It builds upon China's national aspiration to overcome the difficulties of the 'new normal' stage of the Chinese economy – which is currently facing an economic slowdown and a reduction in ODI and FDI – while also trying to balance internal regional economic development. The BRI develops the idea that, to overcome this 'new normal' stage, as well as the middle-income trap, China needs to upgrade to and optimize a modern industrial system at home while enhancing new trade and investment opportunities abroad. The BRI region – originally from Asia to Europe, while passing by East Africa – is perceived as one of the markets with the most potential in the world, and where such a strategy can be successfully implemented. Considering that many of the countries along the BRI are emerging and developing countries, China's aspiration for the BRI extends beyond national borders, with the aim of sustaining beneficial economic development for all involved countries, especially the least developed ones along the routes, while promoting inclusiveness and win-win cooperation.

The BRI shows the commitment of the Chinese government to the belief that industrialization and moving up the economic development ladder is linked to a strategic interaction between national and regional development. The Made in China 2025 strategy is a coordinated strategy aimed at creating a favourable environment for the increase of new strategic industries, and for optimizing modern industrial systems. These

developments are envisioned to stimulate the adoption of advanced technologies and services and aimed at upgrading China to a high valued-added manufacturing system. Made in China 2025 also targets the BRI countries in terms of industrial capacity development and collaboration. China's 13th Five Year Plan features innovation, human capital, education and technology at an unprecedented level in terms of national strategy. In 2015, the State Council issued an opinion to boost mass entrepreneurship and innovation, including the deepening of reform and the creation of a dynamic environment for starting businesses, meeting business demands and stimulating the vitality of entrepreneurship. It offers policy support for implementation, opening up, resource-sharing and innovate business models.

With its key theme of connectivity, the BRI aims at physical connectivity (e.g. transport, energy and/or communication infrastructure) as well as at forms of social and institutional connectivity, such as trade facilitation policies in the form of aligned border and customs procedures to facilitate the flow of people, services and goods across countries. The BRI engages bilaterally with existing regional blocks and different mechanisms, such as economic integration, trade facilitation, and the transport and energy infrastructures already extant in BRI countries. The scope and impact of the BRI is strategically boosted through economic corridors that promote connectivity, with investment and trade facilitation as core components.⁷ Multiple dimensions of economic development, and the linking of the region's different geographical, physical and socio-commerce features, can bring direct and indirect benefits during the BRI's different stages of development. The direct and indirect impacts of BRI development can be leveraged through policy coordination. The latter is a core priority of the BRI itself, and comprises multilevel intergovernmental macro policy exchanges and communication mechanisms, in order to coordinate and streamline economic development strategies and policies across countries and regions.

2.2 China's rise as a global power

China's economic presence draws on the nation's unprecedented global rise. Since the reform and opening up policy was adopted in the 1980s, China's economy has been growing by around 10% per year for three decades. After over 30 years of rapid growth, China is now the second largest economy in the world. Even judging by gross national income (GNI) per capita, China is an upper-middle-income country, with a per capita GDP of USD \$8,016 (RMB 52,000 yuan) (Steinbock, 2016). In the beginning of the 2000s, China adopted its 'Going Out' strategy, creating government-backed encouragement for overseas investment in construction projects, the promotion of trade and the export of products, services, and technology, and investment in the exploration of strategic natural resources. State backing implies finance is provided to companies through loans and subsidies, insurance, tax incentives and others services.

Formerly a recipient of FDI, China now has become a net exporter of FDI, and an important stakeholder in development aid. China provided \$14.4 billion in foreign aid, grants and concessional loans to 121 countries between 2010 and 2012 alone (SCIO, 2014). According to the Chinese Ministry of Trade and Commerce (MOFCOM), in 2015, China's non-financial outward direct investment (ODI) reached US \$118.02 billion, hitting a new record high, up 14.7% year over year over the past 13 consecutive years, with an annual growth rate of 33.6%. During the 12th Five Year Plan, China's ODI was 2.3 times that of the 11th Five Year Plan. At the end of 2015, the stock of China's ODI surpassed US \$1 trillion for the first time. According to UNDP (2014), by 2014, 18,500 domestic investors had started 29,700 establishments in 186 countries and regions, 84.7% of those establishment being founded in developing and emerging countries and 15.3% in developed countries.



7. BRI promoted the spanning of corridors through an array of different geographical regions, including (1) The New Eurasia Land Bridge Economic Corridor, (2) The China-Mongolia-Russia Economic Corridor, (3) China-Central Asia-West Asia Economic Corridor, (4) China-Indochina Peninsula Economic Corridor, (5) China-Pakistan Economic Corridor and (6) Bangladesh-China-India-Myanmar Economic Corridor. Regional building blocks include the ASEAN, the Russian-led Eurasian Economic Union, CAREC, the Shanghai Cooperation Organization, the EU, the South Asian Association for Regional Cooperation (SAARC), and the Organization of Islamic Cooperation.

Nevertheless, economic growth in recent years has decreased, with an average rate of around 8% between 2011 and 2014 (Liu, 2015) and 6.7% in 2016 (NBS, 2017). The slowdown of China's economy has raised the question of whether China can surmount the middle-income trap (Aiyar, et al., 2013). Against this backdrop, the Chinese government has rolled out policies to reform China's economic structure in the 13th Five-Year Plan, and has set a target growth rate range of 6% to 7% between 2016-2020. The plan to contain growth is envisioned to steer China's economy to a soft landing (Ping, 2016), with a supply-side reform carried out to reduce industrial capacity and upgrade economic structures (Zhang, 2016).

Gradually, with China's consolidation of economic power, its footprint in international cooperation has increased. Under the leadership of Xi Jinping, China's official foreign policy objectives show a willingness to seek a more prominent international profile. As underlined by Chinese Foreign Minister Wang Yi in 2014, "China will be more active in playing the role of a responsible, big country" and "will advance and protect the legitimate rights and interests of developing countries to make the international order more just and reasonable." (Tiezzi, 2014).

International level

- **United Nations** - As one of the permanent members of the United Nations Security Council, China has been a firm supporter of the UN mandate, contributing the largest number of troops to United Nations (UN) peacekeeping missions among the other permanent members of the Council (Fung, 2016). China is the second largest financier of peacekeeping budgets, as of July, 2016 (Japan Times, 2015). China's net contribution to the UN budget has been growing steadily, its quota share having risen from 5.148% to 7.921% in 2016, resulting in a contribution of USD \$196 million to the UN regular budget in 2016 and a pledge of \$199 million in 2017 (People's Daily, 2017). This year, China was the first permanent member to pay its 2017 dues, demonstrating its commitment to fulfil its international obligation (People's Daily, 2017). During the first year of the implementation of the Sustainable Development Goals, China has shown its commitment as one of the 23 countries who participated in the first round of voluntary national reviews (VNRs); these reviews are meant to identify the progress China is making towards the implementation of the 2030 Agenda, which was initiated during the July 2016 High-level Political Forum under the auspices of the Economic and Social Council. China submitted its national plan in October, 2016. In September 2016, China ratified the Paris Climate Agreement. This announcement was a major step towards bringing the agreement into force.
- Apart from fulfilling UN obligations and championing the global agenda, China has actively led initiatives to support other developing countries beyond its commitment in the G77. In September, 2015, at the UN Sustainable Development Summit, President Xi promised that China will provide \$2 billion in support to South-South cooperation initiatives (CNTV, 2015). In 2016, China pledged to donate \$20 million annually for a decade to the UN Peace and Development Trust Fund, thereby taking the first step in fulfilling a \$1 billion pledge made by President Xi in 2015 (Reuters, 2016).
- In 2017, the United Nations Security Council (UNSC) through Resolution 2344 backed the relevance of regional cooperation initiatives such as the BRI as a win-win approach to promote safety, stability and development. Together with the BRI, the resolution quotes the Chinese principle of creating "a community of shared future for mankind".
- **International Financial Institutions** - The growing importance of China on the global stage is also reflected in its role within existing financial institutions as well as in the establishment of new ones. China is calling for reforms of the International Monetary Fund (IMF) and World Bank, in order to increase the representation of developing countries in its quota formula. Meanwhile, China is also actively leading the establishment of new institutions such as the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB).

China holds the largest number of shares in AIIB, roughly 30%, and controls over 26% of the voting shares (IDI, 2016).

- China has advanced efforts in recent years to promote the international use of the RMB. In October, 2016, the RMB was included in the currency basket of the Special Drawing Right (SDR)—an international reserve asset issued by the International Monetary Fund (IMF)—along with the dollar, euro, yen, and British pound; this was a fundamental step in the process of RMB internationalization.

Regional and cross-regional levels

- **G20** – China took the Presidency of the G20 in 2016. The outcome of the Summit generated consensus for the G20's long-term vision and committed leaders to a blueprint for innovative growth, pushing for openness in trade and investment while at the same time promoting a fairer and more equitable global governance system focused on inclusive development. That has led to the adoption of the G20 Action Plan for the implementation of the 2030 Agenda for Sustainable Development, thereby supporting for the first time a strong alignment between the G20 and the global development agenda.
- **BRICS** – As the first global network which includes no western countries and which reflects China's role as a rising power, China has actively engaged in dialogues with the BRICS cooperation platform, especially in promoting the establishment of the BRICS Development Bank and the Emergency Reserve Fund. At the BRICS Goa Summit on October, 15-16, 2016, President Xi Jinping outlined five priorities for BRICS cooperation, while sharing insights on the content of the next BRICS Summit to be held in China in 2017: a) building an open economy; b) constructing a shared vision for global development, keeping a central focus on development issues, and pushing the implementation of the 2030 Agenda for Sustainable Development; c) strengthening cooperation on key global challenges, such as natural disasters, climate change, epidemic outbreaks and terrorism; d) reforming the current international system to reflect greater fairness and representativeness; e) strengthening intra-BRICS cooperation. The promotion of openness in the global economy has a footnote in the promotion of intra-BRICS cooperation through the strengthening of intra-BRICS trade and investment ties and through closely integrating BRICS countries into the Belt and Road initiative (BRI).
- At the APEC CEO Summit in Lima, President Xi Jinping highlighted that “openness is vital for prosperity [in] the Asia-Pacific” and that “economic globalization [consists] in keeping with the law of economics and deliver[ing] benefits to all.” (Global Times, 2016). The message affirmed that China will continue to champion globalization and open trade. In line with this message is China's advocacy for free trade agreements, such as the Regional Economic Comprehensive Partnership (RCEP). Earlier this year, the Chinese Foreign Minister Wang Yi expressed China's wish to accelerate the negotiation process of the RCEP, stressing that China welcomes any conclusive and conducive trade arrangements (China Daily, 2017).
- China attaches great importance to its relation with the Association of South-East Asian Nations (ASEAN). On multiple occasions China stated its aspiration to build a bonded community in the Asian region. Reflective of this pledge is China's increasing role in regional economic blocs. To build close ties with ASEAN, China has championed the idea of the China-ASEAN Free Trade Area (CAFTA), which came into effect on 1 January, 2010. As well, the ASEAN+3 Network was established to enhance business relationships among member countries and the rest of the world (MOFA, 2016).

Overall, in 2017, China's development framework is still under construction, but more ambitious than ever. A strong emphasis on South-South relations characterizes China's international rise as an emergent actor from the Global South whose engagement in different multi-lateral mechanisms, such as G77, BRICS, FOCAC and South-South summit diplomacy (APEC, ASEAN+3, and the CELAC-China Forum), underlines its global

outreach. A clear focus on engaging in global economic governance, touching on financial and monetary policy, increasing trade and investment, supporting trans-regional infrastructure projects, and investing in technology, in particular ICT, all emphasize the systematic positioning of the country and consolidation of its divergent interests. The establishment of multilateral institutions, such as the BRICS New Development Bank (NDB) and the Asian Investment Infrastructure Bank (AIIB) in 2014 and 2016, respectively, feature China-led initiatives reshaping international development financing.

In the next section, a closer look at the outward-facing China development framework promoted through the Belt and Road Initiative (BRI), puts its geographical and economic outreach into perspective and highlights its international implications. This promising outlook, and China's position as a responsible player in global governance, raises questions concerning the impact of China-led initiatives such as the Belt and Road Initiative (BRI). In particular, the key question remains as to how and in what ways the BRI can be transformative in addressing development bottlenecks across the regions of its engagement, considering its implications for participating countries and beyond.

2.2.1 The vision and general framework

International and intra-regional trade has been a critical component of Asian development over the past sixty years, having turned the continent into a production, trade, and capital formation hub. Regional development, however, is facing serious constraints from both soft and hard infrastructure deficits. Socio-demographic dynamics, including an expanding middle class and rapid urbanization, but also different levels of industrialization and the depletion of natural resources, map out the complex governance scenario impacting national and regional agendas.

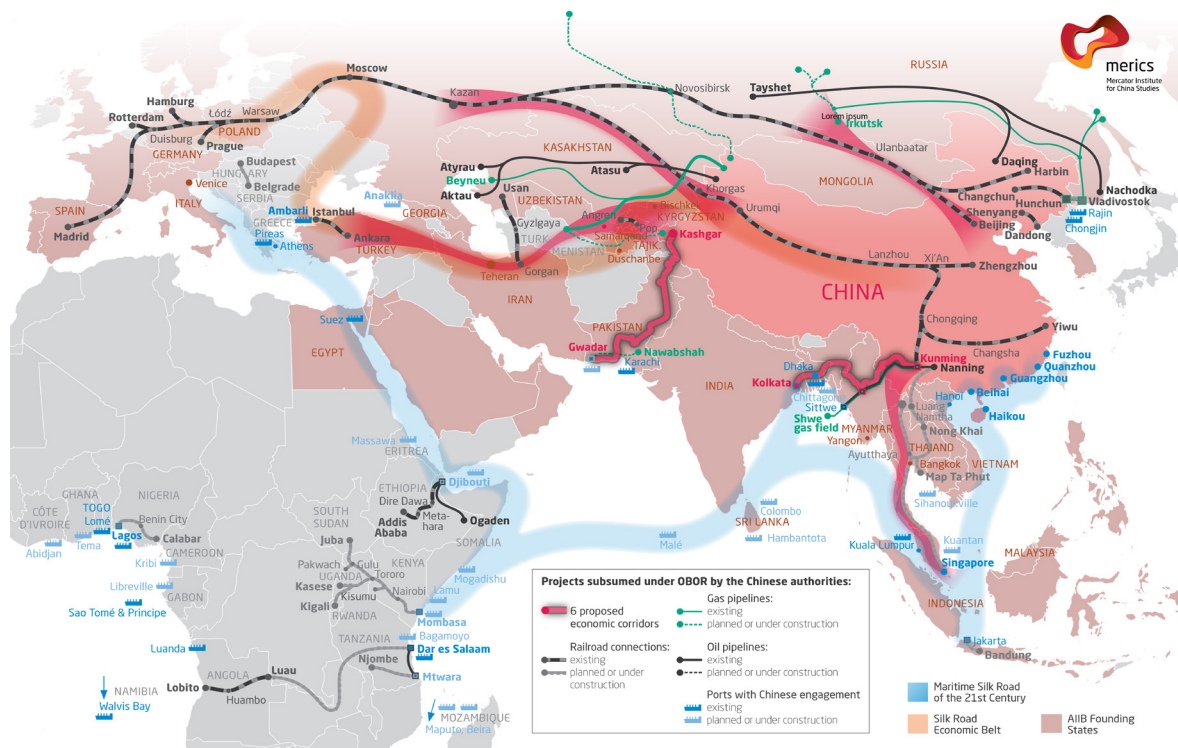
Shared constraints require increased coordination in facing challenges. The stability, competitiveness and social progress of nations will increasingly be determined by their ability to address inter-dependent development bottlenecks. Developing a shared culture of cooperation and balanced compromise calls for comprehensive approaches, tailored to address the demands of individual countries while also addressing common priorities. The timing of the BRI is strategically set to draw on domestic, regional and global trends to potentially be a broad road map to achieve development goals through infrastructure, trade and connectivity. Set in a context of socially, economically and geographically diverse BRI countries, the potentials and pitfalls that these sub-regional, regional and intra-regional features bring indicate the need to develop effective institutions, mechanisms and processes, including policies, regulations knowledge and capacity strategies.

The Belt and Road Initiative was presented by President Xi Jinping during his visit to Central Asia and Southeast Asia in September and October, 2013 and has attracted widespread attention from around the world. On November 12, 2013, the Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform was adopted at the Third Plenary Session of the 18th Central Committee of the Communist Party of China, marking the first time the concept of the "Belt and Road" was adopted as a major Party decision. On November 4, 2014, the 8th meeting of the Central Leading Group for Financial and Economic Affairs, chaired by President Xi, focused on the BRI; on 9-11 December, 2014, the BRI was identified at the Central Economic Work Conference as a key 2015 strategy for the promotion of regional economic development (Renmin University, 2016).

As a China-led initiative, the BRI rests on inter-related organizational pillars. On February 1, 2015, a special office of the Leading Group was set up to oversee the coordination and implementation of the BRI. The office was placed at the National Development and Reform Commission (NDRC) and coordinates its work with the Ministry of Foreign Affairs and the Ministry of Commerce. At the end of March, 2015, the government of China issued its "Vision and Actions" document, which defines the guiding principles, routes and cooperation

priorities of the BRI. The BRI's implementation is positioned to uphold the concepts of peace and cooperation, openness and tolerance, mutual learning and mutual benefit. It states its principles are in line with the purposes of the UN Charter, and defines its engagement to be inclusive and harmonious, and open to all countries and international and regional organizations. The Initiative follows market rules and focuses on five main pillars: policy coordination, connectivity facilitation, unimpeded trade, financial integration, and people-to-people exchange (Horvath, 2016).

Figure 11. Map of BRI routes



Source: Mercator Institute for China Studies (2015)

Geographically, the BRI includes two main routes: the “Silk Road Economic Belt” and the “21st-Century Maritime Silk Road”. The Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic), thereby linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia, and also connecting China with Southeast Asia, South Asia and the Indian Ocean. It aims at building an international network for developing six main economic corridors (New Eurasian Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Pakistan, Bangladesh-China-India-Myanmar, and China-Indochina Peninsula), which rely on international transport routes, core cities and key economic industrial parks as cooperation platforms. The Maritime Road focuses on building efficient transport routes that connect major sea ports, and runs from China's coast to Europe, through the South China Sea and the Indian Ocean in one route, and to the South Pacific through the South China Sea in the other (NDRC, MOFA, and MOFCOM, 2015). The main objective is eventually to realize closer cooperation and connection between the land and maritime routes.

Table 3. Countries engaging with BRI

Region	Countries ⁸
Southeast Asia	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, Viet Nam
South Asia	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
East Asia	Mongolia, Republic of Korea
Central Asia	Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan,
Middle East	Armenia, Azerbaijan, Bahrain, Georgia, Iran, Iraq, Israel, Jordan, Lebanon, Kuwait, Oman, Qatar, Saudi Arabia, Palestine, Syria, Turkey, United Arab Emirates, Yemen
Africa	Egypt, Ethiopia, South Africa
Europe	Albania, Bosnia And Herzegovina, Croatia, Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovenia, Slovakia, Ukraine
Oceania	New Zealand

2.2.2 Current progress in finance, trade and investment

Since its inception, the BRI has attracted sizeable investments. Without being exhaustive, this section offers a brief overview of the BRI's current progress, specifically on 1) trade; 2) investment; 3) financing.⁹

A. BRI Trade

Despite facing a significant demand shortfall and sluggish economic growth globally, the total volume of trade between China and the BRI countries reached RMB 6.3 trillion yuan (USD \$915 billion) in 2016 (Xinhua, 2017), up 0.6% from the previous year. China recorded 36% growth in newly signed foreign contracts, amounting to a total of US \$126 billion (MOFCOM, 2017).

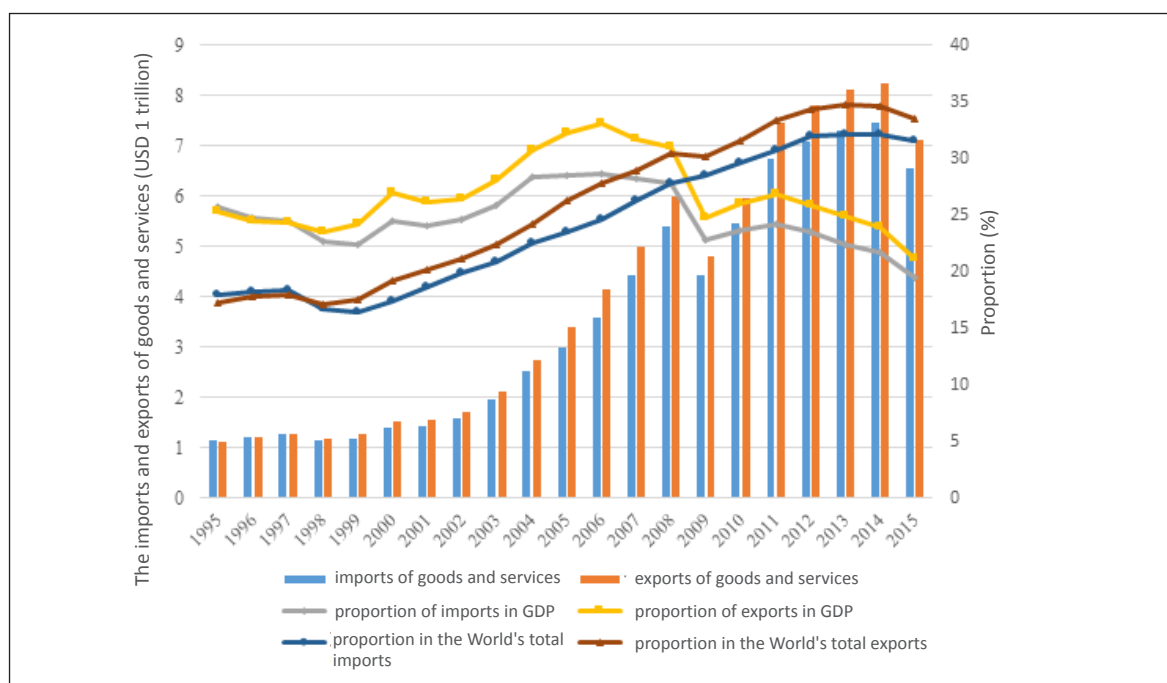
Among BRI countries

In terms of export and imports, the volume of imported goods and services from BRI countries reached USD 6.53 trillion in 2015, while the volume of exports reached USD 7.12 trillion. Shown in Figure 12, the volume of imports and exports enjoyed a high growth rate from 2002 to 2008, but declined sharply in 2009 due to the financial crisis. After a tenuous recovery from 2010 to 2014, the total volume of trade declined again in 2015 due to an international economic downturn. As for domestic economies, the total imports and exports from BRI countries made up of 40.6% of their collective GDP, of which the volume of imports was 19.4% and the volume of exports 21.2%. At the international level, the total volume of imports and exports from BRI countries made up 33.7% of the total trade volume in the world in 2015; the volume of exports and imports made up 31.5% and 33.5%, respectively, in total volume.

8. List of Countries engaged with the BRI according to the official webpage of the Government of China drafted by the Leading Group on the construction of the Belt and Road, hosted by the State Information Center: https://www.yidaiyilu.gov.cn/info/tList.jsp?site_id=CMSydylgw&cat_id=10037&cur_page=1 retrieved 28 March 2017.

9. It is difficult to get a full picture of the progress of the BRI as the situation is rapidly changing and there are no comprehensive databases to draw on. Further information is provided in the annexes of this chapter. However the described progress cannot be considered complete.

Figure 12. Import and export situation of BRI countries¹⁰



Source: World Bank Database (2016)

Regarding regions, the total trade volume of Southeast Asia was USD \$2.3 trillion, accounting for 32.1%; Eastern Europe was second, with \$2.1 trillion, accounting for 29.4%; West Asia and North Africa was third, with \$1.9 trillion, accounting for 25.8%. In terms of exports, the largest region is still Southeast Asia, which represented USD \$1.2 trillion, followed by Eastern Europe at \$1.1 trillion and West Asia and North Africa at \$0.8 trillion. Regarding imports, the largest portion was Southeast Asia, followed by Eastern Europe and West Asia and North Africa, at USD \$1.1 trillion, \$0.97 trillion and \$0.96 trillion, respectively.¹¹

In terms of specific countries, in 2016, Singapore had the highest amount of import and export trade. It reached USD \$643 billion, followed by India, with a trade volume of \$617 billion; Russia ranked third with \$526 billion. Thailand, Poland, Vietnam and other countries were less than \$500 billion.

With China

In general, BRI countries are in a trade deficit with China.¹² However, Singapore, Oman and Kazakhstan maintained a trade surplus with China, at USD \$5.6 billion, \$12.6 billion and \$0.4 billion, respectively, in 2015. They depend on China's export of industrial products. The production capacity of China ensures sufficient products for industrial development in most of these developing economies. Although net exports caused an excessive deficit, solutions can be found through industrial transfers and cooperation within the BRI. Comparing the trade balance of BRI countries with the rest of the world, the results are similar (to the trade relationship with China). In other words, production lines which rely on imports can be relocated to countries where they will enjoy enhanced efficiency.

10. The data described in this figure refer to the countries listed as officially engaged in the BRI according to table 3 of this report. However the analysis doesn't include Ethiopia, New Zealand, South Korea and South Africa as they weren't officially listed at the time we conducted the analysis. The analysis includes Greece and Cyprus for their importance in regional cooperation.

11. The latest data in 2016 is from "Big Data Report of Trade Cooperation under the Belt and Road Initiative" Snapshot 2017

12. Figures are calculated by using the UNCTAD stats database.

BRI countries in Southeast Asia, Central Asia, and South Asia have higher import and export ratios with China, indicating a strong trade relationship.¹³ However, those in Central and Eastern Europe and Southern Europe have weaker ratios. The countries in Southeast Asia enjoy a similar import and export structure, and a high trade complementarity, with China due to geographical proximity and a long history of trade. China's demand for mineral and oil and gas resources has increased significantly due to its recent economic development. The Sino-Ukraine and Sino-Kazakhstan mineral products trade and the Sino-Kazakhstan and Sino-Egypt oil and gas trade reflect a strong complementarity, which lays a solid foundation for enhancing mutual economic and trade relations. Meanwhile, cooperation in the energy sector covers many areas, including infrastructure construction and environmental governance.

In general, trade between China and the BRI countries has increased. Each country has its own products and a trade structure with distinct features, largely due to differing national conditions. China has high trade complementarity with them, which demonstrates that there is a basis for industrial capacity cooperation and much development space between China and the BRI countries for trade purposes. On the policy side, to stimulate trade cooperation, by 2016 China had planned to build 14 free trade zones covering 22 countries; currently, there are eight zones under negotiating and five zones being designed (SCIO, 2016).

B. BRI investment

FDI entering BRI countries reached US \$14.5 billion in 2016, 8.5% of China's total FDI activity (MOFCOM, 2017). 56 free trade zones are to be established in 20 BRI countries, and will provide Chinese enterprises with unprecedented market access. Six economic zones have drawn US \$18.5 billion in investments across various sectors, accounting for US \$1.1 billion in tax income and over 180,000 jobs in the host countries (People.cn, 2017). In 2017, the China-led Regional Comprehensive Economic Partnership (RCEP) was poised to accelerate BRI investments in ASEAN countries.

Energy and Utilities and Infrastructure and Construction are the largest sectors for BRI projects, and will continue to increase. In terms of infrastructure connectivity, investments in construction projects in this region have cumulatively reached US \$5 trillion in last three years, and were more than USD 6 trillion in 2016 (MOFCOM, 2017a). Ageing and fast growing populations in BRI countries is the cause of rising healthcare demands. Despite a recovery in the prices of construction materials since January, 2016, BRI investments continue to pour into the power, rail and healthcare sectors in the middle-income BRI countries. The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) noted that the investment focus of the BRI's projects in July, 2015 was comprised of: land transportation, maritime, aviation, energy, power and information industries (SASAC, 2015).

A PwC report published in February, 2017 shows that average project values have been rising - 47% in overseas BRI projects and 14% in China-located projects (PwC, 2017). The RMB 4.7 trillion yuan (USD \$683 billion) fiscal stimulus announcement in June, 2016 identified infrastructure as a top priority. Thanks to their close geographic proximity, numerous countries would benefit from a ramping-up of the rail network along the BRI route. A good example is a rail network to cover Turkmenistan, Kazakhstan and Uzbekistan. The newly established Silk Route Rail is a big step towards the building of a transcontinental railway system between China and Europe. This would simplify the process of freight logistics and trans-border supply chain management.



13. According to the calculation, the import ratio between China and South East Asian countries was at least 10% and at most 36% in 2015; Central Asian countries followed, around 20%; the export ratio was slightly lower, around 10%. Noticeably, Oman's exports to China was 44%.

Investment progress over the past year reflects the work done in previous years by China to project what could be achieved through the BRI. The China-Pakistan corridor, as a landmark milestone, has achieved its first phase of development in road construction and leverage; the high-speed rails between China-Kyrgyz-Uzbekistan have opened to traffic, and other high-speed rails are currently being developed; the “China Railway Express” has expanded to 10 countries, including 15 cities, as of 2017 (People.cn, 2017); more than 500 agricultural investment projects were planned in 2014, valued at RMB 1.5 trillion yuan, covering seed R&D, planting, and the processing of agriculture products (Xinhua, 2016b). Plans are underway to transform the largest geographic economic corridor into the main destination of incremental capital worldwide. China is well positioned for an economic revival and has the potential to enjoy first mover advantages.

The BRI initiative also offers the potential for FDI into China from other BRI countries. 45 BRI countries invested a total of USD \$6.6 billion into China and generated 6% of China’s total incoming FDI in 2014, after undergoing a 7% annual growth rate between 2005 and 2014. In return, China doubled its FDI in BRI countries in 2015. In 2015, 44% of China’s new engineering projects were in BRI countries; the figure climbed to 52% in 2016. The release of preliminary data from the Ministry of Commerce showed that overseas investments from China totalled USD \$118 billion in 2015, of which 12.6% were BRI investments. The BRI region currently has an economic output of USD \$21 trillion. In 2014, the total export and import amount between China and the BRI countries accounted for 25% of the total foreign trade volume in China. The rails were built to connect China’s domestic cities to destinations within the BRI countries, thereby speeding up the logistic and reducing the cost of commodity trade flows among the countries.

China remains the biggest partner in the administration and implementation of BRI investment projects. Thus, the first few years of preparation for the BRI marked a new opportunity for China to invest and export abroad. Pakistan and ASEAN countries have recently been on top of the destination list. China pledged to invest USD \$46 billion into Pakistan’s infrastructure and energy projects during President Xi’s visit to the country in April, 2015. This will overtake the economic-related aid from the US, which provided USD \$7.5 billion to the country between 2010 and 2014. President Xi has also announced the government’s intention to lift BRI trade volume in the ASEAN to USD \$2.5 trillion within a decade. To achieve this, China will work with neighbouring countries and share the prosperity of nations through geographic connectivity. In other BRI countries, a total of 900 deals, with a net worth of USD \$890 billion, are underway. Some prime examples are the gas pipeline linking the Bay of Bengal, Myanmar and Yunnan, and the railway route between Beijing and Duisburg in Germany. These projects will invest cumulatively USD \$4 trillion into BRI countries.

C. BRI main actors and financial backing

China has vowed to provide hefty financial support for the BRI. In its initial stages, the Chinese government extended the scope of its financial backing to USD \$90 billion for the Silk Road Fund (SRF) (MOFCOM, 2015). The SRF was established in 2014 to foster development along the BRI route. It’s major stakeholders are the State Administration of Foreign Exchange, Export-Import Bank of China, China Investment Corporation and China Development Bank (Silk Road Fund, n.d.). In December, 2015, the Chinese government led the establishment of the Asian Infrastructure Investment Bank (AIIB) as a new multilateral financial institution aimed at addressing the massive infrastructure funding gap.

This China-backed bank formed partnerships with the World Bank and Asian Development Bank (ADB) for 12 co-financed projects and mutual technical assistance in 2016 (Zheng, 2016). 57 countries had signed up as members as of January, 2017 and offered USD \$100 billion in subscribed capital. The Central Bank also gave USD \$82 billion to three state-owned policy banks for BRI projects, namely, the Agricultural Development Bank of China (ADBC), China Development Bank (CDB), and the resultant patterns of Export-Import Bank of China. In 2015, China became a net capital exporter for the first time in recent decades. Outbound direct investments reached a record high of USD \$116 billion.

In addition to the government's leading role in BRI businesses, the going-out strategies of Chinese companies, mainly State-Owned Enterprises (SOEs),¹⁴ are now being absorbed into the BRI. These firms have delivered USD \$14 billion in investments since the launch of the BRI three years ago (Xinhua, 2016a). SOEs' overseas assets peaked at RMB 4.9 trillion yuan (USD \$712 billion), a growth of 16.4%, in 2014. Their overseas revenue from BRI countries rose from RMB 2.9 trillion yuan (USD \$422 billion) in 2014 to RMB 4.6 trillion yuan (USD \$669 billion) in 2015. There are 102 SOEs currently operating in BRI countries (MOFCOM, 2015).

The public-private partnership (PPP) model of financing is also becoming increasingly popular in the list of BRI financing sources and modalities. The goal of PPPs is to leverage private sector capital to fill up the financial shortfalls of governments. In 2016, Chinese SOEs signed 8,158 contracts with a net worth of USD \$126 billion (MOFCOM, 2017). The total revenue gained was USD \$76 billion.

By initiating FDI into BRI countries, SOEs hope to pave the way for private firms to set up their businesses. To achieve this, the BRI is exploring five common types of PPP collaborations: Contracting, Equity Investment, Joint Ventures, Overseas branches, and Mergers and Acquisitions (Chang and Wang, 2016). Private enterprises can tap deep sources of capital to partner with SOEs and thus implement large infrastructure projects. In 2015, non-financial FDI stock rose to USD \$938 billion, of which private finance accounted for 49.6% (Jiang, 2016). Investment portfolios are dominated by tertiary industries, accounting for 75.2% of the outbound non-financial investment. Compared to 2006, when 81% of China's FDI was attributed to government funding, private capital has since played a more important role in their "going out" policy. For BRI countries, PPP is expected to enable multidimensional, multi-tiered and composite connectivity in Eurasia.

Strengthening existing financial instruments remains a top priority on the Belt and Road agenda. The five biggest state-owned banks (especially Bank of China and Industrial and Commercial Bank of China) perform this core function and endorse the "going out" policy by integrating the financial resources of BRI enterprises.¹⁵ Belt and Road "packaged loans and bonds" are being created to strengthen cross-border cooperation and broaden funding sources for BRI projects (Sun, 2017).

In 2015, the five largest commercial banks established 171 level-1 institutions in 57 countries and regions outside China (including representative offices) (Hao, 2015). Of these, 51 level-1 institutions are situated in 23 countries along the BRI corridors. By the end of 2015, the Bank of China (BOC) had established 57 branches in 18 BRI countries, and provided credit worth USD \$28.6 billion (Bank of China, 2016). Currently, 330 major projects are receiving investment, and USD \$4 billion of BRI bonds have been issued. The goal is to reach USD \$87 billion in financial support.

The Industrial and Commercial Bank of China (ICBC) has 123 branches in 18 countries along the BRI corridors (Xinhua, 2016a). It is also the Chinese-invested financial institution covering the most countries in the BRI region. At present, the bank has reserved 208 projects for the BRI, valued at USD 220.8 billion (China Daily, 2016). In the BRI countries, the Agricultural Bank of China (ABD) has two branches, a subsidiary and a representative office, and the China Construction Bank (CCB) has set up three branches and a subsidiary (EY, 2015). Bank of Communications (BoCom) has also created two branches in Singapore and Vietnam (EY, 2015).

14. Historically, SOEs began overseas investments and engaged in merger and acquisition activities in the mid-90s. In 2014, there were 84 state-owned enterprises on the list of the Top 100 Multinational Enterprises in China, 50 of which are centrally administrated with RMB 45 trillion yuan (USD \$654 billion) in overseas assets. The remaining 34 are provincial SOEs with RMB 500 billion yuan (USD \$72.7 billion) in foreign assets. Major state-owned financial institutions held RMB 7.45 trillion yuan (USD \$1.08 trillion) in 2013. (Sze & Wu, 2016)

15. The Big 5 banks in China are Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of Communications.

These banks have issued long-term bonds as their main financing vehicle for BRI projects. The first such bond issuance - by the Bank of China (BOC) - for the BRI was in June, 2015, when the bank successfully issued USD \$4 billion in Silk Road Bonds with 2-15 year bond periods. Five BOC branches, located in Hong Kong, Taipei, Singapore, Abu Dhabi and Hungary, managed the bond issue (Zhu, 2016). The bond was issued in six tranches and is a four currency jumbo - RMB, USD, Euro and Singaporean dollars. A good example of how BOC bonds work, is the €500 million bond issued by the BOC Hungarian branch. The fund is used to support BorsodChem and Hungarian Power projects. Apart from the Bank of China, the Industrial and Commercial Bank of China (ICBC) and Caixa Economical Federal, the top mortgage lender in Brazil, established a USD \$50 billion investment fund for infrastructure projects (Lim, 2015). The China Development Bank (CDB), the Export-Import Bank of China (EXIM Bank), ICBC and Petrobras also signed a USD \$10 billion financing agreement. The Bank of Communications is acquiring an 80% stake in Banco BBM SA (Brazilian bank) for USD \$174 million. During the visit of India's Prime Minister Narendra Modi to China in May, 2015, CDB, ICBC and Bharti Airtel, a leading telecom service provider in India, agreed to provide USD \$2.5 billion in long-term credit to Bharti Airtel. As of June, 2016, the People's Bank of China had signed 21 bilateral domestic currency swap agreements with the central bank or monetary authority of 20 BRI countries, valued at RMB 1.4 trillion yuan (USD \$203.5 billion) (MOFCOM, 2016). By innovating financial instruments and engaging different sources of funds, China is bringing global capital flows to the real economy in the BRI countries.

2.3 The BRI contributing to global governance

Figure 13. The BRI as a transformative means to global governance

How can the BRI be a transformative means to global governance?	1. Bringing in the 2030 Agenda
	2. Addressing the public goods provision
	3. Encouraging policy coordination and alignment
	4. Empowering country leadership and ownership

2.3.1 Linking the BRI to the 2030 Agenda for Sustainable Development

The potential impact of the BRI has generated global interest and goodwill due to its potential as a powerful platform for economic growth and regional cooperation; such growth and cooperation is envisioned to involve more than four billion people living in the Asian, European and African regions, in countries that are for the most part emerging and developing. Within this framework, the BRI can be seen as a complementary framework to the existing global governance system. With its key theme of connectivity, the BRI aims at integrating regions not only physically, but also economically, socially and digitally. It attempts to provide an encompassing platform for coordinating the development strategies of participating countries, seeking complementary advantages and establishing a dialogue about converging interests.

China and the other BRI countries nevertheless face a major challenge in their attempt to feasibly integrate the initiative into a sustainable development path. This is because the implementation of a green and sustainable Belt and Road will require them to thoroughly examine the core strategy and principles behind the initiative, as well as ensure that local communities at provincial and regional levels along the routes are fully engaged.

The BRI could maximise its positive impacts by closely aligning its objectives and outcomes with the implementation of the SDGs (Wolff, 2016). This implies that the BRI will aim not only to contribute to the achievement of the goals of participating countries in the areas of basic infrastructure, regional development, connectivity and industrialization – as per its stated goals - but also to expand the initiative to aim for a sustainable transformation of the countries along the Belt and Road, with a focus on poverty reduction,

environmental sustainability and inclusive social development, all key elements for the success of the initiative long-term. In this way, the BRI could serve as an accelerator, an effective 'vehicle' for achieving the SDGs. Aligning with the SDGs will allow the BRI to better advance the common good of participating nations in every area of development.

Linking the BRI to the 2030 Agenda can be seen as a necessity that arises from the scale of the BRI, whose direct and indirect impact is unprecedented, covering almost 70 countries across different regions in different development stages. Ensuring development outcomes that are sustainable and built on the principles of inclusive growth is fundamental for ensuring security and stability throughout the region. When it comes to rethinking the economic coordination of markets and investment and how to achieve sustainable growth, the BRI could contribute in several ways: increase industrial capacity building and transfer; address social and physical infrastructure demands; create regional/global public goods that the private sector tends to undersupply; help countries capture gains; and foster lucrative interventions and innovative activities while enhancing social stability and environmental sustainability. This can be promoted through developing SDGs investment and implementation approaches and strategies, to guarantee that projects within the BRI are aligned with the Agenda 2030. This approach would also guarantee the BRI is sufficiently positioned to ensure inclusiveness as a core principle. Although there is great emphasis on inclusiveness in the BRI, the initiative as such is no *conditio sine qua non* for mutual benefits since it is, after all, a commercial initiative and profit-oriented. The 2030 Agenda, as a guiding framework for the BRI, would support the positioning of the BRI as the framework for many countries seeking to respond to the 'new normal': developing though adapting their structures of production to more effective modes of efficiency and productivity, but in a sustainable manner (Horvath, 2016).

Secondly, the SDGs can unleash developmental benefits and confer to the BRI an emblematic position as an enabler for the SDGs and their expansion of global public goods. Linking the BRI to the SDGs is a win-win strategy in terms of strengthening international cooperation. It holds the promise of filling the SDGs with local content and enhancing their coordination, opening the way for the BRI to positively impact critical social issues such as inequality and inclusiveness. This linkage can also move the BRI towards gaining critical mass by incorporating all aspects of human development, ensuring that it is seen by all partners to transcend short-term commercial or political interests, thereby enabling it to 'win the hearts and minds' of other countries. Implemented in this way, the BRI would enhance China's image as a leading country in South-South cooperation, one that places partner country development above other considerations.

Moreover, the BRI could serve as a financing vehicle for the SDGs which, considering the shifting patterns of multilateral development financing, could play a vital role.

Finally, ensuring that the BRI meets the principles for the 2030 Agenda enhances China's credibility and reputation as a responsible player in the global governance arena. In its 2016 SDGs implementation launch, China addressed linkages explicitly. China's national SDGs implementation plan explicitly regards the 2030 Agenda as an orienting principle, one that contributes not only to China's impact on sustainable development nationally, but also in its engagement overseas, particularly throughout the BRI. China has sustained its commitment and recognized the 2030 Agenda as a key defining component for recognizing the success of the BRI (China National Plan for SDGs, 2016). Clearly, while the 2030 Agenda should be viewed as an overarching framework to be applied to the BRI, articulating a governance structure will help ensure the compatibility of both.

Figure 14. China's national SDGs implementation plan and the BRI

China's national implementation plan notes opportunities and challenges that the country faces in implementing the 2030 Agenda; provides guiding thoughts and general principles for implementation; and indicates overall approaches. The implementation provides "action plans" for each SDG target. The following provides an overview of the goals where the BRI was mentioned.

SDG Goal 2.	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
China's action plans	Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries.
Link to BRI	By 2022, jointly launch about 10 country programs under the South-South cooperation framework with the United Nations Food and Agriculture Organization, and conduct cooperation with countries and regions along the Belt and Road routes in such areas as crop breeding, animal husbandry, fishery, and processing and trade of agricultural products.
SDG Goal 8.	Promote sustained, inclusive and sustainable economic growth, full and productive employment.
China's action plans	Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least Developed Countries.
Link to BRI	Strengthen economic and trade cooperation with least developed countries. Promote trade facilitation with countries along the Belt and Road routes, and help the countries improve customs facilities in border and port cities and enhance trade capacity building. Expand the export and import between least developed countries and China.
SDG Goal 9.	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
China's action plans	Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.
Link to BRI	Implementing the Made in China 2025 strategy, vigorously promote technological transformation and upgrading, transform and upgrade traditional industries, and improve the quality and effectiveness of the manufacturing industry. Advance the Belt and Road Initiative to promote the industrial development of other developing countries, especially least developed countries through international cooperation on production capacity and equipment manufacturing. Jointly promote SME development through building international SME cooperation parks (zones).

Source: China's National Plan on Implementation of the 2030 Agenda (2016)

2.3.2 The Belt and Road as a provider of global public goods

Global governance arrangements to ensure the delivery of global public goods can be strengthened by effective regional governance arrangements. Strengthening the BRI towards a development-oriented agenda, committed to strong social and environmental values, could lead to positive global public goods provision. The BRI could effectively contribute to that if the quality of the benefits that the initiative is able to provide are conditioned by the way spillovers are managed and anchored within local contexts. Thus, the BRI touches not only on issues of regional security and stability, but also will have a profound development impact on the host country context. Sustainable development outcomes leave no one behind. In this current panorama, the BRI Vision and Action plan is expressly linked to inclusiveness (NDRC, 2015). This inherent conceptual commitment raises pressure on the initiative to translate its commitment into project and investment outcomes. The extent to which the BRI can bring forward economic growth will be influenced by different institutional and structural policy domain aspects, both domestic as well as in the recipient or regional context. This aspect is particularly relevant when anchoring the BRI towards an agenda of inclusive and sustainable growth.¹⁶

Growth is not inclusive by itself. As we have discussed earlier, economic inequality is a market failure, as there are failures in financial systems or concerning the environment (Stiglitz, 2016). The necessity to steer growth and link it systematically to the provision of global public goods requires a good amount of rethinking: in other words, growth has to go beyond the functioning of the economic system. Here, Stiglitz (2016) notes that part of the agenda for suitable and inclusive growth is rewriting the rules of the market economy once again, a process that would include decreasing rent seeking at the top, whether through exercising political power or taking advantage of deficiencies in corporate governance.

As an innovative framework, the BRI brings the potential to sufficiently address the issue of the provision of global public goods.¹⁷ Global public goods provision and effective bilateral and multilateral cooperation are closely interlinked. Conversely, the potential of the BRI's global public goods provision is linked to a multi-level process with policy action at national, regional and global levels. Linking the BRI with the provision of global public goods entails not only discussing their provision, but also their financing. If carried out well, the BRI could bring cross regional benefits and positively affect the wellbeing of future generations, including those not part of the initiative. Overall, the BRI has the potential to boost common interests and ensures problems are addressed while providing integrated solutions to public good provisions. This could also help to bridge obstacles to governance and maximize interaction between stakeholders. With one of the key goals being "policy coordination," which looks at the coordination of economic development strategies between China and countries within the BRI, and another being policy support for cooperation on large-scale projects and cross-border, regional and intra-regional scales, the BRI includes a comprehensive governance initiative across different policy domains.

Another major advantage of linking the BRI to public goods provision concerns globalization itself. If managed well, the BRI could be a tool to ensure not only the provision of global goods but also that the globalization



16. According to Kaul (2012), inclusive growth is a development process sustained over several years, which is environmentally sound and broadly shared across all individuals regardless of circumstances (Kaul, 2012). For growth to be inclusive, it needs to ensure that no one is barred from reaping its benefits and draws more people into the process through productive employment opportunities. Rapid economic growth will fail to be inclusive without job creation, output and export diversification. On the contrary, inclusive growth can spur structural economic transformation and targeted social protection policies to reach the marginalized and significantly reduce risks and poverty.

17. By definition, the public domain can be understood as an ensemble of things we share or experience in common, including land or street signs, but also conditions such as peace and security, climate change or financial stability (Drache, 2001). The public domain contains public goods. Public goods can be characterized by the fact that their benefits or costs are there for all. If a good is not excludable and non-rival in consumption, so that one person's use of the good or being affected by it does not diminish its availability to others, the good is said to be purely public (Kaul, 2013, p.3). In other words, public goods have the two key properties: non-rivalry and non-excludability. Public goods can exist at many scales, local, national and global. Global public goods are the ones with the widest ranging and long-lasting effects to society as a whole. Very broadly speaking, public goods pertain to areas such as environment, health, knowledge, peace and security, and governance.

process itself is inclusive.¹⁸ This scalability of impact and its cross-regional reach makes it an initiative that will significantly and positively contribute to global governance. While the public goods provision may differ over time, along with its contribution to economic growth and sustainable social and environmental development, its fundamental significance will endure. To ensure sustainability, commitments are essential to address and protect resources and communities. This can help make globalization more manageable.

Linking the BRI to global public goods provision could promote opportunities for sustainable growth across different development stages and financing development across different economic development levels and regions. The timing of the BRI comes at a moment of change in global governance, for both the industrialized nations of the global north and developing nations of the global south. The rapid pace and nature of growth in emerging and developing economies, relative to advanced economies, places new and different demands and constraints on economic growth.

- Advanced economies can benefit from replacing or restructuring the physical infrastructure assets in place, thereby improving efficiency, or by upgrading them to be low-carbon and sustainable;
- Developing countries face an urgent need. They require resilient infrastructure to contribute to the main social and economic development necessities of the country, particularly related to basic services, including sanitation and education. They also need risk management related to natural resources.
- Middle income countries require increased access to basic services to meet increasing urbanization and governance dilemmas. Faced with increasing urbanization and other domestic issues, including a growing middle class, countries such as China and India need to address a set of diverse social and economic issues, by closely interlinking both domestic and global policy domains. The BRI caters to these diverging demands by meeting the different needs of those involved in it.

Finally, linking the BRI and the 2030 Agenda is a win-win situation, not only for scaling up and achieving the Agenda 2030, but also for scaling up the BRI and delivering on its promises, especially as a provider of global public goods. Public goods provision can only be ensured if the BRI is conceptually and practically linked to a more universal agenda with guiding principles, which are globally upheld and recognized. The BRI holds the promise of serving as a platform for sustainable economic growth, enhanced regional cooperation and coordination, and as an accelerator for achieving the SDGs. This raises, however, the question of how such approaches can materialize into applicable approaches and overcome the conceptual issues involved. Policy domains have risen as an arena where coordination efforts linking the BRI with the 2030 Agenda can be put into practice through the diffusion and integration of interests across national and regional policy context.

2.3.3 National implementation of the SDGs as the basis for BRI engagement

BRI-related economic cooperation with member countries is not equal in terms of the benefits it may provide for the host countries. Factors such as the local economy, firm-level capabilities, the learning and innovation infrastructure, and the underlying local institutions and government policies may also constrain positive spillovers. This is why an assessment of the conditions and premises under which BRI-related engagement takes place should be considered. Furthermore, to ensure mutually beneficial outcomes, BRI-related cooperations should cater to the needs of the national development agenda.



18. Kaul (2012) notes, goods can be overused or neglected. That said, if we used public goods well, we could contribute positively; however, if used unsustainably, public goods can undermine growth and development.

But how can countries guarantee leadership and ownership during BRI engagement? For the implementation of the 2030 Agenda, individual countries must take into account their national realities and circumstances. The SDGs can be integrated into existing policy objectives and commitments articulated within a variety of national and sectorial strategies and plans, as well as in commitments to international agreements, by taking into account the institutional structures at the national level to encourage policy coherence and SDGs mainstreaming. Political commitments and leadership are necessary ingredients for the fulfilment of such efforts.

Figure 15. The MAPS approach

MAPS stands for Mainstreaming, Acceleration and Policy Support. MAPS was adopted by the UNDG in October 2015 as a common approach to its support for the implementation of the 2030 Agenda for Sustainable Development at the country level.

The MAPS approach captures the core components of the UNDG's upstream support for the SDGs:




1. Mainstreaming work to raise public awareness about the 2030 Agenda and ensure that the principles and goals of sustainable development found in the 2030 Agenda are fully integrated into national and sub-national policy formulation, planning and budgetary processes.
2. Analytical work that informs policy makers of the drivers and bottlenecks to sustainable development at the country level, and that contributes to the design of policy interventions that have the potential to accelerate progress towards achieving national SDGs outcomes by 2030.
3. Policy support, in terms of joint approaches, that will enable the UN to deploy its technical expertise and advice to Member States in support of a coherent and integrated SDGs implementation strategy.

Source: ECOSOC (2016)

The SDGs mainstreaming practice can serve as a roadmap for each country's engagement in the BRI. Entry points for aligning the strategies for a recipient country's BRI engagement should draw from the efforts made by national SDGs mainstreaming efforts and prioritization. A country's cooperation on the BRI should rely on the premise of their implementation of the SDGs at the national level and their integration into policies, plans and strategies. While investment, trade, industrial policies and regulations will be key to determining the BRI supply chain spillovers, recipient countries will have to ensure sound policy and institutional structures.

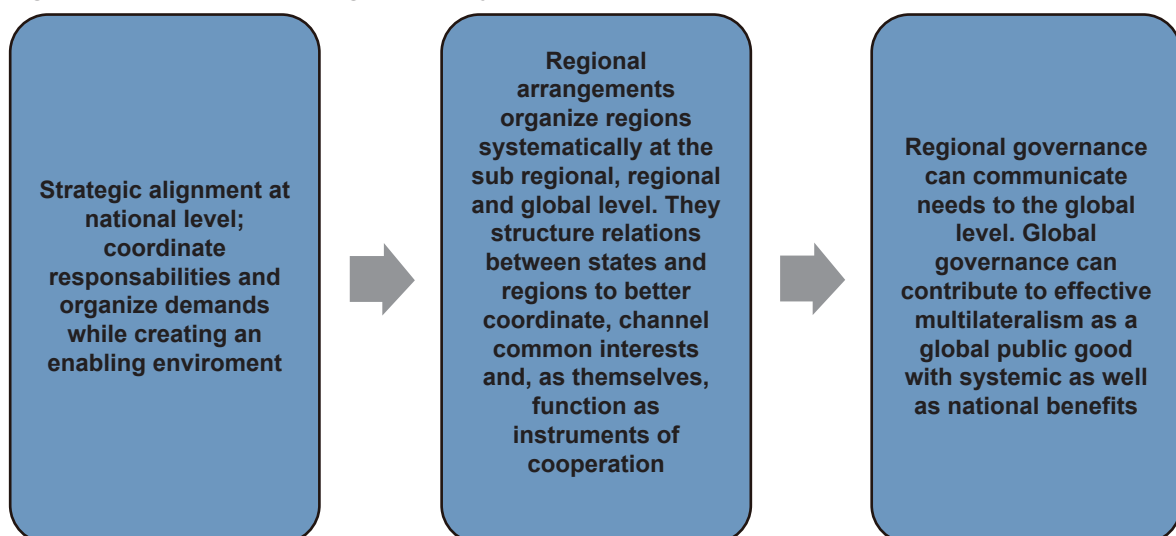
Each country's efforts to engage in the BRI will be most efficient when they are oriented by their strong alignment with the national strategies of the 2030 Agenda. This is particularly important for developing countries' effective participation in the BRI framework to support of their countries' development.

Figure 16. National SDGs plans as basis of BRI engagement

First phase	Positioning		Gradually integrate the SDGs framework into country's BRI engagement in terms of policy making and planning
Second phase	Governance and alignment		Ensure BRI engagement is in line with an inclusive planning process through a coordinated and coherent governance environment; allocate responsibilities for government stakeholders.
Third phase	Implementation		Engage with relevant stakeholders, and draw on processes for planning, sector implementation, and local level implementation.

SDGs-integrated planning and policy-making at the country level represent the basis for BRI engagement and its effective implementation. However, the cross-border nature of many BRI investments demand a common understanding about how these investments should be governed beyond national borders; in other words, domestic policy and institutional environment have to be supported by strong coordination at the regional and international levels. The coordination and strategic alignment of BRI-related governance dimensions should further draw on regional mechanisms to channel development demands and develop cross-border synergies in trade, investment and financing.

Figure 17. From national to regional policy coordination



Coordination across the BRI involves different forms of engagement: (a) cross-regional cooperation; (b) arrangements or mechanisms for sub-regional or regional cooperation on general or specific matters;¹⁹ (c) already existing cooperation between China and regional arrangements through regional fora;²⁰ (d) intra-regional dialogue mechanisms;²¹ (e) specific cooperation on the BRI with regional mechanisms²² and (f) diplomatic fora.²³ The BRI has emerged as a cross-cutting initiative to mobilize common interests in various geographical regions and across various fields of policy. With the opening and strengthening of diversified multilateral and regional mechanisms, China has been working with countries along the “Belt and Road” to push ahead programs and projects by leveraging and complementing existing bilateral and multilateral mechanisms for regional cooperation.

Specific cooperation opportunities and mechanisms, especially for other developing countries can be further anchored to specific pillars, such as, for instance, cooperation on cross-border infrastructure and connectivity, trade and investment, and monetary and financial cooperation.

Figure 18. Infrastructure connectivity: cross-cutting synergies for strategic alignment

China itself can be seen as an example which has strategically aligned its own development planning and successfully engaged in the global economy. The latter is perceived through the upscaling of China’s development experience in the area of outbound activities. This is particularly evident in the key investment theme of the BRI, namely, infrastructure connectivity.²⁴ China has set infrastructure construction and financing as the focuses of the BRI. Efforts to address the importance of industrial development as a source of economic growth, economic diversification, and value addition have promoted infrastructure investment and connectivity as means for economic growth.

Domestically, infrastructure investment and construction continues to be prioritized in the country’s 13th Five-Year Plan, endorsed in March, 2016. The fundamental guideline is to make infrastructure the leading pillar in economic and social development, through the expansion of infrastructure space and the improvement of infrastructure networks, so that they are safe and efficient, smart and green, and interconnected. During the first half of 2016, China’s investment volume in infrastructure totaled RMB 4908.6 billion yuan, with a year-over-year, or yearly growth rate, of 20.9%, which is 3.7% more than the year before.

Overall, the annual infrastructure investment gap for emerging markets and developing economies is USD \$452 billion per year, which implies that emerging markets and developing economies need to almost double their current spending (Ruiz, Nunes, and Wei, 2015). According to the Asian Development Bank, Asia requires USD \$8 trillion in infrastructure investment between 2010 and 2020,



19. Regional buildings blocks (European Union; ASEAN); Economic cooperation (Central Asia Regional Economic Cooperation (CAREC); Greater Mekong Subregion (GMS)); Security: Shanghai Cooperation Organization (SCO); Conference on Interaction and Confidence Building Measures in Asia (CICA)

20. China-Arab States Cooperation Forum (CASCF); Forum on China-Africa Cooperation (FOCAC); ASEAN Plus China (10+1); China-CEE Cooperation (16+1); China-Gulf Cooperation Council Strategic Dialogue; Asia Cooperation Dialogue (ACD)

21. Asia- Europe Meeting (ASEM)

22. EU-China BRI connectivity platform

23. Boao Forum for Asia (BFA)

24. Infrastructure investment includes environmental infrastructure (water, wastewater, solid waste disposal); transportation infrastructure (roads, highways, bridges, rail, airports, ports); energy infrastructure (generation, transmission and disposal in nuclear, coal, gas, renewables); telecommunications infrastructure; civic infrastructure (town halls, libraries, hospitals, schools, etc.); other significant business-related projects (e.g. science parks, large commercial centers).

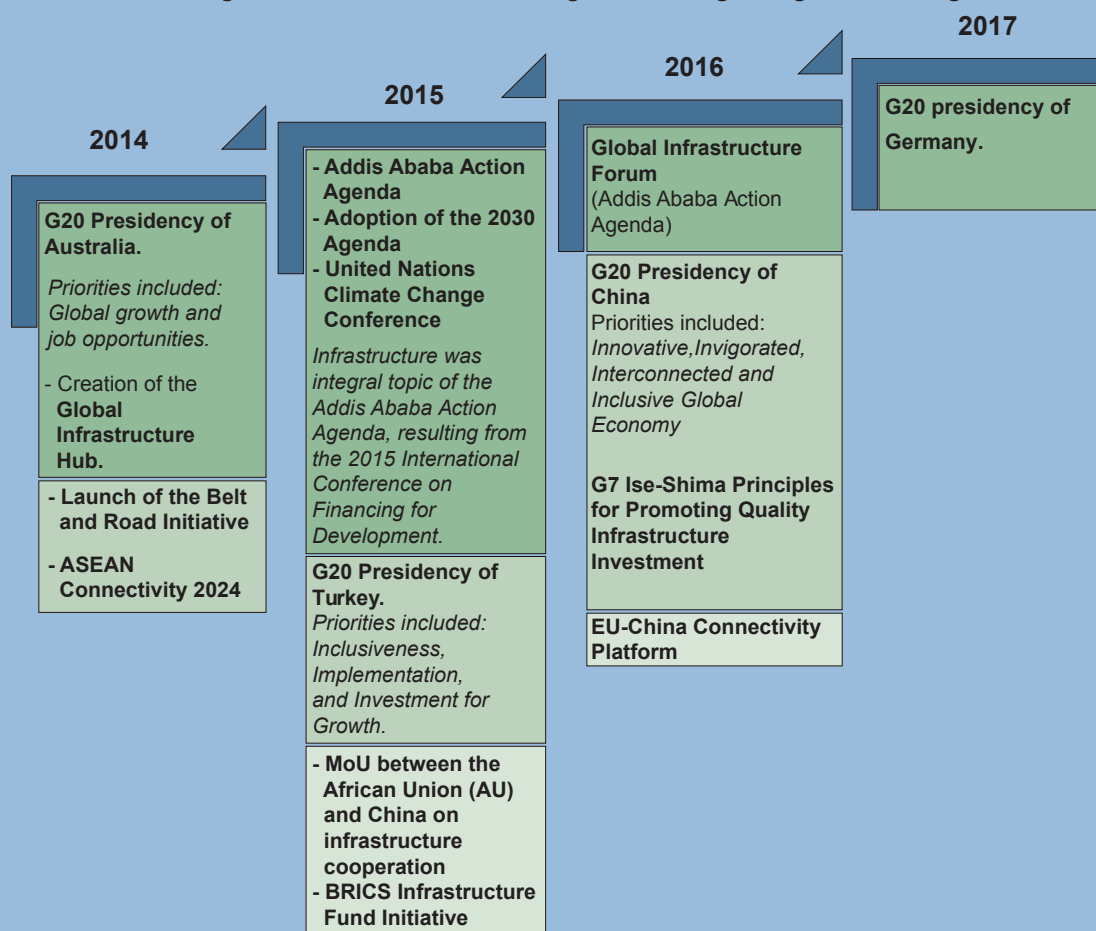
and the ASEAN region alone requires USD \$60 billion in investment per year in road, rail, power, water, and other critical infrastructure areas (Bhattacharyay, 2010). In 2014, the World Bank provided approximately USD \$24 billion to infrastructure globally (World Bank, 2014).

Formulating and implementing cross-border or regional infrastructure projects to enhance economic integration through physical connectivity is important. China is fully aware of this enormous potential and demand for infrastructure investment, especially in Asia. Overall, the BRI could potentially encourage cooperation and political will among states to effectively address underlying regional challenges in the mutual interest of economic benefit.

Infrastructure is a big part of the BRI and its relationship to global and regional governance arrangements. The link between infrastructure and global governance is connectivity and the possibility for positive global goods provision. When it comes to its contribution to global economic governance, therefore, the BRI is fully in line with current global articulations concerning infrastructure investment at the global level. It here connects forms of political, social and economic integration across various geographical regions and across various fields of policy.

In addition, it can be observed how a paradigmatic return to forging infrastructure investment and financing as a catalyst for economic growth across regions and countries at different stages of economic development has been endorsed by major economic governance arrangements (see table below).

Initiatives matching infrastructure investment in global and regional governance agendas



Efficient regional arrangements can act as building blocks for global governance; indeed, the BRI works well as complementary to existing national, regional and global infrastructure plans. However, viewed long-term, to achieve such alignment, the BRI needs to shift from a bilateral focus towards a multilateral cooperation structure. Then, eventually, the initiative could fully emerge as a contribution to multilateralism in global governance, with win-win development as a reigning principle. In the end, it becomes clear that the timing of the BRI is strategically set to draw on domestic, regional and global trends to potentially be a broad roadmap to achieve sustainable development goals through infrastructure, trade and connectivity.

Conclusion

As the BRI footprint grows, so will its impact on governance at different levels. Alongside trade and investment agreements to stimulate economic growth, good governance will be needed to manage an unprecedented growth in connectivity, infrastructure investment and the formation of global alliances to channel its demands. Despite the potential development contribution to be triggered by increasing investment, the immediate material, environmental, societal and governance risks related to investment in future and existent physical infrastructure assets are high. Despite increasing awareness, a sustainable approach to infrastructure planning, construction and financing leaves much to be desired. How can trade and investment seize new opportunities while stimulating inclusive growth? Since its establishment, the BRI has been regarded as a foreign policy priority by the Chinese government without being formally defined as a policy. Rather, the BRI is an umbrella framework aimed at economic integration across regions with a proclaimed feature of inclusiveness.

This chapter introduced the vision and framework behind the BRI and identified the conditions under which the BRI could complement the global governance system. It advocates a strengthening of the BRI agenda to embed governance, and established the complementary links between the BRI and the 2030 agenda, particularly in terms of how the BRI can contribute to public goods provision. Although neither the BRI nor this chapter centers exclusively on infrastructure, infrastructure touches on important aspects of the BRI and its relationship to global and regional governance arrangements. The link between infrastructure and global governance is connectivity and the possibility for positive global public goods provision. A paradigmatic return to forging infrastructure investment and financing as a catalyst for economic growth across regions and countries at different stages of economic development has been endorsed by major economic governance arrangements, such as the G20 and the BRICS. The potential infrastructure connectivity associated with boosting economic growth through sustainable development and shared prosperity has been a central part of the Agenda 2030 framework for sustainable development and specifically the SDGs.

The BRI can be a significant contributor to global governance if it emerges from its bilateral, predominantly China-led initiative, to a more multilateral engagement. First steps have been taken: the BRI relies on mechanisms of existent multilateral cooperation, including the World Trade Organization (WTO), the Shanghai Cooperation Organization (SC), ASEAN plus China (10+1), Asia – Pacific Economic Cooperation APEC, and the Asia Europe Meeting IASEM). These approaches have to be further developed and combined with a commitment to transparency in bilateral and multilateral cooperation agreements on the BRI. Furthermore, as a multilateral platform, supranational agreements are necessary for increasing the participation of stakeholders, including the business sector and civil society.

FOOD FOR THOUGHT

Strategic alignment of the BRI with the 2030 agenda to ensure global public good provision

- The 2030 Agenda offers a framework for scaling up the BRI and realizing its promises, especially to become a provider of global public goods.
- There is a need to strengthen the effects of the five BRI priority areas to maximize the potential for social, environmental and economic development dividends.
- With the SDGs as common ground for BRI engagement, countries can draw on various channels of support (policy advice, technical assistance, peer learning-through engagement with development banks and supranational fora, while drawing lessons from the performance of existing regional cooperation programs).

Ensuring BRI countries' ownership and leadership in BRI engagement

- The BRI can be successful only if implemented at the national level, by maximising national ownership and leadership throughout the engagement process.
- Policy makers should ensure SDGs-integrated planning and policy-making at the country level as the basis for BRI engagement.
- The engagement of various stakeholders and consistency in decision making is vital to ensure positive long-term effects across sectors and between domestic and international levels.

Enhance China's position as a responsible partner and leader in global governance and international development cooperation issues

- To strengthen China's position as a responsible player in international development cooperation, China should lead by example in the implementation of the SDGs at the national and international levels.
- For the BRI to be inclusive, priority should be given to the strengthening of multi-lateral engagement mechanisms within the BRI, thereby enhancing the global investment policy environment.
- Policy communication is to be ensured by convening and facilitating dialogue across sectors levels.

Annex. Current progress of BRI

The annex provides a snapshot of the current progress of the BRI in five pillars. However, as an official database doesn't exist, the data included is not to be considered complete.

Table 4. Pillar 1: Regional coordination across the BRI²⁵

Cross-regional cooperation	Asia-Pacific Economic Cooperation (APEC)
Arrangements or mechanisms for subregional or regional cooperation on general or specific matters	Regional buildings blocks: European Union; ASEAN Economic cooperation: Central Asia Regional Economic Cooperation (CAREC); Greater Mekong Subregion (GMS) Security: Shanghai Cooperation Organization (SCO); Conference on Interaction and Confidence Building Measures in Asia (CICA)
Already existing cooperation between China and regional arrangements through regional fora	China-Arab States Cooperation Forum (CASCF); Forum on China-Africa Cooperation (FOCAC); ASEAN Plus China (10+1); China-CEE Cooperation (16+1); China-Gulf Cooperation Council Strategic Dialogue; Asia Cooperation Dialogue (ACD)
Intra-regional dialogue mechanisms	Asia- Europe Meeting (ASEM)
Specific cooperation on the BRI with regional mechanisms	EU-China BRI connectivity platform
Diplomatic fora	Boao Forum for Asia (BFA)

25. This table refers to the different engagements of the BRI with different regional cooperation arrangements and initiatives, this includes: cross-regional cooperation; arrangements or mechanisms for subregional or regional cooperation on general or specific matters; already existing cooperation between China and regional arrangements through regional fora; Intra-regional dialogue mechanisms; specific cooperation on the BRI with regional mechanisms; and diplomatic fora

Table 5. Pillar 2: Unimpeded trade²⁶

Trade Facilitation	Progress	<ul style="list-style-type: none"> • By 2016, Chinese investment in countries along the BRI had totaled RMB \$51.1 billion yuan, and its bilateral trade volume with BRI countries in 2015 exceeded RMB 1 trillion yuan. • BRI countries invested USD \$3.36 billion in China. • As of 2016, China had signed 14 FTAs covering 22 countries and regions, with 8 more FTAs being negotiated and 5 FTAs in the pipeline.
	Enterprise Achievements	<ul style="list-style-type: none"> • Chinese enterprises made a total direct investment of USD \$14.82 billion in 49 countries within the BRI region • In 2015, Chinese enterprises signed 3,987 foreign contract projects in 60 countries within the BRI region, with a total value of USD \$92.64 billion.
Integrated Customs Clearance	Progress	<ul style="list-style-type: none"> • As of 2016, China had signed Authorized Economic Operator arrangements with Singapore, South Korea, EU and China's Hong Kong Special Administrative Region (SAR).
Transformation and Upgrading in Trade Structure	Investment	<ul style="list-style-type: none"> • As of 2016, China had signed bilateral investment treaties with 104 countries within the BRI.
	Tax	<ul style="list-style-type: none"> • As of 2016, China had signed tax treaties with 53 countries within the BRI.
Platform Cooperation		<ul style="list-style-type: none"> • As of June 30, 2016, China had launched 52 trade and economic cooperation zones in 18 countries along the "Belt and Road," with a total investment of USD \$15.6 billion. Among which, there are 5 pilot border opening-up and development zones, 17 border economic cooperation zones and 1 cross-border economic cooperation zone, with another 11 cross-border economic cooperation areas in progress.



26. The Belt and Road Progress Research Team, Renmin University of China, "Adhering to the Planning, Orderly and Pragmatically Build the 'Belt and Road' The Belt and Road Progress Report", p 10.

Table 6. Pillar 3: Facilitate connectivity²⁷

Standard coordination	• The Action Plan for the “Belt and Road” Standard Coordination 2015-2017 was released.	
Transport connectivity	Airports	<ul style="list-style-type: none"> China has launched 15 new airport projects and 28 airport expansion projects. The investment value of 51 projects had reached RMB 200 billion yuan as of 2015.
	Railways	<ul style="list-style-type: none"> Construction of a railway between Hungary and Serbia, and a high-speed railway in Indonesia are underway. Construction of railway networks connecting China and Laos, and China and Thailand have been launched.
	Trains	<ul style="list-style-type: none"> Ten cities in China are launching trains with seven countries. In 2015 alone, 815 trains were launched between China and Europe. So far, more than 1,500 trains have successfully traveled between China and Europe. As of June 30, 2016, 39 freight train lines between China and Europe were operational.
Energy connectivity	Number of energy projects	• China's SOEs participated in the construction of 40 overseas energy projects, covering 19 countries along the Belt and Road.
	Nuclear power	• In 2015, Chinese nuclear power companies launched cooperation projects in Romania, the UK, Pakistan and Argentina.
	Hydropower	• Chinese hydropower companies worked on cooperation projects in Angola, Brazil, Nepal, Pakistan and Argentina.
	Overland cables and submarine communication cables	<ul style="list-style-type: none"> China is connected and with over six regions through overland cables and submarine communication cables. Global TD-LTE Initiative, to which China is a founding partner, currently has 116 operator-members and 97 vendors.
Information Connectivity	Satellites	• China is working with France on marine satellites and SVOM satellites, and is assisting in designing, manufacturing, assembling, testing, launching and data processing Venezuela's VRSS-2 satellite.
Industrial capacity cooperation	Agreements on Industrial capacity cooperation	• Various bilateral and multilateral industrial capacity cooperation funds have been built by the Chinese – valued at more than USD \$100 billion.
	Progress	<ul style="list-style-type: none"> China and Kazakhstan are pioneers in industrial capacity cooperation, with 52 projects in early-stage development – investment value over USD \$27 billion. In 2015, there were 75 economic cooperation zones with an investment value of USD \$7.05 billion.



27. The Belt and Road Progress Research Team, Renmin University of China, “Adhering to the Planning, Orderly and Pragmatically Build the ‘Belt and Road’ The Belt and Road Progress Report”, p.8.

Table 7. Pillar 4: Financial landscape of the BRI

Bank	Type	Capital scale (billion USD dollars)	Financial instrument	Sector	Loans in 2016 (million USD dollars)
Asian Infrastructure Investment Bank (AIIB)	Multilateral development bank (MDB)	100	Loans, equity investment, guarantees	Infrastructure, energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics, etc.	509 (June)
Silk Road Fund	Development and investment fund	40	Medium- and long-term equity investment	Infrastructure, resource and energy, industrial cooperation, etc.	n.a.
BRICS Development Bank (New Development Bank)	Multilateral development bank (MDB)	100	Guarantees, loans, equity investment, etc.	Infrastructure, renewable energy, etc.	811 (April)
China Development Bank (CDB)	Development finance institution	11000	Medium- and long-term credit and investment, bonds, etc.	Energy, electricity, telecommunications, infrastructure, agriculture, etc.	n.a.
The Export-Import Bank of China (EXIM)	State bank	3000	Credit, loans, guarantees, etc.	Mechanical and electronic products, complete sets of equipment and new- and high-tech products, etc.	100 ²⁸ (August)
China Export and Credit Insurance Corporation (SINOSURE)	State-funded policy-oriented insurance company	n.a.	Medium- and long-term export credit insurance, overseas Investment (Leasing) insurance, short-Term export credit insurance, etc.	High technology export, large electro-machinery and complete-set equipment, etc.	n.a.



28. In August 2016, China EXIM Bank agreed a USD1 billion industrialization program with the African Export-Import Bank.

Bank of China (BOC)	Commercial bank	n.a.	Corporate loans, guarantees, credits, etc.	Energy and power, infrastructure, etc.	17.4 billion
Agricultural Bank of China (ABC)	Commercial bank	n.a.	Merge and acquisition loans, export credits, special risk financing, offshore bonds, etc.	Agriculture, energy and power, etc.	n.a.
China Construction Bank (CCB)	Commercial bank	n.a.	Merge and acquisition loans, offshore bonds, etc.	Power, construction, minerals, transport, gas, telecommunications, etc.	n.a.
Industrial and Commercial Bank of China (ICBC)	Commercial bank	n.a.	Corporate deposits and loans, settlement and cash management, international settlement and trade finance, etc.	Infrastructure, international capacity cooperation, etc.	22 billion
China Citic Bank	Commercial bank	20	Project loans, syndicated loans, merge and acquisition loans, etc.	Infrastructure, transport, urban development, etc.	n.a.
China Merchants Bank (CMB)	Commercial bank	n.a.	n.a.	n.a.	n.a.
Shanghai Pudong Development Bank (SPDB)	Commercial bank	n.a.	n.a.	Transport, energy production and transportation, urban development, cultural tourism, industrial parks, etc.	n.a.
Industrial Bank (IB)	Commercial bank	n.a.	Deposits, loans, overseas settlement, bonds, etc.	n.a.	n.a.

Source: Promoting Sustainable Infrastructure along the BRI and the Role of Green Finance, Renmin University (RDCY) and Chatham House

Table 8. Pillar 5: People to people exchange²⁹

Cooperation	<i>Culture and Education</i>	<ul style="list-style-type: none"> • As of 2016, China had set up 25 overseas Chinese culture centers and 500 Confucius Institutes across 125 countries. • China had signed 41 Memorandum for Understanding (MoU) concerning cultural cooperation with these countries and regions.
	<i>Tourism</i>	<ul style="list-style-type: none"> • China worked with relevant countries to hold nine “Tourism Year” events with diversified features, and over 130 promotion events. • China National Tourism Administration spent USD \$200 billion to help 150 million Chinese tourists visit the “Belt and Road” countries and USD \$110 billion to attract 85 million visitors from the area.
	<i>Science and Technology</i>	<ul style="list-style-type: none"> • By 2016, China had signed 56 MoUs concerning scientific and technological cooperation with BRI countries.
Cooperation	<i>Among Political Parties and Governments</i>	<ul style="list-style-type: none"> • China’s National People’s Congress developed exchanges with parliaments from 42 BRI countries.
	<i>Non-governmental Cooperation</i>	<ul style="list-style-type: none"> • By 2016, China had held 63 events centered on exchange and cooperation with non-governmental organizations from BRI countries.
	<i>Think Tanks</i>	<ul style="list-style-type: none"> • 11 unions and mechanisms have been established, such as the “Belt and Road” Think Tank Association. • Think tanks in China have organized up to 29 relevant events to enhance exchanges with BRI countries
Youth Exchange	<ul style="list-style-type: none"> • China has jointly held eight events around the theme, “Youth Exchange Year”, with relevant countries, and launched nine youth talent training and development programs. 	



29. The Belt and Road Progress Research Team, Renmin University of China, “Adhering to the Planning, Orderly and Pragmatically Build the ‘Belt and Road’ The Belt and Road Progress Report”, p 20.



PART II

How to implement the BRI towards sustainable development?



Chapter 3

Enhancing policy innovation in trade, investment and finance

KEY MESSAGES

Trade, investment and finance as a key vehicle towards achieving sustainable development

The development of a trade, finance and investment (TFI) architecture that is suitable for the BRI will require a vision that matches the ambitious scope of the BRI itself. This is because trade, finance and investment are the three 'vehicles' within which all the economic activities of the BRI – building physical infrastructure, sales of goods and services, and related economic activities – will take place. To a significant extent, the goals of globalization and economic integration envisioned by the BRI will depend on the development of a suitable TFI architecture.

There is a need for concrete policies and an agenda for action

As BRI projects increase in scale, the development of an integrated TFI policy framework is essential for their success. Support is needed in the area of marketplace development; such support is to come through marketization, risk identification and management, and the digitization of trade, finance and investment where policies are anchored in sustainable development practices.

Ensure that approaches are consistent with, and supportive of, sustainable development.

TFI reforms need to be made consistent with sustainable development goals. Such reforms should leverage the BRI to support the inculcation of best practices in trade, finance and investment through coordination and technical assistance; these best practices should harmonize with other regional approaches, focusing especially on LDCs and LLDCs. Despite the challenges, policy attention coordinated at the national, regional and global levels will help the BRI flourish, creating win-win outcomes for all stakeholders involved.

Introduction

Making the Belt and Road Initiative (BRI) a win-win initiative requires actively addressing the policy domains particularly targeted by the initiative. As BRI projects increase in scale, a robust architecture for trade, finance, and investment (TFI) is essential for the success of the BRI, bringing global public goods and well-balanced benefits for both sending and recipient countries. The chapter explains how the BRI could be a global public good on its own, and looks at ways in which the BRI could provide an enabling environment for addressing issues of how to govern TFI on a national and regional level. In particular, the analysis focuses on how a comprehensive TFI approach in the BRI could be created by capitalizing on synergies between sustainability, different sectorial policies, and between diverse actors at the local, regional, national and international levels. While such a comprehensive framework would make opportunities feasible, responsibilities and sustainability should be referred to as core features, both for governments and the business sector. Within the 2030 Agenda for Sustainable Development, investment, trade and financing should be viewed as added-value activities and cross-cutting drivers of development, aimed at maximizing outcomes, for example, the alignment of investor practices on how to integrate the SDGs.

This third chapter is structured as follows. In sections 3.1 and 3.2, we discuss the importance of policy innovation and how it may be embedded into the BRI. Section 3.3 discusses the role of designing consistent policies. Findings related to policy innovation are presented within the three essential components of the BRI – trade, finance and investment (TFI) within the assumption that adequate governance is needed to make the BRI work across countries and regions. Drawing on the previous section, section 3.4 discusses the need to create an enabling environment for governing trade, finance and investment across the BRI. Regarding a suitable TFI policy architecture for the BRI, section 3.5 looks at the marketplace as the platform for TFI. Section 3.6 addresses the proposed TFI architecture and its need to be consistent with social and environmental goals, along with regional and global initiatives under way to address globalization and economic integration.

3.1 The role of policy innovation

A policy is goal oriented, constituting deliberate courses of action in pursuit of an identified aim. As the previous chapter discussed, the positive effects of the BRI may be enhanced by, and may even require, a new approach to governance in recipient countries. Bennett and Howlett (1992) introduced the term “policy innovation” and discussed how policy-oriented learning can create enduring changes in policies. Policy innovations may shift policies incrementally or substantially. The impact varies with the capacity of policymakers to learn and adapt best practices, according to local, national and regional demands, opportunities and challenges, and empirical data.

One common approach to innovation in public policy is called policy diffusion. Policy diffusion is a process by which policy innovations spread from one government to another (Shipan and Volden, 2008). In other words, it refers to the spreading of ‘knowledge about policies, administrative arrangements, institutions in one time and/or place used in the development of policies, administrative arrangements and institutions in another time and/or place’ (Dolowitz and Marsh, 1996, p.344). Policy diffusion itself can be a multi-level process and situated at local, national and regional levels.

In practice, there are two ways that policy innovations tend to be adopted. The first is through voluntary, uncoordinated observation and the adoption of successful practices in recipient countries. Under this approach, each country initially follows its own policies. The recipient country observes, over a period of time, whether the policies of the sending country lead to better outcomes and, if so, then seeks to improve its own policymaking through adoption of such practices. The recipient country would therefore adopt the policies of the sending country.

While this sounds straightforward and is commonly done, policy innovation through observation and imitation tends to face limitations in practice. Chief among them is that the recipient country's institutional systems need to be adapted to the changes proposed. In addition, there may be other policies that need simultaneous innovation in order to accommodate the proposed policy change. Third, mere observation may result in a focus on desired outcomes without an understanding of the internal processes needed to generate those outcomes. The other way to achieve policy innovation is more deliberate, and facilitated through coordination and cooperation. This is often a mix of voluntary coordination and cooperation and a negotiated set of reforms that are agreed upon by the sending and recipient countries as part of a TFI package. The advantage of the second way over the first is that it allows for comprehensive reform, and makes flows seamless. However, this approach will need to be calibrated in order to be consistent with the recipient country's prior systems and in-country variations, and to ensure that efficient and effective administrative procedures are adopted with appropriate accountability.

Through a comprehensive and multi-level approach, the BRI could thus serve as the umbrella framework for harnessing policy innovation. This is not a simple task. Development bottlenecks tend to be interlinked and, in regional contexts, can even be embedded in the difficulties surrounding the harmonization of TFI policy, as well as between-country differences in economic development levels. However, such coordinated and cooperative approaches would not be in a vacuum. Several institutions, such as multilateral lenders and regulatory bodies on trade, have considerable experience with best practices and are experienced in dealing with local complexities. Their experiences can be drawn upon to improve the effectiveness of the BRI framework.

A comprehensive framework should cover investment policy, investment promotion and facilitation, competition, trade, taxation, corporate governance, finance, infrastructure, human resources, policies to promote responsible business conduct and investment in support of green growth, and the broader issues of public governance (OECD, 2015a); such issues need to be particularly tailored towards green trade, financing and investment within the BRI. This approach has to take into account the diverse development levels of the countries involved in the BRI, and ensure that their specific demands are addressed.

3.2 Introducing policy innovation in trade, finance and investment

The harmonious embedding of the BRI within TFI policies offers the promise of the BRI serving as a platform for inducing a wide range of positive development outcomes in recipient countries. Such policy harmonization, if successful, will not only impact on commitment and encourage leaders to cultivate best practices in their TFI activity, but also provide guidance on best practices and how they can be leveraged in the implementation of policy. Considerable work has been done through other initiatives to introduce policy innovations in TFI. For instance, the WTO and regional trade arrangements have helped introduce best practices with regard to tariff and non-tariff barriers. Multilateral lenders, such as the World Bank, have led the way in introducing governance changes in credit arrangements and investment practices, and have been supported by private lenders of credit and companies engaged in foreign direct investment.

The ways in which BRI can help improve policymaking are twofold. First, while the governance of TFI activity may have been impacted by prior efforts, there is a need to better integrate TFI governance. For instance, while regional trade arrangements may focus on ensuring that tariff and non-tariff barriers are acceptably low, they may not be able to induce change in the ways in which credit markets work. This is because the focus of trade reforms is primarily concerned with how to enhance trade by reducing tariff and non-tariff barriers. Yet, credit markets are critical for the success of international trade, and it is important that they be appropriately organized for trade. For instance, if credit rating systems are weak, participants – especially SMEs – could face prohibitive credit costs when trying to conduct international trade. Yet, inadequate credit rating systems are a typical feature of poor economies.

If a poor economy faces significant issues regarding access to credit due to underdeveloped credit markets, there may be a need to reform the governance of credit before reductions in tariff and non-tariff barriers can become effective. This situation calls for an integration of trade and finance governance. Similar interactions exist between policymaking in each TFI domain. Hence, integrating TFI governance may be a necessary condition for improving policymaking in each area.

A second area in which the BRI could have an impact is in the diffusion of policy innovations from multi-country to national and local levels. For example, if two countries agree on a bilateral investment treaty (BIT) that protects investor rights based on the investor protection rules in the more advanced country, such rights need to receive legal protection at various tiers of governance. These tiers include the courts and other dispute resolution mechanisms, many of which operate at both national and local levels. They also include corporate registration procedures for making investments, which are often run by local governments.

The BRI may be able to accelerate the diffusion of BIT procedures to different tiers of governance in a given recipient country. One reason for this is because it is designed around the development of physical infrastructure projects. A project-specific approach, such as the BRI, offers powerful incentives to policymakers at all levels of the recipient country to make the needed changes in governance. At the local level, policymakers can fulfill the infrastructure needs of local residents through a BRI project, while at the national level, such infrastructure enables enhanced flows of goods and services, accompanied by increases in national revenue. Such incentives differ from those contained in a reform to reduce tariff barriers. By itself, such a reform, though important for raising national income, could also be opposed by domestic businesses as they will face greater competition.

The second reason is that the BRI builds connectivity, based, initially, on physical infrastructure, and, later, on a more general economic infrastructure. Every aspect of TFI activity is likely to be involved in a connectivity project, as we discuss below. Hence, the BRI provides a concrete framework for recipient countries to introduce policy innovations and diffuse those policies within their own environments.

3.2.1 The importance of trade, finance and investment for the BRI

The development of a trade, finance and investment (TFI) architecture that is suitable to the BRI requires a vision that matches the ambitious scope of BRI itself. This is because trade, finance and investment are the three ‘vehicles’ within which all the economic activities of the BRI – building physical infrastructure, sales of goods and services, and related economic activities – will take place. To a significant extent, the goals of globalization and economic integration envisaged by the BRI will depend on the development of a suitable TFI architecture.

Figure 19. The TFI architecture in the development of electricity distribution

To illustrate the importance of having a robust TFI architecture, consider an example from the electricity sector, referenced throughout this chapter. The electricity sector consists of three main activities: electricity generation, electricity transmission and electricity distribution. Starting with electricity distribution, the importance of a TFI architecture is as follows. Developing an electricity distribution network involves fulfilling the following tasks: (1) Obtaining a license to distribute electricity for some geographic area. (2) Laying-out (constructing) the network of sub-stations and power lines that carry the electricity from the grid to the end-user, (3) Purchasing electricity from the grid, and, (4) Selling the electricity to consumers. The following table shows the role of TFI in enabling the development of such a network. The top row shows the four tasks listed above to be fulfilled in the establishment of

the electricity distribution network. Under each column is the list of activities needed to fulfill each step, separated by TFI type.

Tasks/ Activities	License	Construction	Power Purchases	Power Sales
Trade	Contracts	Contracts	Contracts	Contracts
Finance	Long-term Capital	Long-term Capital	Operating Capital	Revenue
Investment		Capital goods		

As the table shows, the key activities of the electricity distribution company are enabled by one or more TFI activities: (1) The purchase of an electricity license requires signing a contract for the license, usually after regulatory approval (trade) and obtaining long-term finance (finance) to pay for the license. (2) Constructing the network requires making an investment decision on capital goods, such as equipment (investment), contracting the goods and services for purchase (trade), and long-term finance to purchase the goods and services. (3) Power purchases from the grid or in spot markets require long-term or short-term contracts (trade) and operating capital in order to pay for the power (finance). (4) Power sales to consumers require contracts with individual consumers (trade), which result in revenue received from consumers for power purchases (finance).

The above example is intended to illustrate that a 'typical' BRI project, such as the establishment of an electricity distribution network, can be conceptualized as a set of TFI activities. If TFI best practices from the sending country can be embedded in the recipient country for each type of activity, it is likely to generate the advantages noted earlier. It should be apparent that aligning the TFI system with the BRI will lead to policy innovations whose benefits will spillover into sectors outside the BRI. At the starting point of a BRI project, developing an aligned TFI system requires reviewing the institutional systems governing the proposed activities and undertaking reforms as needed. For instance, in the above example, reforms are likely to be required in the following areas: electricity distribution regulation, contract law, rules governing access to long-term and operating capital, rules governing capital goods transactions, and rules governing the purchase and sale of goods and services. Some of the reforms might be disclosure-oriented, e.g., that power purchase agreements are made available for public inspection. Some reforms might set benchmarks that implementing companies might have to meet, such as the quality of service benchmarks. Others could improve contract enforcement, such as establishing dispute resolution mechanisms.

The spillover benefits to other sectors of the economy from such an alignment, such as the establishment of rules for capital goods transactions and dispute resolution mechanisms, should be apparent. In this way, the BRI can contribute to supporting the global governance agenda of moving towards rules-based systems. This approach is consistent with the approach of multilateral lenders, such as the World Bank, and provides support for governance reforms aimed at enabling particular sectors to operate efficiently - with the expectation that the best practices adopted in those sectors will spillover to other sectors. By focusing on trade, finance and investment activity (which is the driver of the BRI's economic activity), the BRI will influence such activity across the economy in a positive way, thereby inducing transformations in governance more generally. This underlines the potential for the BRI to support policy innovation leading to transformative changes in domestic governance.

One of the risks of inadequate coordination is that of inconsistent policies, a topic we turn to next. Regulations, systems and procedures, knowledge and capacity building, and strategies and institutions, are all elements of policymaking that will determine the efficiency and success of reform. It will be important to ensure consistency in order to prevent policy failure.

3.3 Boosting trade, investment and finance in the BRI

A key challenge for policymakers is, as noted above, to design policy that is consistent, in the sense that it minimizes macroeconomic and financial vulnerabilities while incentivizing desired market responses. We list below, by level of policymaking, some of those areas of vulnerability, and discuss how to design consistent policies in each case.

Figure 20. Boosting trade, investment and finance in the BRI



A. Addressing project risks

Lack of coordination can lead to barriers in trade and investment, create constraints for cross-border public goods investment, and ultimately lead to the inadequate addressing of risks. Insufficiently addressed risks can result in higher project costs, disputes among stakeholders and even the failure of the project as a whole. For instance, a power plant should meet technically specified standards for design, operation, maintenance and social and environmental concerns, including health, environmental hazards and impacts. Apart from the technical risks, projects need to be staffed by adequately trained persons working under modern management systems. As global experience has shown, infrastructure projects, even relatively passive infrastructure projects such as highways, vary greatly in operating efficiency across countries, even when the projects are built to identical technical standards. Differences in transparency, labor quality and management systems all contribute to differences in operating outcomes. Furthermore, projects need to be properly resourced in terms of raw material and access to operating capital. This requires contracting mechanisms that do not compromise on raw material, such as the quality of coal to operate a power plant.

Projects must make adequate operating capital accessible. For instance, funds to maintain infrastructure projects must be made available as needed. The above represents serious challenges for the governance of projects in poorer countries. BRI projects can accelerate policy change, to better manage project risks, in favorable directions at all tiers of governance. One approach that was found to be useful in many contexts described below, was to review a BRI project to understand the gaps in policies that need to be bridged to achieve best practices. These could be gaps of several types: in technical capacity, such as how to design a power plant to achieve a rated capacity; in managerial capacity, such as how to instill appropriate maintenance procedures; and, in resourcing capacity, such as how to provide adequate access to operating capital. Each of these gaps will trigger recommendations for changes in regulations, systems and procedures and capacity building. Such changes may then be related to underlying changes in governance that are needed at various levels to trigger policy change.

B. Addressing barriers to investment, finance and trade

Despite the experience of several decades in addressing barriers to TFI, it is well known that these still exist in many poor countries and can significantly raise the risk of investment and trade transactions. The most common barriers to investment lie in the areas of investor protections and operating rules. While poor countries may wish to adopt best practices regarding investment, they often struggle with achieving this. For foreign investors, a level-playing field with domestic investors is the first requirement. However, beyond this, a set of rules similar to what they work with in developed global markets may be sought, i.e., foreign investors may want a global level-playing field. Furthermore, foreign investors might be concerned about particular risks arising from recipient countries, in particular macroeconomic and financial environment risks. For example, if a recipient country's currency lacks capital account convertibility, this may act as a barrier to foreign investment, since foreign investors are likely to want to freely repatriate returns from investment in their desired currencies. Similarly, foreign traders will be also concerned for the same reasons.

Best practices are often difficult to achieve for the host (recipient) country, due to internal conflicts. Consider the issue of a level-playing field with domestic investors. Domestic investors in poor countries often face a number of challenges in domestic operations, such as illiquid markets, poor access to credit, high transactions costs, and high currency management costs; such challenges are not faced by investors from developed countries. Hence, establishing a level-playing field will provide a significant advantage to their foreign competitors. In such a case, it is reasonable to expect that pro-competition reforms will be opposed by domestic businesses. In such a case, achieving reforms will require a calibrated effort, in which barriers to foreign investors are reduced in tandem with reductions of the barriers that domestic investors face.

Once a level-playing field regarding domestic businesses is achieved, host countries will be able to address the issue of improving domestic operating conditions to match global best practices. This, too, will require calibrating reforms to the conditions in the recipient country. Some reforms may take many years to achieve, such as providing capital account convertibility, while others, such as developing efficient dispute resolution mechanisms, may be achieved more quickly. To help address the economic environment, the BRI can play a catalytic role. As noted earlier, BRI infrastructure is delivered using the vehicles of trade, investment and finance. Each proposed project should be reviewed for an understanding of the policy gaps that need to be addressed to reduce the barriers to TFI.

It is important to realize that domestic investors will usually have greater access to policymakers than foreign investors, especially at local levels. This access will be even higher for BRI projects, since these are addressed at local and national levels. This opens the possibility for domestic investors to erect strategic barriers to TFI, in collaboration with policymakers, to protect their interests. Similarly, labor unions, which might perceive a reduction in barriers to be against their members' interest, may collaborate with policymakers to erect strategic barriers to TFI. To address this issue, domestic policymakers should create policy in coordination with all domestic stakeholders. These include not just producer groups and labor groups, but also consumer groups. The key point here is that TFI will benefit from harmonized rules and procedures, for example, in the area of regional and cross-border procedures. In the case of trade, transport and logistics, services will work smoothly if technical, regulatory, legal and institutional obstacles are sufficiently addressed in a cross-border specific context. In the case of finance and investment, policy barriers will likely need to be addressed beyond a cross-border, infrastructure-specific context, and will require policy innovations at various governance levels.

C. Ensuring consistency between national and regional policy planning

At the regional level, harmonized regulation faces a key challenge: regulation needs to be consistent with both national priorities and national institutional capacities. Since different countries' national priorities and

institutional capacities differ substantially, this creates a fulfillment risk for cross-border projects. To address this risk, it will usually be necessary to create cross-national environments that are sufficiently harmonized to permit risk management and bring it to acceptable levels. The first challenge that harmonization may face is that, in recipient countries, national priorities may be internally inconsistent. For example, a policy relying primarily on foreign direct investment for infrastructure development may be inconsistent with the general rules informing domestic content requirements. Making these two policies consistent with each other may require additional policies to clarify when domestic content requirement rules would apply. The second challenge that harmonization faces is that, in recipient countries, project implementation and evaluation capacities may be inadequate. Such inadequacies may arise from technical deficiencies and process immaturities. Finally, the third challenge is to harmonize policies across national environments. This is not necessarily just a matter of bringing both environments (in the sending and recipient countries) up to a level where best practices prevail. Even two mature processes may be inconsistent with each other and require conscious harmonization. A typical example is when countries rely on different tax regimes, such as excise taxes versus sales taxes, to realize revenue. Harmonizing these under a value-added tax regime would resolve the problem on a long-term basis, but, in the short-term, such harmonization would probably require project specific policy adjustments. The BRI can help achieve consistency across national environments. By taking a project specific approach, a gap analysis can help identify policy and implementation gaps, and provide recommendations on harmonization.

D. Creating an enabling environment for addressing public goods at the regional level

While fulfillment risk exists for all projects, it is particularly a problem for projects that deal with public goods. For example, a power-generating project that generates air pollution will need coordination in monitoring compliance across borders, regarding pollution levels and mitigation efforts. To ensure that this is done successfully will require that the regulatory system has the institutional capacity to monitor and enforce compliance.

For BRI projects, many of which deal with public goods, regional consistency in policymaking could offer immense benefits. Achieving agreement on priorities, enforcing commitments and streamlining regional cooperation, thereby capturing positive spillover, should be at the core of the BRI framework, to ensure policy coherence and consistency. Establishing a structured form of cooperation for connectivity within the BRI, taking into account institutional arrangements, either formal or informal, will be crucial to its success, and will need to encompass various national and regional levels. Arrangements need to be coordinated to reduce risk and make projects sustainable. National institutional capacities need to be addressed and strengthened, all the while gaining knowledge over resources, priorities and programmatic aspects.

If the BRI can help achieve regional consistency in policymaking, it will demonstrate its potential to be a public good by itself, since the agreements achieved based on its priorities and capacity building will spill over into other areas of trade, finance and investment outside the BRI.

E. Ensuring that governments are prepared

Governments may not always be prepared to deal with the long-term nature of investments, trade and financing. The absence of proper legal, regulatory, governance and institutional frameworks can result in market and policy failures, lack of resources, government and industrial failures and industrial resistance. Industrial growth, trade, and investment have long been dealt with as separate issues and their inter-linkage is rarely acted upon. This can lead to tension between different policies and institutional actors and between governments and investors. Earlier, it was noted that BRI has the potential to play an important role

in integrating trade, finance and investment policy through project-specific gap analyzes. This would be a unique role for the BRI, arising from the fact that the success of infrastructure connectivity projects requires wide-ranging reforms.

To improve the effectiveness of project-specific approaches, the BRI should also support sector and national level reforms in relevant areas – conditioned by the demands of a given local context. For example, a BRI project aimed at connecting national rail systems should not only consider the policy changes needed to connect the national rail systems, but also the requirements for improving the recipient country's national rail system. These ways could include policies to improve the management of the system as a whole – for instance, by digitizing logistics – or policies to bring in adequate resources to manage the system. Apart from such sectorial reforms, the BRI should support national reforms in relevant areas – conditioned by demands of the local context. For example, monitoring environmental standards and investor protections for projects require rules that are applicable nationally. In this way, the BRI can play a catalytic role that will enable project-specific approaches to achieve a national impact.

3.4 Enabling the environment for harmonizing trade, finance and investment across the BRI

As the foregoing sections have stressed, adequate governance is needed to make the BRI work across countries and regions. A country's institutional environment – where institutions are understood economically in terms of social and regulatory structures, such as the rule of law or the protection of property rights – is central for economic activity to develop and flourish. According to UNDP (2011, p.17), mainstreaming trade is defined as the process of integrating trade within national and sectorial development planning, policymaking, implementation and review in a coherent and strategic manner. Similar statements may be made regarding finance and investment. Operationalizing trade, investment and finance through policies and measures requires a comprehensive approach at national and international levels, ranging from political to administrative authorities in fields from policy-making to implementation.

For example, financing needs in economies are often challenged through a lack of private sector participation, inadequate planning and implementation; however, they also suffer from an inadequate addressing of risks and uncertainties in cross-border issues. For an enabling environment, integration is a fundamental way to strengthen governance towards efficiency and harmonization, and, subsequently, the coherency of policies. Integration encompasses vertical (international, regional, national and local) and horizontal (intra-governmental) levels. In other words, trade, investment and finance are dependent on joint action, coordination and efficiency. For governance, the mixture of institutional, regulatory and legal mechanisms is fundamental.

Multiple levels of coherence (global, regional, and national – including advanced, emerging and developing countries) are relevant to the integration of governance. At the international level, a mixture of national frameworks, programs, action plans and strategies are to be drawn upon to achieve commitments, for example, through UN conventions and frameworks. At the regional level, integration should be facilitated by cross-border initiatives, information sharing to enhance facilitation and coordination in decision-making processes. Policies should provide relevant agencies with clearly designed time frames, responsibilities and resources; harmonization efforts should reflect the demands of the recipient countries. Countries need to develop capacities to ensure cooperation and coordination regionally and sub-regionally.

At the national level, strong institutions, rule of law, quality regulation, transparency and openness are core qualities for ensuring a sound playing field that unleashes the potential of coherent policy integration. Measures to support an integrative framework should encompass all levels of policy design, decision-making and implementation. Overarching legal frameworks should address overarching social, economic and

environmental development goals, and provide a framework and means for implementation and enforcement. Different strategies, including general level (e.g. national development plans, action plans) strategies that address specific issues, and sector and issue-based strategies (e.g. addressing environmental resources) should ensure policy-making and regulation are geared towards coordination. This is particularly important to avoid redundancy, friction, overlaps or lengthy procedures. Domestic commitment should be based on integrative stakeholder processes and built from existing policies, incorporating sector or issue-based plans.

At the local level, governance has to be adequately exercised; it needs to be consistent with strategic goals and institutional mandates and aligned with local demands and capabilities. There is a need to build and strengthen the capacities of local governments and strengthen policy integration with other administrative and institutional levels.

3.5 Reforming the marketplace as a platform for trade, finance and investment

Developing a suitable TFI policy architecture will require an understanding of the platform through which TFI transactions take place. This is the marketplace, which should be viewed as the basis for all economic transactions.

To enable the marketplace to perform efficiently, it should display three features: (1) It should be possible to perform most transactions within the marketplace. (2) The pricing of transactions should reflect an accurate identification and pricing of underlying risks. (3) The marketplace should have low transactions costs. In today's world, this means that transactions should be digitized to the every extent possible.

We refer to these three features as marketization, risk identification and management, and digitization. These usually develop in phases as an economy develops.

3.5.1 How the BRI can help marketization

In developed market economies, most goods and services are readily available through a large number of competing buyers and sellers. Even licenses may be traded in markets or acquired through competitive bidding. Construction contracts are awarded through transparent, competitive bidding mechanisms. In less marketized economies, there is a greater reliance on off-market contracts, such as long-term negotiated contracts between buyers and sellers. For instance, power contracts may be negotiated only between parties who are of a certain size. Purchases in spot markets are rarely found. Generally speaking, less developed economies are less marketized; marketization increases with economic development.

There may be rational reasons for economies to display low marketization. For example, if information about the credit worthiness of a transactor is inadequately available, then restricting the transaction to parties of a certain minimum asset size reduces contractual risk. The downside of low marketization is that many smaller consumers and SMEs find it difficult to participate in growing areas of the economy. In highly marketized economies, SMEs are a key engine of job growth and innovation. This benefit would be reduced in low-marketized economies. The BRI can play an important role in the marketization of recipient economies. An important starting point is the prioritization of the markets of a participating country. Typically, capital goods markets, trading markets and long-term financial markets are important initial targets for development. To support the development of these markets, a sending country could open up its domestic markets to transactions from their recipient country. This would mean allowing economic actors (investors, traders, and financiers) from the recipient country to undertake transactions in the markets of the sending country. For instance, transactions in capital goods could be undertaken and cleared in the local currency of the recipient country, using the markets of the sending country for contracting and settlement.

While this will require substantial coordination, this approach could play a role in accelerating learning in the recipient country about how markets work in relevant contexts, such as contracting, compliance, and fulfillment. Note that such learning would take place not only by policymakers, but also by market participants, such as firms from a recipient country. By encouraging traditionally excluded market participants, such as small consumers and SMEs, this approach can also expand market size. Note also that, while this approach would be innovative in the BRI context, it is not a new idea.

In financial markets, it has been common for firms in recipient countries that wish to access foreign capital, to use offshore capital markets rather than their own capital markets to raise initial resources. Later, as financial markets and currency management mature in recipient countries, such transactions usually begin to move onshore. What is being proposed is the analogue of offshore financial transactions, albeit in a real goods and domestic currency context. With adequate digitization and monitoring, it should be possible to design markets that are physically located in the sending country, but whose participants are located in the recipient country. At the same time as market transactions are enabled, markets in the sending country could be asked to mentor markets in the recipient country. This approach would include supporting the redesign of market rules in ways that are consistent with both the host country and international norms. In addition, through training initiatives, best practices could be cultivated by regulators and market participants.

3.5.2 How the BRI can help risk identification and management

Risk identification and management (RIAM) is a second feature that is critical for the delivery of TFI across a marketplace. RIAM refers to the extent to which risks in a transaction can be identified and managed. As an example, in the electricity distribution case discussed earlier, risks arise from various activities (as in any commercial project). Typically, the distribution company purchases power at a high voltage from a grid, reduces the voltage in phases and sells the lower voltage power to consumers. At each stage, there will be operational risks, such as uncertainties about the quality of power purchased from the grid, the capacity of the network and management of grid transactions, and the adequacy of grid supply relative to the demand for electricity from consumers. In addition, there may be investment risks, such as uncertainties about the cost of land and equipment, and uncertainties about the repayment of capital and associated currency risks. Third, there may be financial risk, such as uncertainties about the size and cost of the debt and equity needed to finance operations.

In economies with high RIAM capacity, a large percentage of economic risks are identified and managed. For example, to address the risk of consumer non-payment, an electric power company may be able to obtain information on its consumers' creditworthiness. This depends on the consumer's current earning and spending, as well as the consumer's historical record of earning and spending. In economies with high RIAM capacity, such information is usually available, leading to efficient identification of potential defaulters and pricing that reflects risk. This reduces costs for more creditworthy consumers and leads to better risk management.

However, in economies with low RIAM capacity, there may not be enough information about individual consumers to obtain accurate information on creditworthiness. In order to manage the risk of non-payment, power companies often charges a small fee to all consumers to cover the risk of default by a few consumers. This raises transaction costs and hurts those consumers who are creditworthy.

The BRI can help build RIAM capacity in recipient countries. The three aspects of building such capacity are: improving the information content of transactions, assessing the risks associated with each transaction, and developing the technical skills for risk management. The first-named risk is nowadays usually sought to be accomplished largely through digitization platforms. This aspect is dealt with in the next section. Concerning

risk assessment, the technical skills that are needed include the expertise to conduct risk assessments based on the information available, as well as risk management skills. Risk management covers risk diversification, duration matching, and other risk management strategies.

Since building RIAM capacity is applicable to all BRI projects, the approach to support capacity building is likely to be best developed through a multi-sector approach. This suggests that different projects should be considered based on their RIAM implications. An approach including RIAM considerations, calibrated to the state of informativeness regarding risks, will also be needed. As a recipient economy develops its capacity to generate information that is useful for RIAM, RIAM strategies will need to be adjusted.

3.5.3 How the BRI can help digitization

While the scope of digitization is larger than any single initiative, and needs to be addressed at the national level, the BRI can significantly assist a recipient country's digitization. This can be done by embedding within each BRI project a digitization component that is based on the best practices of the sending country (or global best practices). The digitization component should cover platforms for communication, transaction support, and risk identification and management. These could include both 'hard' and 'soft' platforms. For instance, the management of power distribution is a complex activity, due to variations in peak demands, local demand variations due to weather and other factors, and uncertainties in supply. Modern power distribution management systems incorporate considerable digitization to improve grid reliability and the adequacy of supply. The 'hard' components include voltage sensors and several other sensors that feed data into a grid management system. The 'soft' components include, for example, software that supports proactive problem detection and automated grid resolution. Other uses of digitization include monitoring and responding to power quality and environmental requirements, along with peak time power pricing and management.

3.6 Making the trade, finance and investment architecture work

The discussion hitherto in this chapter has focused on reforms to create a desired TFI architecture through the BRI, in order to support the projected economic benefits of the BRI. The proposed TFI architecture will need to be consistent with other objectives and parallel initiatives for development, such as the social and environmental goals of the BRI, as well as with parallel regional and global initiatives under way to address globalization and economic integration, such as RCEP.

3.6.1 Sustainable development should be the core

The social and environmental goals of the BRI are intended to achieve poverty alleviation, the improvement of the quality of life of people living in BRI countries, and protection of the environment. Some of these goals are naturally consistent and synergistic with each other as well as with economic goals, in the sense that focusing on them will also improve outcomes in other areas. For example, a project that improves access to clean cooking fuel not only addresses the environmental goal of cleaner air, but also improves the quality of life of the poor, i.e., it fulfills a social goal. By improving health, it positively impacts the productivity of the population, thus helping address long-term economic goals.

Not all goals will have such naturally consistent outcomes. To ensure that sustainable goals are achieved, they should be embedded in the social and environmental policy priorities of the TFI architecture. For example, the regulatory system for awarding contracts to supply cooking fuel should include appropriate standards for the quality of fuel that will meet environmental and health standards. Further, regulatory standards for the construction of fuel production and distribution should specify technical standards and rules for compliance. In some cases, there may even be natural inconsistencies between economic, social and environmental goals.

In such cases, conscious policy actions and choices may be required to ensure consistency. For example, the layout of a highway that is the most economically efficient is likely to be in a straight line, all else (such as topography) being equal. However, if the straight line intrudes into an area that is environmentally sensitive, such as a zone with high levels of biodiversity, economic and environmental goals would then be in conflict with each other. Policies that ensure adequate environmental protection would be needed in this case.

Another case that is commonly experienced is when transport corridors are designed to address specific economic opportunities without considering social impacts. Such a scenario is commonly referred to, in the relevant literature, as 'ribbon development'. Ribbon development means the development of infrastructure and services in a narrow area around a main transport corridor, usually through private initiative. For instance, housing tends to be developed near highways in order to reduce residents' commuting time to the highway. The government may even worsen the problem by concentrating public services, such as health and education services, along the ribbon. This can lead to economic and social decline in areas (both rural and urban) located away from the corridor. Over time, remote areas can degrade due to rapid outmigration to areas within the ribbon, subsequently increasing congestion therein. To address this issue, the government should, prior to building a corridor, account for the costs of supporting balanced development in the area through radial transport, electricity, and other infrastructure links, and build these costs into the corridor project. Some of these additional costs, being costs that address public goods, may have to be borne by the government.

3.6.2 Linking with other initiatives

A second area in which consistency is desirable is with parallel regional and global initiatives already under way to address globalization and economic integration, such as the Regional Comprehensive Economic Partnership (RCEP). RCEP is a trade and investment initiative, with the following key features:

- Agreement between ASEAN and its Free Trade Agreement (FTA) partners;
- It establishes a free trade region in goods and services, subject to rules of origin;
- It includes commitments to phase out non-tariff barriers to trade;
- It ensures protection of competition, foreign direct investment, and intellectual property rights. These rights will be protected under an RCEP Tribunal specifically established for this purpose.

In principle, the design of the BRI is consistent with RCEP and benefits from it. The BRI is built on the concept of "unimpeded trade" through FTAs (both bilateral and multilateral) and on bilateral investment treaties that provide for investor protection. Financial integration is an important feature of both the BRI and RCEP. Nevertheless, conscious coordination between BRI and regional trade initiatives can help to address unintended inconsistencies. One of the recommendations of this chapter is that reforms, through the BRI, need to be sequenced and calibrated based on the state of institutional maturity within recipient countries. While RCEP is also consistent with the process of phasing in reforms, coordination will ensure more complete support from both initiatives as well as from host countries. For instance, RCEP proposes to protect foreign direct investors under an RCEP Tribunal. Once this has been established, it could make sense for BRI investors to utilize RCEP's dispute resolution mechanisms. This would require coordination between the BRI, RCEP and the involved host countries. Furthermore, in host countries that are not part of RCEP or equivalent economic arrangements, the BRI could work with recipient countries to ensure that dispute resolution mechanisms are resolved in impartial fora.

3.6.3 Internal matching and consistency

This chapter has noted, in earlier sections, the importance of the BRI in promoting marketization, risk identification and management (RIAM) and digitization in recipient countries through project-specific and more general approaches to identifying gaps and instituting reforms. Such activities will be of significance in the achievement of the BRI's sustainable development goals. For example, the digitization of transactions will have spillover effects with social and environmental benefits. For instance, poor consumers eligible for subsidies to use clean cooking fuels over traditional fuels can receive such subsidies more efficiently if their transactions for the purchase of traditional fuels are digitized. Such activities will also support the functioning of other regional arrangements, such as RCEP. For example, increased marketization will enable more SMEs and small-end consumers to participate in formal markets, thus increasing the market size of RCEP countries for purposes of trade and investment.

A suitable TFI architecture should also provide guidance on the tiers of governance and their development in a phased manner. As discussed above, a key objective for the building of a suitable TFI architecture is that TFI transactions should take place in the marketplace. In turn, we made the case for marketization, risk identification and management (RIAM), and digitization. Each of these raises governance issues. For instance, how should marketization occur? At what level of government (multilateral, regional, national, provincial) should the regulation of marketization, if any, occur? A study of best practices suggests that marketization needs to be carefully sequenced with an important role for the government. We provide examples of TFI policies in the boxes below to illustrate the policy issues relating to marketization, RIAM and digitization, along with ways to address them. We also list the areas of governance in each case.

Figure 21. Trade policy

This case study presents how domestic policymaking influences trade policy. Consider, for example, the case of inspection regimes. Most countries impose high standards for the inspection of goods that enter their countries. This is particularly true for items such as food products, where low standards may lead to health problems – for example, when food from countries with known phytosanitary problems is imported. For non-food items, the standards are typically less rigid. For example, for textile imports, many countries accept 'country of origin' inspection as valid for their own country as well. In some cases, however, additional inspections for the imported goods of competitors' may go beyond what might seem reasonable in terms of best practice. This may be due to strategic trade behavior by domestic firms, who lobby with regulators to impose such practices, primarily in order to raise the cost at which the imported goods will be sold in the domestic market.

Such 'strategic lobbying' is usually possible when rule making by policymakers is a closed process, with no recourse. In the early stages of reform, this can be addressed by ensuring that decisions made on rules are promptly published and made available to the public at large. Furthermore, empowering a consumer watchdog body to provide an analysis of rules from a consumer protection standpoint will help improve pro-consumer rule-making. At later stages of reform, rule-making can be conducted in an open environment, such that consumers can participate in the rule-making process. At still later stages, the government can enable the appointment of firms and consumers to rule-making bodies, thus making them integral to rule-making.

The above example illustrates what can happen when strategic lobbying hampers trade policy, and provides suggestions about how this should be addressed. By adopting appropriate trade policies on disclosure and empowering market participants to be a part of the decision-making process, the above example shows how policy can address the problem and improve the efficiency of the marketplace.

Generalizing from the above, the key point is that a process of increasing the informational content and degree of civic participation in decision-making is how marketization and RIAM achieve high levels. Digitization is vital for these outcomes.

Figure 22. Finance policy

The case study presented here concerns risk identification and management (RIAM) as it affects finance policymaking. Every BRI project will have attendant operational and financial risks, arising from uncertainties about project costs and completion schedules, usage of the project, interest rates, inflation, exchange rates, and other causes.

Recognizing each risk and pricing the risks should be a standard part of every financing package. At the initial stages of reform, however, it may not be possible to mitigate risks through appropriate pricing. This is because the markets for trading such risks may not be well developed. For instance, capital markets, which are useful for pricing financial risks, tend to be underdeveloped in many developing countries.

An alternative to market-based risk management is to shift out the risks to the entities best able to manage them. For instance, sovereign governments may be best for managing exchange rate risks. Hence, it would make sense if the government announced policies whereby the exchange rate risks of a project are assumed by a national government risk management agency. In the case of poor countries whose economies are too fragile to assume currency risks, multilateral agencies can help by assuming such risks as part of their overall portfolio of investments.

Similarly, risks that are associated with recovering the costs of highway infrastructure could be borne by local governments and funded by toll taxes or other local sources of revenue.

At a later stage, as marketplaces develop, it could be easier to assign risks appropriately and efficiently through market transactions, rather than rely on policy support. For instance, to protect against exchange rate risk, it may be possible for a BRI project's managers to buy exchange rate hedges in the currency market rather than approach the government to provide coverage.

Figure 23. Investment policy

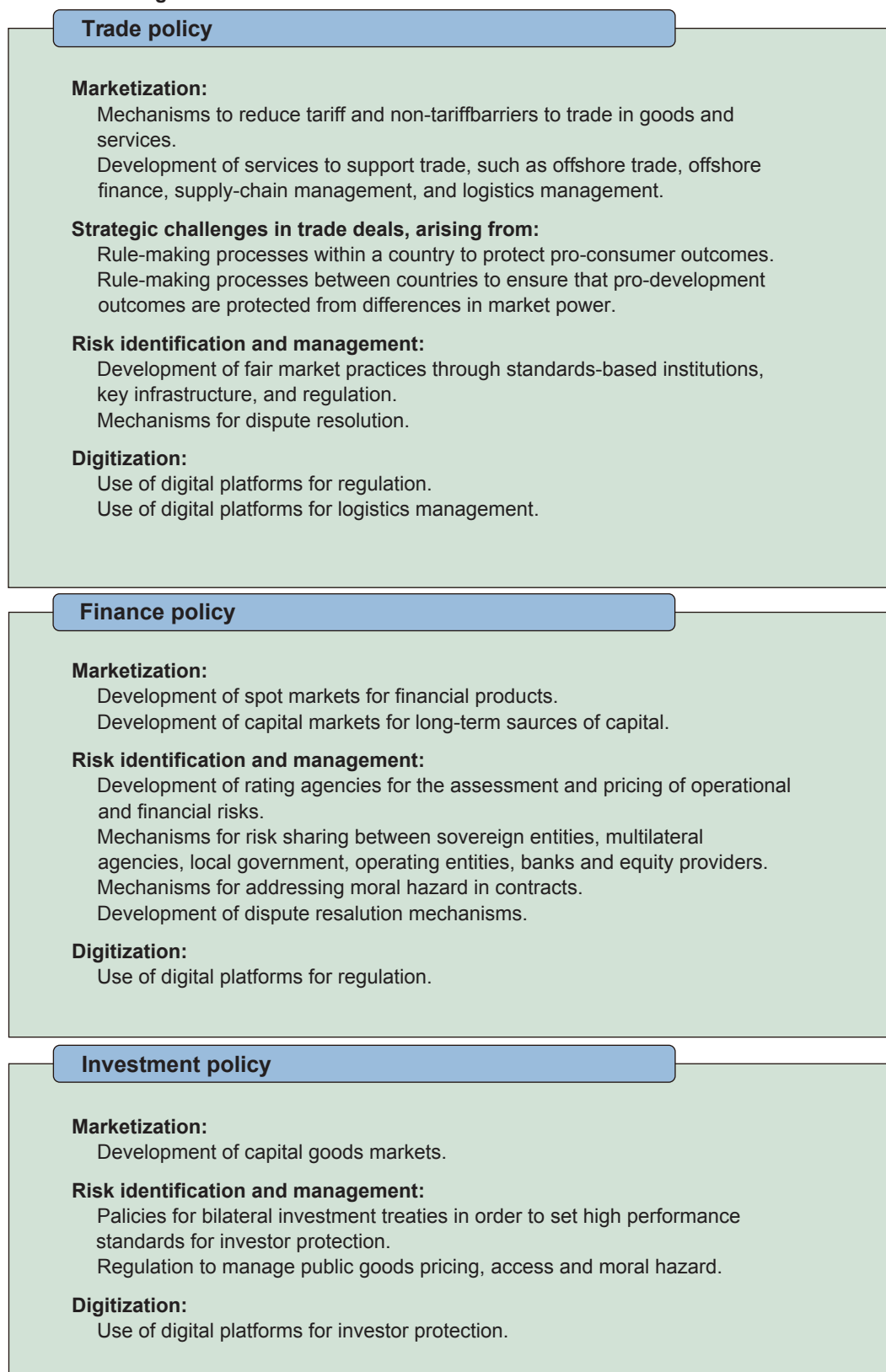
This case study presents how to create a marketplace through appropriate RIAM policies. Consider, for example, the problem of raising foreign direct investment (FDI) in public utilities. In the initial stages of a BRI project, in the absence of vibrant financial markets in the host country, as well as due to macroeconomic instability, it may not be possible for the host country to provide the necessary risk guarantees that lenders require on, for example, exchange rate risks. In such a case, the government of the investing country can play a key role through policies that enable it to guarantee investment in a utility across the border.

At later stages, state investment guarantees can be replaced by private investment, which would be guided by public regulation. The purpose of public regulation is to ensure a level playing field for new

investors, and incorporate consumer protection mechanisms. At still later stages of reform, say, once utilities are allowed to provide services across borders, the state of competitiveness may increase, and it may be less important to focus on investor and consumer protection via regulation. At such a stage, it may be possible to rely mostly on the market for financing investment. Instead of a regulatory body for each type of utility (power supply, gas supply, telecommunications), it may be possible to establish a single consumer protection agency for all utilities.

The BRI can be used to support the governance of a TFI architecture by introducing new activities that will spur policy innovation. Each area of governance noted above should be reviewed within the context of the BRI, in order to understand how it may be impacted through its activities. As should be clear from the list above, many of the activities are likely to be novel activities for recipient countries, and could be introduced through the BRI. These include the development of services such as supply-chain management and logistics management; disclosure rules and speedy dispute resolution; new digital platforms for information disclosure; transactions management and compliance; different kinds of financial markets for different purposes; associated services such as rating agencies; and regulations to manage public goods pricing, access and moral hazard.

Figure 24. Areas of governance



Conclusion

This chapter has presented a comprehensive trade, investment and finance approach for the BRI, seeking to capitalize on synergies between sustainability and different sectorial policies, and between diverse actions at the local, regional, national and international levels. While such a comprehensive framework can make opportunities feasible, responsibility and sustainability should be referred to as core features, both for governments and the business sector. The latter has been addressed in a series of OECD publications, the UNCTAD Investment Policy Framework for Sustainable Development, and the United Nations-supported Principles for Responsible Investment (PRI), an international network of investors working together to put the six Principles for Responsible Investment into practice. Within the 2030 Agenda for Sustainable Development, investment, trade and financing should be viewed as added-value activities and cross-cutting drivers of development, aimed at maximizing outcomes, such as the alignment of investor practices with the integrating of the SDGs. This can contribute to achieving the SDGs and driving innovation and opportunities, while developing long-term value and mobilizing a responsible use of financing development.

As the relevant academic literature shows, trade and finance, through well-established mechanisms, may enhance growth performance and trigger indirect effects through institutions or through structured trade and financing arrangements (preferences and regional groupings), which would effectively compensate for geographical disadvantages (such as for landlocked and small-island states) and institutional immaturity. This can be captured by the BRI as an opportunity to promote sustainability-driven investment, trade and financing, particularly in cases of infrastructure development. As a corridor initiative, the BRI's philosophy is that corridors – first physical and then economic, are at the heart of sustainable development. To address the needs of recipient countries in ways that deliver economic, social and environmental benefits requires a careful consideration of how sustainable development should proceed. This requires a careful review of policy priorities, strategies, resources and time-lines.

One of the advantages of the BRI is that the corridors engendered under BRI projects can serve increasingly deeper purposes as the recipient countries mature. In its earliest stage, a corridor is simply a piece of physical infrastructure, such as a road or rail link, that connects two locations in different countries. Upon completion of the physical infrastructure, this expands the market for goods, services and labor, and enables two-way exchanges at much lower transaction costs than before. Trade, finance and investment can begin to flow along the corridor. In this simple stage of market expansion, the architecture for governing trade, finance and investment across borders can be relatively simple. For example, if the recipient country exports labor to the corridor to work in the developed cities of the sending country, the TFI architecture needs to be able to regulate the trade in labor services. As the labor will be coming out of an informal sector and moving into a formal sector, the governance structure will need to focus on the marketization of labor. Such marketization will need to be responsive to the requirements of sustainable development. This includes investment by the state, directed at improving human capital in the areas of health, education and housing; such investment would also provide basic services such as power supply, water, sanitation and hygiene.

As each corridor transitions from a physical corridor to an economic corridor, markets in each location will start to deepen. Economic activities such as SME creation are established, and services that connect traded goods start to develop. TFI architectures originally established for regulating labor movements can now expand to include governance of the economic activities of a given country. The key activity at work here is the marketization of goods. Various SMEs that operated in the informal sector can now be formalized through the increased marketization of the corridor. At the same time, addressing the needs of sustainable development is crucial. These include addressing the environmental issues that arise from economic development and improving the quality of SMEs through training and investment. At the next stage of development, economic

corridors expand in scope to include the flow of finance for investment in capital goods, sophisticated trade and the building up of a supply-chain that crosses borders. TFI architecture at this stage needs to expand to address these needs through risk identification and management, and investments in digitization. To address sustainability, continued investments in human capital will be needed. In order to address environmental concerns and to preserve biodiversity and cultural heritage, it will be important to ensure a balanced regional development.

In summary, a key outcome of this chapter is the need for significant support for recipient countries if they are to fully benefit from the BRI. Below is an enumeration of the key areas of support by type of recipient.

FOOD FOR THOUGHT

For Chinese policymakers:

Focus on leveraging the BRI to support the implementation of best practices through coordination and technical assistance

- Incorporate coordination and cooperation mechanisms to embed best practices in TFI policy reforms, within BRI project packages and in national-level discussions with recipient countries. These mechanisms will need to be implemented sensitively, keeping in mind the state of development in the host country. They will also need to be calibrated and modified in accordance with the stage of institutional development in the recipient country.
- Develop technical capacity through training and experience; support the implementation of the regulatory systems of different types of industries and services in recipient countries.
- Provide capacity for recipient countries to develop their understanding of marketization and risk identification and management.
- Streamline private sector dialogue and demands with domestic, regional and international trade, investment and finance institutions; promote and develop tools for assessing and developing untapped market potential, guided by sustainable and responsible principles.

For policymakers in BRI partner countries:

Use the BRI to embed best practices in trade, finance and investment policies through information dialogue, the harmonization of regulations, and the incorporation of public and private stakeholders

- Introduce coordination and cooperation mechanisms for embedding best practices in policy reforms, as part of BRI project packages and national level reforms. The best practices include an understanding of the different dimensions of a trade, finance and investment architecture, such as marketization, risk identification and management, digitization and legal institutions.
- Improve the operating environment to promote adequate and high quality information disclosure and transparency, and reduce transaction costs.
- Harmonize regulations domestically and across countries in order to achieve both internal and cross border consistency, and to benefit from public goods.
- Increasingly incorporate stakeholders into the process of policymaking in a way that is inclusive and covers SMEs and consumers.

For international organizations:

Support the harmonization of the BRI with other regional approaches through coordination and technical support, with a special focus on LDCs and LLDCs.

- Provide forums for exchanging information on coordination and cooperation mechanisms, aimed at introducing best practices to recipient countries.
- Improve the understanding of market regulation, marketization, risk identification and management, and digitization in recipient countries through training and other support.
- Improve the understanding of how economic transactions interact with social and environmental goals; design approaches for achieving consistency and spillover benefits between economic, social and environmental goals.
- Improve the understanding of how to coordinate the BRI with other regional approaches and agreements.
- Develop specific measures for the least developed countries (LDC) and landlocked developing countries (LLDCs).

Chapter 4

How can the BRI enhance development dividends towards win-win cooperation?

KEY MESSAGES

Sustainable development is a critical element in the link between economic benefits and human development

Develop policies that align the BRI's economic goals with sustainable development through the incorporation of tools such as the social rate of return, organizational and technological innovation, human capital improvements in BRI projects, and benchmarking and evaluation tools. Such tools should incorporate both economic return parameters, such as net present value, social return parameters, such as employment generated for underprivileged groups, and the added value provided by SMEs.

Building capacity for effective governance

Ensure that reforms are sequenced according to the capacity of states and beneficiaries to participate in the reform process. Build capacity through training, benchmarking, and mechanisms for collaboration, coordination and policy formulation across various tiers of governance and between states and beneficiaries.

Solutions to advance sustainability will come from a greater inclusion of actors

Support sustainable development through the participation of beneficiaries in governance and informational dialogues; through the promotion of responsible business conduct; through public-private partnerships, including SME participation; and through giving an effective voice to the underprivileged in human capital and community development initiatives.

Introduction

Markets within which the BRI takes place—whether local, regional or international—play important social and economic roles. This chapter focuses on the governance of BRI projects and how they might achieve the goal of stakeholder involvement in the sustainable development of BRI projects and programs. As discussed in Chapter 3, trade, finance and investment are the three ‘vehicles’ within which all the economic activities of the BRI – building physical infrastructure, sales of goods and services, and related economic activities – will take place. To a significant extent, the ability of the BRI to influence sustainable development is dependent upon the effective governance of trade, finance and investment. It has to be ensured that there is equal access to the BRI’s projected growth benefits and that barriers to inclusion are removed. In addition, quality infrastructure investment has to take into account all aspects of economic, social and environmental sustainability. This approach is not only a technical matter, but is intrinsically linked to institutional set-ups and policy domains. The challenge remains to turn constraints into opportunities that generate dividends for poverty reduction and the managing of environmental and climate impacts.

This chapter is structured as follows. Section 4.1 discusses how to bring sustainability into the BRI. Section 4.2 highlights the importance of creating consistent linkages between policies and sustainable development. Section 4.3 analyzes how governance may contribute to sustainability. It features the opportunity of the BRI as a platform for green trade, finance and investment, and highlights the need for enabling business sector participation and human development as the blueprint for achieving the BRI’s intended impact.

4.1 How to bring sustainability into the BRI

The BRI is intended to respond to the need for sustainable development through enhanced connectivity. A broad list of connectivity projects include physical infrastructure, such as mass urban transport systems, housing, roads, energy, water and waste management; social infrastructure, such as hospitals, schools and programs for the balanced development of rural and urban areas; and infrastructure for disaster risk management and digitization. Together, these comprise a comprehensive response to pressing cross-regional development demands. Asia needs to collectively invest USD \$8.22 trillion between 2010 to 2020 alone; these funds are needed in electricity, transportation, telecommunication, and water and sanitation infrastructure. The purpose of such funds is to assuage development demands across Asia’s diverging economic development levels and geographies (OECD, 2015b). This is equivalent to 6.5% of this regions annual GDP.

Several forces influence sustainable development today. These include industrialization, urbanization, changing demographics, increasing inequality, environmental commitment, digitization, connectivity and technological advances. The direction of their influence can be complex and depends on their direct and indirect effects within a specific regional or local environment. Furthermore, specific country contexts will impact the results of the BRI’s sustainability efforts. Factors such as land, labor and capital, geography (for example, being landlocked), and the climate may impact outcomes as much as policy dynamics or institutional factors. While the former factors are situational, the latter refer to the dynamics impacting national and sectorial development planning, policymaking and implementation. As was pointed out in the second chapter regarding the national implementation of the SDGs as the basis for BRI engagement, the relationship between various policy levels – global, regional, national and local levels – is of utmost importance. This relationship will influence the dynamic of institutional arrangements in terms of achieving the BRI’s desired objectives. The linkages between policies and institutions should be addressed in a coherent and strategic manner, in order to tackle development bottlenecks and achieve the desired impacts of the BRI.

A key goal of the BRI planners is to develop a reliable roadmap to achieve sustainable development. This requires embedding social and environmental sustainability into the BRI’s projects in order to develop

responsible approaches to connectivity in and across BRI countries. This, in turn, requires the capacity for governance systems to mature at the same time as the economy matures. In order to ensure that all stakeholders equally benefit from an economy's development, the role of different stakeholder groups – businesses (including SMEs), environmental organizations, and underprivileged groups such as women – those in remote areas or low income groups needs to be defined. Their participation needs to be organized through appropriate governance mechanisms, in order to improve the sustainability of the BRI.

Governance for sustainable development needs to promptly respond to changes in economic structures. As sustainable development begins to be embedded in BRI initiatives, governance should move from highly regulated to less regulated. This means that the economic, regulatory and participative instruments available to policymakers may need to be adjusted over time. The goal of such change is for economic actors to find new and innovative approaches for effectively participating and profiting from value chains and other economic activities. These activities should take advantage of regional complementarities in the achievement of sustainable development. In this way, all stakeholders will play a critical role in helping the BRI's projects create jobs and wealth, and support innovation.

Mechanisms for effective communication with and participation by stakeholders will be the vehicles through which their roles will be established. Giving a voice and effective representation to decision-makers at the level of small businesses and employees, and particularly more vulnerable groups, such as youth, women and those located in underprivileged areas, will require careful governance designed specifically to protect their right of agency. This can otherwise be neglected due to the presence of larger stakeholders, such as large businesses. Governance also needs a careful design if it is to support environmentally friendly policies. Both will require an abundant (but careful) use of new technologies, such as e-commerce platforms.

The governance roles envisioned for the BRI are as follows:

- First, the BRI should support the replication of mature governance structures in developing economies in a calibrated fashion.
- Second, the BRI should go beyond the typical state-business partnership found in developed economies, and include a role for other non-state actors, particularly those who are most vulnerable.
- Third, the BRI should support the creation of platforms for pro-environment governance beyond what is found in developed economies.

4.2 Linking trade, finance and investment governance with sustainable development

In this section, the case is made for the importance of governance and policy consistency in order to attain sustainable development, followed by discussion about the importance of policy sequencing. This sub-section also discusses the incorporation of the interests of non-state actors as part of the sequencing reforms. The last section concerns how TFI policies can contribute to sustainable development.

Successfully embedding sustainable development into trade, finance and investment policy will help fulfil a key goal of the BRI planners, namely, the development of a reliable roadmap for achieving sustainable development. This should lead to responsible approaches to trade, finance, investment and connectivity in and across BRI countries.

A key challenge is a potential lack of alignment between the goals of BRI projects and those of sustainable development. Note that such alignment needs to occur at all levels – regional, national and local. The challenge arises because of a potential lack of policy consistency across economic, social and environmental dimensions. This may occur because the policy inputs (the institutional and hierarchical arrangements) that foster the synergies for policy outputs towards public goods provision - which efficiently generates the policy

outcomes - may not be achieved naturally. Similarly, there may be no natural link between economic outcomes and social and environmental sustainability. Other challenges include ensuring that policy responses are efficient and produce significant and relevant change.

These factors have two aspects that need consideration: first, for reasons discussed earlier, BRI initiatives should be inclusive of different stakeholders (these include profit-oriented businesses, as well as consumer groups and other actors from civil society). This inclusion, however, may raise new challenges for obtaining consistency, since there may be no natural link between the actions of different groups and social and environmental outcomes. Second, policymaker capacity is likely to be a constraint in recipient countries and at local levels. This may adversely affect the outcomes from BRI initiatives, should policymaking be unable to adequately address the dimensions of change outlined above, such as efficiency and relevance.

Many current socio-economic challenges are interdependent and seem to require, at the least, coordination between policymakers at different levels, in order to maximize joint benefits. At the national level, creating such a framework of coordination is needed in order to address political economy, governance, and regulatory challenges and opportunities. Adding in the criteria that joint benefits need to be sustainable requires policymakers to, in addition, commit to policies with long-term sustainable outcomes, such as intergenerational equity and inclusion. This may also require policymakers to commit to carefully calibrate their approach to policymaking, which may focus too much generating short-term benefits (whether economic, social or environmental) at the expense of long-term benefits in any of the three aforementioned dimensions. Potentially, if policy efforts succeed, markets could be created around opportunities that are significant for all stakeholders involved, including local communities, without overburdening natural resources.

Coordination of policy efforts to link regional complementarities, in the presence of cross-border public goods, may further improve sustainability. The BRI could include, therefore, specific arenas of policy action concerned with the supply of cross-border public goods. In the context of the BRI, cross-border public goods could include all the goods and services that are normally considered to be public goods in a domestic context as well. The list includes environmental protection, programs to promote development and poverty alleviation, security and humanitarian services, access to knowledge, and public health. Moreover, as Dossani (2016) notes, policymakers will have to consider whether cross-border public goods suitable for BRI investment include, at least, physical infrastructure such as railroads and pollution controlling equipment.

The inclusion of social services within the BRI implies a widening of traditional concepts of connectivity that usually include only physical infrastructure. Growing evidence shows the importance of social infrastructure as a public good when considering projects that would typically qualify as BRI projects, and the value of including their impact when calculating the benefits of such projects. For example, in sub-Saharan Africa, female employment rates increased by 9% after rural households in one area gained access to electricity. Evidence from emerging economies in Asia indicate that countries that upgraded their water-sanitation systems showed health-insurance claims having dropped by more than half (McKinsey, 2015).

4.2.1 State capacity in the BRI context

Whereas sustainable development needs cohesion on a global and regional basis, its impacts are national and local, with its responses having to be tailored to affected communities and populations. To understand the inter-linkages between diverse economic, social and environmental policy objectives, as well as the interactions between implementation instruments at different levels of policymaking, policy effectiveness is a key issue linking opportunities for growth and sustainability.

As Stiglitz (2015) notes, the role of the government in shaping the economy is central, not only through formal industrial policies and in its expenditure and tax policies, but in writing the rules of the game—markets do not

exist in a vacuum, and the way that the government structures markets inevitably affects economic structures (Stiglitz, 2015). Globally, different measures for stimuli (public spending programs, incentives, tax credits and cuts) have been passed by governments seeking to invest financial resources to tackle a credit crunch or weak demand. These efforts to reinvigorate economies often overburden local development and make it unsustainable, focusing, for example, on carbon-intensive measures. Linking stimuli to sustainable and green development has the potential to accelerate structural transformation and advance economic development towards adjustments in regulatory frameworks at national and international levels, in order to coordinate market interaction.

The institutional system for policymaking that is used to steer efforts towards inclusive growth may need to be streamlined. Depending on the context, one of three governance types could be applicable (Enders, 2004):

- (1) In the 'regulatory' form,³⁰ policymakers exercise significant control over setting goals and detailed targets, ensuring adequate resource availability, and supervising compliance.
- (2) In the 'steering' form³¹ of governance, policymakers are responsible for setting institutional goals and monitoring compliance, while targets, meeting compliance requirements, resource raising and implementation are the responsibility of those who implement projects and programs. For steering governance to be effective, there needs to be close collaboration between policymakers and other actors. In this type of governance, there is a larger use of disclosure mechanisms and ex-post monitoring of compliance.
- (3) In the 'advocacy' form,³² policymakers are primarily responsible for ensuring that institutional goals are consistent with national goals. Otherwise, they support ('advocate for') the system. Actual goal setting, compliance and all aspects of implementation are left to those who implement projects and programs. In this type of governance, there is significant use of informational dialogue and sharing of the governance of economic activities with non-state actors.

Each type of governance calls for some form of coalition among policymakers and market participants, although the form of coalition and the role of the different players will differ, depending on the type of governance. The instruments of policymaking – economic, regulatory and voluntary agreements – will also differ, depending on governance type.

The following table presents the range of instruments available to policymakers.



30. Under the 'regulatory' form, policymakers play the primary role. The role of other participants, such as those who make markets in goods and services, is primarily to implement projects and programs within the policy framework laid down by policymakers. The role of economic instruments, such as taxes, is primarily to manage revenue requirements. The role of regulatory instruments, such as quality of service requirements, is primarily for the purposes of guiding policymakers on how to direct market participants to comply with regulatory requirements. There is little role for voluntary agreements in this form of governance.

31. Under the 'steering' form of governance, policymakers use policy primarily as a way to influence the behavior of market participants towards best practices. The role of economic instruments, such as taxes and incentives, is primarily to steer behavior in particular directions. For example, tax credits may be used to promote green investment. The role of regulatory instruments, such as quality of service requirements, or emission standards, is to create a system of compliance built around disclosures and costs for meeting policy requirements. For example, a regulator may establish a standard for a desired quality of service, but will leave it to market participants how they will achieve the desired service quality. This will require the market participant to regularly disclose how it is meeting desired service quality and to bear the cost of not meeting regulatory standards. Voluntary agreements have some, albeit a limited, role to play under this form of governance. For example, the government may offer incentives for large firms to voluntarily partner with SMEs from the private sector in order to share technology to meet service level standards.

32. Under the 'advocacy' form of governance, market participants drive the policymaking process. They look to policymakers for support in achieving market goals. For example, service level agreements arise from the interactions of producers and consumers, rather than by policymakers. The role of economic instruments is primarily to support national goals of revenue, while regulatory instruments are used only in cases of likely market failure. There is a large reliance on voluntary agreements for achieving policy objectives.

Table 9. Regional, national or local policy instruments for encouraging sustainable development

Policy instrument	Regional level	National and local level
Economic instrument	Regional directives and schemes, such as emissions trading standards	Taxes, fees, subsidies, measures, charges, deposit-refund schemes
Regulatory instruments	Regulatory requirements, such as global emissions standards	Regulatory requirements, such as service level agreements and local emission standards
Voluntary agreements	Types of public and private partnerships, such as principles for joint investment	Types of public and private partnerships, such as agreements between business associations and government on joint research on emission standards

Typically, where public goods are involved, policymaking will always require at least some degree of ‘steering’ at regional, national and local levels, in order to achieve economic growth while preventing market failure. The maturity of the institutional system will also be a factor. In the early phases, when institutions are less mature, it is common for policymakers to exercise high levels of control over policymaking. This can be reduced as the system matures. Similarly, as markets expand and become more competitive, particularly with the presence of cross-border competition, governance should be shared with market participants and other stakeholders, to enable the movement of governance away from the ‘regulatory form’ toward the ‘advocacy’ form.

In the BRI context, the evolution of governance types and the availability of different instruments could provide the opportunity for a phased progress towards sustainable development. Using a combination of economic, regulatory and voluntary instruments, governance in a recipient country could move from a highly-directed regulatory form of governance to a steering form of governance over time. Much can be achieved through this move. In fact, many mature economies that began with a regulatory form of governance currently rely primarily on a steering form of governance. Ultimately, the role of policymakers is to support enlightened and responsible decision-making by private participants. Hence, once regulatory governance is stabilized, and multiple market participants get established with a stake in the economic, social and environmental aspects of development, the role of voluntary agreements should be explored. This could set the stage for initiating a move from regulatory governance to advocacy governance. Coalition-building between stakeholders around specific issues or initiatives, or similar interests, could prove an important condition for handling different governance and market constraints. The entry points should thus build on existing regional, national or local policy instruments (economic instruments, regulatory instruments and standards, voluntary agreements) to encourage sustainable approaches to trade, investment and connectivity.

To achieve a satisfactory policy environment for sustainable development under both the steering and advocacy forms of governance, it is important that civil society participants representing various interest groups be adequately represented. These include business groups representing big businesses and SMEs, consumer groups representing pro-poor interests as well as average users, labor rights groups, balanced regional (intra-country) development advocates, and environmental groups.

Moving out of a regulatory form of governance into a steering or advocacy form should carefully sequence and calibrate against the maturity of civil society and policymaker capacity in recipient countries. Such maturity requires training and policymaker respect for the different domains of action.

It typically takes several years for societies to mature from a regulatory to a steering or advocacy form of governance. The BRI can support the transition in recipient countries by creating opportunities for recipient country systems to leverage the more mature systems in the sending country.³³

4.3 Contributing to sustainability

Under the SDG framework, economic growth is inclusive when it leads to poverty alleviation through the provision of basic services (health, education, settlement), and creates equality of economic opportunity. Inclusive growth may be insufficiently addressed by BRI projects without policy support, since technological progress and structural change by itself is unlikely to suffice to orient growth patterns towards inclusion.

Incorporating sustainable development is likely to require considering the full range of supply-chain governance, social and environmental risks and economic forces at play in order to bring forward solutions for addressing existing asymmetries between market-based outcomes and inclusive development. Social and environmental objectives should be addressed through a governance that encompasses the regulatory and public policy life cycles across supranational, region-specific and bilateral agreements, infrastructure-specific arrangements, country-specific arrangements and industry specific arrangements (Dossani, 2016). In this regard, coherence in social and environmental sustainability-orienting economic development along the BRI and across planning, execution and performance monitoring of projects and initiatives, will boost positive development dividends and encourage sustainable growth patterns.

Aligning BRI projects with sustainable development may be done through a number of sequenced approaches, that touch environmental, economic and social issues.

4.3.1 BRI as a platform for green trade, finance and investment

The potential for the destructive use of natural resources in order to enhance short-term economic growth at the expense of long-term growth could simultaneously reinforce the vulnerabilities of underprivileged populations and increase inequality, particularly in developing countries. In the long-term, continuing conventional economic activity has the potential to accelerate the environmental deterioration of ecosystems that determine environmental, human and economic well-being. The Economics of Ecosystems and Biodiversity (TEEB) report from the European Commission underlines that business-as-usual activity, if continued, would by 2050 cause the loss of over 10% of the natural areas existent in 2000; the losses would be due to factors such as agriculture, infrastructural expansion, and climate change. Furthermore, 60% of coral reefs would be lost due to fishing, pollution, diseases and coral bleaching. By focusing on both land and maritime development, the BRI has the potential to touch upon all the aforementioned risks and could affect wide-ranging parts of society in and beyond BRI countries.

The potential of the BRI as a platform for green finance and investment will be determined by the extent to which BRI projects manage their environmental footprint. The BRI focuses on the strategic and high (in energy and carbon) emissions sectors of the economy, including energy, transportation, buildings and basic materials such as steel, aluminium and cement. With its cross-border and regional influence, the BRI will also have an impact on the overall sustainability of national economies. This is why, if these risks are addressed holistically, the BRI could facilitate progress towards positive and inclusive development outcomes.



33. For example, the legal system in recipient countries may not initially contain speedy dispute resolution mechanisms such as tribunals, or arbitration and conciliation systems. The sending country could make its own dispute resolution mechanisms available for resolving disputes in the recipient country. Such an approach would also enable judges and lawyers of the recipient country to learn about more mature dispute resolution mechanisms, thus helping install such mechanisms faster in the recipient country.

This would be especially characteristic of BRI initiatives in emerging economies experiencing increasing energy demand due to higher consumption rates, but which have a lack of supply. Strategic economic sectors have to be addressed and linked to opportunities for technological change, infrastructure development and employment generation. The BRI brings forward opportunities for greening, e.g. infrastructure development in electricity transmission or transportation. Similarly, industrial activities linked to technological change can help facilitate and speed greening and low carbon development.

Apart from the use of technical parameters to determine green investments, there are two additional mechanisms that would be useful. The first is green trade and the second is green finance. Green trade mechanisms include those used for controlling carbon emissions, such as cap and trade mechanisms. Green finance includes finance for environmentally sustainable goods and services.

Berensmann and Lindenberg (2016) note that green finance represents a positive shift in the global economy's transition to sustainability through the financing of public and private green investments and public policies that support green initiatives (Berensmann and Lindenberg, 2016). They note that the two main tasks of green finance are to internalize environmental externalities and to reduce risk perceptions in order to encourage investments that provide environmental benefits. The major actors driving the development of green finance include banks, institutional investors and international financial institutions, as well as central banks and financial regulators. Some of these actors implement policy and regulatory measures for different asset classes to support the greening of the financial system, such as priority-lending requirements, below-market-rate finance via interest-rate subsidies and preferential central bank refinancing opportunities.

Green finance markets remain underdeveloped globally, posing a challenge for BRI projects to implement green finance initiatives through market mechanisms. Policymakers have, therefore, taken it as a public commitment to support green finance. Still, the typical solutions offered by public policy have been unsatisfactory, in part because the quantity of green finance needed is largely relative to its availability through policy support. For the BRI, incorporating green finance principles into project finance will require considerable regulatory expertise and support from the sending country.

A further challenge is that green investments are going through enormous technical change (Lewis et al., 2016). This makes it difficult to develop long-term investment plans.

The core question is how to make and promote green infrastructure (e.g. in sustainable energy, energy and resource efficiency, sustainable transport, housing and building, water sanitation and distribution systems, waste management, smart grids and interconnectors and resilient infrastructure) and how it may be linked to the BRI and its connectivities. Broadly speaking, the BRI can encourage leapfrogging due to the enormous need to increase spending on research and development in emerging and development economies. The Potsdam Institute for Climate Impact Research and the Grantham Research Institute on Climate and the Environment argue that public R&D for energy efficiency and clean energy needs to augment at least three to four-fold, in order to further the transition to a low-carbon and inclusive economic system. The BRI can speed up cooperation for new technological solutions for a decarbonizing economy, while greening existent or future investments or trade cooperation. Overall, lower energy intensity in investment and trade, and the use of innovative and sustainable technologies in designing urbanization processes, may all be part of the solutions to be incorporated into the BRI.

The leapfrogging opportunities available to policymakers and businesses today are typically found in three broad areas: the development and introduction of green technologies, advances in efficiency, and changes in management practices, especially in the shift to a service economy. According to Dossani (2016), development gains could also arise from aligning environmental sustainability to the initial planning and design of economic corridors. Risk mitigation and the reduction of environmental and climate change impacts from the beginning,

could contribute to a significant reduction in greenhouse gas emissions and air pollution, and preserve landscapes, biodiversity, heritage, communities, and the built environment. Furthermore, they could also boost efficient and sustainable waste and water management while improving living conditions and mitigating climate change-related risks.

Digitization can offer significant support to these initiatives. Connecting green innovative logistics solutions, including information systems, collaborative models, and technology, can contribute to long-term upgrading and development across regions. Green financing in the BRI context can be tackled by combining public, private, domestic and international sources of financing and funding. Institutional and financial capacity developments are key factors for ensuring that regional and bilateral projects are coordinated and linked to green investment policy frameworks, thereby broadly integrating diverse policy fields such as affect investment. These include investment policy, investment promotion and facilitation, competition, trade, taxation, corporate governance, finance, infrastructure, human resources, policies to promote responsible business conduct, investment in support of green growth, and broader issues of public governance (OECD, 2015b).

4.3.2 Enabling participation of the business sector

The business sector, characterized by heterogeneous firms, and including publicly-owned and privately-held firms, foreign and domestic firms, and large and small firms, can play a vital role in the creation of wealth, job mobilization and innovation advancement under the BRI. The business sector achieves these outcomes by promoting investments, productivity and the transfer of knowledge. From the point of view of the business sector, investment and trade at domestic and cross-border levels face a series of obstacles, including regulatory barriers arising from regulatory overload or lack of clarity, insufficient infrastructure, unavailability of skills and human capital, sector informality, and the difficulties associated with obtaining medium and long-term finance. The dynamics of globalization and the integration of an international economy have made the challenge of state interaction with the business sector, interlinked in industrial policy, more complex and information intensive.

The business sector obtains a voice in policymaking indirectly through the marketplace and directly through its own civil society organizations (such as Chambers of Commerce) that are focused on improving the value-add for enterprises.

The degree of participation from the private sector will, to a significant extent, be determined by the capacity of the governance system to influence private action in desirable directions. As governance moves away from the regulatory form towards steering and advocacy forms, the system will be increasingly dependent on the strength of the informational channels through which interaction takes place between policymakers and the private sector. These will influence resource allocation, which should go across all organizational spheres and address rent seeking. This suggests that information exchange should be one of the core agendas for achieving effective private participation in the BRI. Overall, governance between public and private actors is one of the core determinants of success in investment outcomes. Different platforms of dialogue, including formal mechanisms and channels for government-investor dialogue should aim at short-term, mid-term and long-term outcomes.

These time dimensions are relevant for bridging the international economy environment and the domestic macro and microeconomic context. Forms of dialogue can facilitate coordination issues and maximize co-dependent actors e.g. in the production chain and in the solving of conflicting interests. According to the World Bank Report (2017), private sector participation should be secured through robust public agency design and accountability mechanisms, thereby ensuring that firms and business groups have a positive influence on policies aimed at economic growth.

A. Responsible business conduct

In the context of the BRI, policies favoring sustainable development and responsible business conduct are more likely to be successful with private sector participation directed towards sustained social and environmental impact. The OECD (2015) notes that responsible business conduct (RBC) means that businesses, a) should make a positive contribution to economic, environmental and social progress aimed at achieving sustainable development; and b) should avoid and address adverse impacts through their own activities, in order to prevent or mitigate adverse impacts directly linked to their operations, products or services through business relationships.

In the regulatory and steering stages of policy governance, corporate social responsibility (CSR) practices can be encouraged by requiring domestic companies operating abroad to conduct due diligence across business relationships, including throughout supply chains, in order to address actual and potential adverse social and environmental impacts. Areas covered can include disclosure, human rights, employment and labor, environment, anti-corruption, consumer interests, science and technology, competition, and taxation. In the advocacy stage of governance, collaboration between policymakers and private sector participants should lead to the joint setting of desirable sustainability targets.

Figure 25. Chinese companies abroad - sustainable business

The forthcoming UNDP 2017 Report on the Sustainable Development of Chinese Enterprises Overseas analyzes first-hand data from Chinese companies, who show great potential to support BRI countries in achieving the SDGs. The report also discusses about how Chinese enterprises can better integrate the global development agenda, the BRI and company operations, and work together to realize economic, social, and environmental benefits.

UNDP's 2015 Report on the Sustainable Development of Chinese Enterprises Overseas concluded that most Chinese companies with overseas operations have created corporate governance mechanisms in light of local political, economic, commercial and trade conditions. According to the survey results, among the four management mechanisms, risk management and internationalized management have been the highest priorities for companies, where 54% and 53% of the surveyed companies have established these systems, respectively. However, Chinese companies still need to enhance their awareness of the importance of stakeholder communication (45%) and CSR management (35%) in their overseas corporate governance systems (UNDP, 2015, p. 31).

When it comes to the CSR management system abroad, the 2015 Report concluded that 90% of the surveyed companies had established or planned to establish overseas CSR management systems. 41% of the companies had yet to establish a CSR management system specifically for their overseas business operations, but were planning to. Approximately 33% of the companies had already established well-functioning CSR management systems and set up dedicated departments or staff positions. These companies could be seen as model companies in CSR and could share their best practices with less sophisticated companies. Only less than 10% of the companies had not created a CSR management system and had no plans to do so.

Source: UNDP Sustainable Business Abroad Report, 2015 and 2017 (forthcoming).

Targeting SMEs with incentives to achieve RBC should also be considered. Studies have shown that SMEs have a good record of fulfilling their social and environmental responsibilities (Vives, 2006). They tend to be owner-managed, thereby giving them a long-term stake in the location that they work in.

The BRI can play a positive role in the introduction of responsible business conduct in recipient countries. It can do so by creating mechanisms for the provision of information and training on best practices in responsible business conduct, and how to phase-in policies that will support RBC at various levels. Such work can be done in the context of specific BRI projects at the local level, and more generally at the national level.

B. The role of Public-Private Partnerships

While the concept of public-private partnerships (PPPs) is not new and spans several decades going back to the first industrial parks, their use in sustainable development is relatively recent and has taken multiple forms. The logic for a PPP is straightforward: it is intended to make available the state's access to resources for the use by the private business to achieve better outcomes than if either participant acted alone. Under PPPs, the private sector partners with the public sector and capitalizes on the scale and reach of the prevailing system to deliver outcomes at more affordable rates than government acting on its own could achieve. The economy, thus, benefits from private sector efficiency, innovation and technical expertise.

The rationale for PPPs recognizes that the state has unparalleled and sometimes unique access to resources, particularly financial resources, land and certain rights over which the state has a monopoly (such as the right to operate an airport); and it recognizes that the private sector can be a more efficient and innovative user of these resources, given the right incentives. Hence, these resources can be shared with the private sector to capitalize on the private sector's greater ability to achieve efficient outcomes.

Put this way, the logic for PPPs is compelling and could apply to nearly all public services, from providing sanitation services to running a customs department. Indeed, it is likely that every imaginable public service is run as a PPP in some countries. The scope of PPPs can thus be wide and encompass both public and private goods.

Yet, the share of PPPs in any economy, including mature economies, is usually low. There may be several reasons for limiting PPP use. The first is that profit motives can lead to inefficient outcomes when applied to public goods and natural monopolies, without appropriate regulation. Since regulation is costly and imperfect, it may lead to the private sector making unusually large profits. Hence, the public may prefer a more pro-consumer, publicly provided service operated by the state rather than a private operation, even if the latter is more efficient. The second reason for being cautious about the private provision of public services is that, as economies mature, the quality of state provision may improve significantly, to the extent that it is as good as the private sector. Indeed, the public desire for PPPs is least evident in the most mature economies, perhaps for this reason. Public support for PPPs appears to be strongest in economies in which the state's ability to provide services is relatively weak. This is a common situation in low and middle income countries.

The third reason for caution is that the market for private capital is now large enough to finance the biggest projects. In mature economies, the largest projects – such as dams or highway infrastructure – are often financed by government debt borrowed from private lenders in capital markets rather than taxes. This is true whether the projects are run by private managers or by the state. In the latter case, it represents a reversal of the traditional PPP, since it involves public managers utilizing private resources to implement a project.

The final reason for caution is that, once the private sector is in charge of resources, it may be difficult to ensure that the resources are used sustainably. Even good policymaking will face the limitation of imperfect information about private sector actions, as well as the risks posed by moral hazard and short-term profit considerations, thus raising the risk of resource over-use.

In low-income and middle-income economies, in which the BRI is being introduced, the above discussion suggests that the value of a PPP remains in its traditional form: the combination of public resources and

private management. However, the above discussion also provides a caution that the logic of a PPP, based on the state's access to resources, is unlikely to be sustained long-term. As countries mature – and this is true of several middle income countries, such as China – the value of a PPP will not derive from the scale of resources that the state can bring to the partnership. Instead, it will arise primarily from the state's allocation of its privileged rights – for example, the right to run an airport – to private partners.

If PPPs are to be used, they need to be carefully designed. Their size usually requires a complex financing structure, composed of a consortium of private and public institutions. Cross-border projects, for example, in the energy or transport sector, may involve subprojects, legal and regulatory agencies throughout various countries, which usually require coordinated efforts to guarantee socio-environmental outcomes such as sufficient community engagement and equity, environmental protection, mitigation of carbon emissions and adaptation to climate change.

Mechanisms to replicate successful PPPs necessarily draw on institutional learning to scale up the development impact. This relates regional to country-specific projects, and ties together sector characteristics with capacity-building efforts. Different firms face different forms of risk, such as macroeconomic, political and regulatory, technological, business model, construction and operation risk, among others. The ability of firms to bear risks, and the ability of the system to manage different kinds of risk, will influence the type of governance model. For example, PPP initiatives in developing countries may have less negotiating and governance capacity than developed countries (Sharma et al, 2016). This requires initiatives to identify and address the most pressing demands, in order to enable reliable institutional and regulatory frameworks, transparent selection and budgetary processes for the selection of PPP projects and private partners, and equitable sharing of risk. Moreover, national and multilateral development banks should address information disclosure requirements, contract standardization, procurement and the mitigation of risks. Overall, the BRI can draw on the PPPs' operating mandates for the private sector, such as build-operate-transfer mandates, to overcome cross-border difficulties by drawing on common regulatory and institutional frameworks to facilitate investment.

From the perspective of the BRI, through the past decade, the number and scale of public-private blended mechanisms and the incorporation of private finance into public funding, including national and multilateral banks, has increased significantly in participating countries. Apart from their contribution to operational efficiency, PPPs should be evaluated in terms of their contribution to regional integration, maturity of project preparation, degree of institutional capacity and coordination, private sector attractiveness and the possibility of producing positive environmental transformation (Mfunwa et al., 2015).

Using PPPs as mechanisms to fulfil sustainability goals is a potential advantage of this type of mechanism. While the sustainability goals for projects entirely funded and managed by the private sector usually require specific regulation, such as regulation on corporate social responsibility set-offs in order to induce socially responsible behavior, PPPs offer the possibility of a superior approach. The direct involvement of the public sector as a source of funds gives it leverage to incorporate and monitor sustainability initiatives within PPP projects. This leverage is greater if public investment is in the form of equity, at least partially, rather than debt, and if public managers play a role in managing the sustainability components of PPP projects. Once again, this raises the need for careful design, so as to ensure that the economic, social and environmental objectives lead to implementation strategies that are consistent with these objectives.

C. The role of SMEs

The promotion of full employment and productive work as part of sustainable development implies an important role for SMEs. SMEs in recipient countries are typically informal and provide a major share of a given country's

employment. However, they are not usually seen as technologically sophisticated or as carriers of efficient business practices. Such practices are seen as the preserve of larger firms in poor countries. Furthermore, SMEs in recipient countries often have the character of microenterprises, characterized as having fewer than 10 employees, and tend to be engaged in low-end, low-margin service or manufacturing activities, with limited capacity for scalability or high-end work.

Such enterprises are, in their present state, largely unsuited to participate effectively in BRI projects beyond providing low-end services. They cannot be expected to be involved in significant job creation, wealth creation or innovation. This is partly a management capacity issue and partly an issue of a lack of creditworthiness.

Left to themselves, such enterprises could wither away under the development of BRI projects, and would be replaced by larger enterprises able to offer scale of employment, i.e., will fulfil the job creation role expected of the private sector. However, policymakers ought to consider developing strategies that will protect small enterprises. The key payoffs for doing so are in the quality of jobs created and in innovation. As many studies have shown, SMEs can be engines of growth for their economies for these reasons (ESCAP, 2012).

Promoting SMEs can be challenging in recipient countries, given the generally low level of human capital. Some of the strategies that may be considered include:

- (1) Using policy to support linkages between large and small firms in the operation of BRI projects, particularly those related to providing high-end services;
- (2) Providing training support to SMEs for undertaking sophisticated work;
- (3) Assisting SMEs to form business development associations. Such associations can support SME development through training, branding, and technology development activities. They have proven to be a valuable tool for upgrading SME quality in many countries, such as Germany (Byant, 2012).

Figure 26. The size and potential of SMEs

The global number of SMEs is hard to estimate. McKinsey and Company and the IFC estimate that in emerging markets alone, 365 million to 445 million micro, small and medium-sized enterprises exist, out of which 25 million to 30 million are formal SMEs and 55 million to 70 million are formal micro-enterprises, with the rest (285 million to 345 million) being informal enterprises and non-employer firms. In developed markets, approximately 100 million formal SMEs exist.

According to the SME Competitiveness Outlook 2015, SMEs constitute the overwhelming majority of firms. Globally, SMEs make up approximately 50% of GDP and 60%–70% of total employment, when both formal and informal SMEs are taken into account. This amounts to between 420 million and 510 million SMEs, 310 million of which are located in emerging markets. SME contribution to economic transformation can be seen in European countries, such as Italy, Germany and the Scandinavian countries, while in Asia the outstanding examples of SME-led growth include China, Singapore, and Sri Lanka (Dossani, 2016). In developing countries, however, this picture slightly differs. Here, SMEs are not able to unleash their potential by contributing to innovation, employment and growth due to inadequate human capital, poor access to finance, and overcomplicated tax systems (Dossani, 2016).

The potential contribution SMEs can make to BRI countries is promising. The necessity, however, to address specific enterprise-level challenges to private sector development is important, and need to address the dimensions of firm level capabilities, immediate business environments and domestic/international environments, and include support for skills shortages, difficulties in accessing finance,

lack of scale, value chain gaps and weakness points on the long road ahead. For example, the immediate business environment usually includes local or industry-related factors that are external to the small firm and difficult to access. These include local and national factors – infrastructure quality varying by location, clusters having a regional dimension, and federal systems having different state-wide regulation (SME Competitiveness Outlook, 2015).

Dossani (2016) draws on an Asian Development Bank survey of SMEs in four Asian countries (Kazakhstan, Papua New Guinea, the Philippines, and Sri Lanka) to point out that product quality, skilled labor and strong customer relations are emerging as the most important indicators of SMEs' successful integration into the GVCs. For SMEs, access to finance is a major constraint to current operations. According to Dossani (2016), to attain the sustainability of SMEs, industrial clusters around transport corridors should contain a mix of large firms and SMEs. The former's contribution to sustainability is through GVC management and ensuring compliance within the cluster of high standards for business process management, including environmental standards.

D. The role of e-commerce

E-commerce as a green business refers to the use of electronic means and technology to conduct commerce (the sale, purchase, transfer or exchange of products, services and/or information); the delivery of these products, services, and information may occur over or outside of the internet (Manzoor, 2010). Such commerce is inherently well suited to transborder activities, and its successful development depends to a large extent on transborder solutions based on policy coordination between countries and between stakeholder constituencies (OECD, 2001). It was estimated by UNCTAD that the value of global e-commerce in 2013 exceeded USD \$13 trillion.

According to the 2015 UNCTAD Information Economy Report, new applications, platforms and services have created a higher degree of accessibility to e-commerce, while simultaneously lowering entry barriers. New digital products open new growth areas for developing countries. This is beneficial to local companies in particular, as it makes e-commerce an area able to provide solutions tailored to local demands. E-commerce can potentially impact many areas of interest to sustainable development. Several studies have documented the positive effects of e-commerce on the development of human capital, small businesses, and balanced regional development (Reza and Gorgan, 2014; Dossani and Kenney, 2007; Graf and Mudambi, 2005; Daniel, Wilson, and Myers, 2002).

In the context of the BRI, the opportunities for e-commerce depend heavily on the digitization of transactions. In addition, the rules for e-commerce need to be aligned with legal instruments for e-transaction, data and consumer protection, as well as privacy. Transparency and risk mitigation, as well as the strengthening of cyber law are at the heart of the challenge to boost opportunities, particularly for developing countries. While in the initial stages, policymaking will contain a large regulatory component, policymakers should, at the same time, begin dialogue with the private sector in order to ensure that innovations in e-commerce are supported and given the regulatory support to grow. Due to the impact of rapid technological change in the field of e-commerce, it could be particularly important to move, as soon as possible, from a more regulatory form of governance to a steering form of governance.

4.3.3 Human development as a key component of the BRI

As pointed out in the first chapter, despite economic growth, inequalities persist, leaving people unable to meet their basic needs. Addressing the erosion of social cohesion, from rising socio-economic disparities

within and between countries caused by, for example, rapid population ageing, increasing number of persons with disabilities and migration flows, to the impact of climate change, requires addressing social and human development thoroughly. The BRI has the potential to effectively tackle economic exclusion (income poverty and inequality) and the causes and characteristics of social exclusion and vulnerability.

Figure 27. The human development approach

The human development approach:

- i. seeks improvements in **human well-being** as an explicit development objective, using these as key indicators of progress; and
- ii. focuses on '**people power**' — what people can do to achieve such improvements, for example, through individual and collective action leading to policy and political change, and better livelihoods.

This is based on the idea that the purpose of development is to improve human lives, not only by enhancing income, but also by expanding the range of things a person can be, do and have, such as better nutrition and health services, greater access to knowledge, a more secure livelihood, better working conditions, security against crime, protection against physical violence and injustice, access to leisure and a sense of participating in the economic, cultural and political activities of their communities. International leaders are increasingly interested in the human development approach as a way of addressing a range of challenges including poverty reduction, sustainable development, gender equity, governance and globalization

Source: UNDP (2011)

In the context of the BRI, policies aimed at promoting human development underscore the importance of technical and innovation progress and physical capital formation. As Dossani (2016) notes, the social rate of return³⁴ should be deliberately incorporated into decision-making. The social rate of return measures the long-term societal costs and benefits of an investment. This should be taken into account in the different investment forms available, including public guarantees for private investment and joint investments with the private sector.

Dossani (2016) notes that, in BRI countries, public goods suitable for inclusion in the BRI should also include, under an expanded definition, investments in human capital-improving services, such as health, formal education and workforce training. For example, a PPP to develop an industrial park could include resources for on-the-job training and healthcare services. Similarly, a science park could include facilities for research. These should be rigorously determined, as noted above, by calculating social rates of return. They should also be benchmarked and evaluated by rigorous social return parameters, such as the amount of employment generated, the types of jobs that local residents can be employed in, the amount of opportunities for women and the amount of opportunities for small businesses. This calls for the need to generate a number of benchmarking and evaluation indicators for social inclusion that are specific to the BRI project under consideration, as well as the specific location of the project.

BRI projects can make a particularly valuable contribution in bridging development divides since they focus on the development of physical infrastructure. Incorporating social inclusion parameters through social rate of return methods can enable projects to account for the impact on remotely located, underprivileged populations.



34. The social rate of return, in principle, incorporates the costs of both social inclusion and environmental improvements.

One of the challenges that recipient countries are likely to face in explicitly including social inclusion parameters is a shortage of the kind of information and expertise needed to generate social rates of return and post-project evaluations of social inclusion. Sending countries can assist in this process by explicitly including technical assistance for assessing social benefits as part of a BRI project support package. In addition to calculating social rates of return, sustainable development strategies should incorporate human capital improvements into BRI projects, using rigorous benchmarking and evaluation tools. Such tools should incorporate both economic return parameters, such as net present value, and social return parameters, such as employment generated for underprivileged groups, and the added value provided by SMEs.

A. Job creation

Understanding how job creation can be an integral part of BRI governance is critical for promoting desirable outcomes such as full employment and balanced development. The extent of participation by the community at large in programs for human capital and community development will depend on two factors. The first factor is the role that voices for community development are given in the governance structure as it evolves from a more controlling to a less controlling system. The second factor is the quality of signals received about social development from the community.

These are complex issues that require careful design and the incorporation of diverse views. Consider, for example, investments in job readiness through government-sponsored training programs. In designing such programs, policymakers must make several important decisions:

- What training to offer (practical training, teaching of concepts, fields of study);
- Where to locate programs (workplace training, polytechnics, etc.);
- How to fund them (e.g., ask firms to share costs);
- The duration of training, prior knowledge, and expertise provided.

Policymakers need to decide how much to rely on market signals and the stated preferences of employers, trainers, laborers and other non-state actors in making such decisions. This is no simple task. There may be labor shortages in some fields that may turn out to be temporary - a typical example is the oil and gas industry, where demand for skilled labor has fluctuated dramatically in recent years. In such a case, firms will likely want more labor to be trained during times of shortages, but this may not be a good decision for long-term employment. Hence, using labor market signals to determine training needs may not always work. Other complexities may also exist. For example, some decisions that may be pro-employment, such as training workers for mining jobs when there is high demand, may have adverse environmental consequences.

B. Community development

Similar complexities apply to efforts to develop communities in a balanced way. Ensuring that the underprivileged in a community have an effective voice in development is difficult to achieve. Yet, it is critical for sustainable development. If policymakers rely solely on the voices of well-organized civil society organizations, there will be a tendency to listen more to enterprises and better-off residents than the poor.

It seems inevitable that, to protect the interests of the underprivileged, the state will have to play a steering role, regardless of the state of development of the recipient economy. This is consistent with the experience of developed countries, where the government is still seen as a central player in enabling the growth of human capital and community development.

Local community development is an integral part of sustainable development and should be embedded into the BRI through appropriate governance. Decentralizing governance to the local community, wherever

feasible, will be an important way to ensure that local community voices are heard in the decision-making process. At the same time, this approach needs to be carefully designed, so that small stakeholders, particularly underprivileged stakeholders, have an effective voice.

4.3.4 Promoting capacity building as a sound basis for policy decision

According to UNDP (2009), policy affects development in the way human, physical and financial resources are managed. In addition to governance for local contexts, capacity building should therefore be directed towards cross-border and regional contexts. Across the BRI, policymakers need to have the capacity to commit, coordinate and cooperate among state and non-state actors. They need to address a variety of challenges at various levels of governance - supranational, regional, bilateral, national, sector-specific, technology-specific and local arenas where decision-making processes face different drivers, demands and opportunities. Further, as institutions mature and cross-border activities intensify, governance capacity needs to be able to handle increasingly complex transactions.

In the context of the BRI, capacity building initiatives should be guided by strong commitments to transparency and should, ideally, take into account the complexities pertaining to regional cross-border, cross-sectorial and cross-technology value chains. In this regard, the BRI should build the capacity to foster benchmarks for the development of innovative national and cross-country systems; such systems should lend to the development of comprehensive and differentiated models of inclusive growth, guided by sustainable development.

Figure 28. Capacity building



Source: ECOSOC (2015)

These dimensions and their coordination are particularly relevant for ensuring the sustainable development of BRI projects. Shortage, or a lack of capacity in developing countries for managing complex laws and regulations, is often cited as the source of their difficulties in anchoring investment to national outcomes. Capacity may also be applied to human development, which would include local sourcing for local development and the enhancement of inclusive growth; such an approach to human development could, for instance, provide for the inclusion of local labor and give support to local systems to develop human capacity. Overall, capacity building can contribute to a positive replication of governance models and public-private interactions that would maximize the benefits of the BRI and contribute to policy effectiveness.

Conclusion

The Belt and Road Initiative (BRI) has the potential to effectively address economic exclusion (income poverty and inequality) and promote sustainable development. While trade and investment can create employment, raise incomes and spread knowledge and technology throughout the regions of the BRI, it must be ensured that there is equal access to the BRI's projected benefits in the area of economic growth and that barriers to inclusion are removed. While the enhancement of quality infrastructure investment implies taking into account all aspects of economic, social and environmental sustainability, such an approach is not only a technical matter, but is intrinsically linked to institutional set-ups and policy domains.

The key challenge is to bring into alignment the goals of the BRI's projects and those of sustainable and inclusive development. The aim of this chapter was to review governance systems as they evolve to meet the needs of sustainable and inclusive development in the face of changing external environments, the changing role of the private sector and the internal growth of governance capacity. For the BRI to fully address these dimensions, coherence with each country's development aspirations, coherence among economic, social and environmental policies and coherence with initiatives and external actors and stakeholders is a fundamental prerequisite. Creating an enabling environment, building state capacity to provide governance, enabling participation of the private sector through the promotion of responsible business conduct, public private partnerships and an enhanced role for SMEs, and promoting e-commerce were discussed as the key components that require effective governance. Underlying these initiatives is the development of human capital and communities as key components of the BRI. This requires an innovative governance approach, one that is tailored towards job creation and community development.

FOOD FOR THOUGHT

Building inclusive and sustainable growth patterns

- Develop policies with sustainable outcomes, such as inclusion and green economic instruments, that utilise the complementarities inherent in BRI projects and programs to maximize sustainable outcomes.
- Develop policies that align the BRI's economic goals with inclusive growth; this alignment is to be based on sustainable development, realised through the adoption of methods such as the social rate of return, promotion of organizational and technological innovation, incorporation of human capital improvement into BRI projects, and usage of rigorous benchmarking and evaluation tools that incorporate both economic return parameters, such as net present value, and social return parameters, such as employment generated and the value-addition provided by SMEs.

The BRI as platform for green finance and investment

- Commit to policies that incorporate green trade, finance and investment as part of BRI project packages, and develop approaches to increase the availability of green finance through cooperation with BRI partners in sending countries.
- Encourage the streamlining of technologies towards the development of a green infrastructure systems, based on research and development, and supported by digitisation.
- Integrate investment and finance into green policy objectives across national, domestic, regional and international regulations and standards.
- Promote and develop financial instruments and mechanisms to stimulate private investment in green infrastructure, including attracting long-term institutional investment and developing climate-resilient and energy and resource-efficient infrastructure systems.

Enabling participation and building capacity

- Provide support for the creation of an enabling policy, legislative and regulatory environment for private sector development across the BRI by providing assistance to member countries to address, using a green approach, constraints to private sector development. Use best practices in advanced BRI countries to address obstacles to private sector participation in recipient countries, such as regulatory barriers, insufficient infrastructure, unavailability of skills and human capital, informality of SMEs, barriers to digitization of transactions (e-commerce), sector informality and the difficulties associated with obtaining medium and long-term finance.
- Create mechanisms for collaboration, coordination and policy formulation, with a focus on cross-government collaboration, multi-stakeholder engagement and private sector engagement. Include methods for improving the informational basis of policymaking into BRI technical support packages.
- Support job creation through structured support for human capital training initiatives and support community development through governance systems in which all segments of a community have an effective voice in development initiatives.

Conclusion and policy recommendations

The Belt and Road Initiative (BRI) has arisen as a window of opportunity for creating an inclusive commitment to sustainable development across and within countries. This third Global Governance Report is dedicated to the potential contribution of the BRI to a transformative governance agenda. This is critical because regional and global economic governance is progressing incrementally, albeit in a fragmented way. With its policy-informing approach, our analysis underlines that the capacity of the BRI to bring about sustainable transformation will largely depend on strategic management from within, linking the home and host context. We have therefore argued that institutional set-ups and policy domains, as well as international cooperation, have to be used strategically.

The report was organized around two parts, containing two chapters each. Part 1 provided a snapshot on global governance and how the BRI can contribute to sustainable development. Within this part, Chapter 1 discussed the role of global governance in addressing climate change and achieving the Sustainable Development Goals (SDGs), and how such governance is being profoundly changed by global shifts and the participation of emerging economies. Building on this analysis, Chapter 2 outlined how the BRI's potential and scope can effectively contribute to global goods provision and achieve alignment with the 2030 Agenda. Part 2 described the role of policy domains and institutional set-ups in achieving the BRI's desired BRI impact with sustainable development at its core. Within this part, Chapter 3 presented the link between the BRI and present need to streamline governance in trade, investment and financing towards each BRI country's needs. Drawing on this framework, Chapter 4 describes the opportunities for leapfrogging within the BRI, and how the BRI can effectively align itself with the SDGs, an alignment which would embed the BRI's portfolio of projects into social and environmental sustainability.

How can the BRI create a transformative agenda across regions? Inclusive growth has to be sustained by an integrated and sustainable approach, thereby creating solidarity and peace across its regions of influence. Deepening economic globalization, increasing migration, trade and capital flows, climate change and increased activities touching on global public goods make coordination and coherence vital. The rise of emerging countries, such as China and developing countries, illustrate that policies and international arrangements for collective decision-making have not kept pace with global change. To promote effective participation, putting in place an enabling and inclusive system of global governance would create an international enabling environment, and would thus strengthen global partnerships for development in many ways, translating them into a more coherent framework for achieving sustainable development at regional and national levels.

Governance is a fundamental ingredient for achieving sustainable development. This means that in achieving coherence, all dimensions of sustainable development need to be integrated. The BRI is tied to the condition that there is no one-size-fits-all solution, but rather a framework comprised of solutions that build on the diversity of socio-economic development within and across countries. Moving to areas of social and economic action, the BRI presents opportunities for poverty reduction and economic growth. The Belt and Road will rely on the connectivity of infrastructure to channel trade and production factors along the planned route, in order to promote the development of regional integration. Connectivity, as the foundation of the BRI's value chain and international cooperation among the BRI, can result in trade and investment facilitation, the modernization of cross-border facilitation mechanisms and the development of economic hubs.

Economic, social and environmental benefits and risks differ across the BRI. Given the broad scope of the BRI, its ambition can only be realized if there is an aggregate vision of strengths and weaknesses across its outreach. The quality by which the BRI achieves its objectives must rely on the premise of mutually-beneficial outcomes. In the end, governance will only be viable if it is coherent and if all stakeholders are properly engaged. Policy frameworks, while promoting integrity and transparency, must be in place with adequate and accessible information, and sufficient capacity.

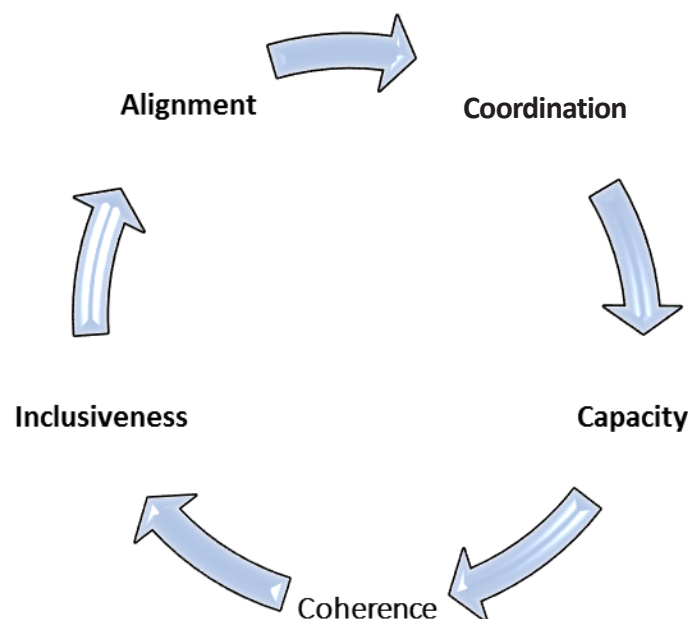
Stakeholders should align their roles, activities and commitments with the 2030 accountability framework. Here, strong opportunities for global cooperation in sustainable development and the implementation of the 2030 Agenda are present and should be strengthened. The SDGs are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Leveraging the BRI for these goals could be the first step towards a transformation in governance. Given this, a shared vision of what needs to be done to boost efficiency and integrate these aspects into policies, strategies and development efforts is required at every layer of the BRI.

International expectations are high. For China to kick start the implementation of new and existing BRI-related projects and link the core areas of sustainable development to its own actions and international engagement, it can best take advantage of this opportunity to reinforce its positive agenda to build a positive global reputation. Trust and confidence among states will be a core dimension in achieving this objective. Here, regional and multilateral policy frameworks will be an essential step for ensuring real win-win opportunities.

The report concludes with the main policy recommendations tailored to:

- Chinese policymakers as the leaders of the BRI,
- Governments and policymakers in the BRI partner countries,
- Business sector, such as Chinese multinationals and local companies,
- Financial institutions, such as Chinese and international.

Our recommendations are intended for all above-mentioned actors. While held general, different responsibilities and tasks for these actors arise. It is our aim to raise crosscutting issues to be addressed transversally. Without being exhaustive, these recommendations are structured around the main ingredients essential, in our perspective, to maximize the positive impact of the BRI: **inclusiveness, alignment, coherence, coordination and capacity**.



1. Make inclusiveness the core of the BRI to boost its economic potential, and leverage it to work with other countries towards a more balanced, multi-polar international architecture with China as a bridge builder.

- » *China should further enhance its role as a bridge builder for South-South Cooperation through responsible leadership and a proactive attitude toward international development cooperation and global governance.*
- » *Efforts should be driven towards fulfilling commitments and ensuring inclusiveness throughout the engagement processes, ensuring the demands of recipient countries across the BRI are being met and substantively engaged throughout the implementation process.*
- » *Crafting consistent regional and multilateral policy frameworks can be an essential step for ensuring real win-win opportunities.*

2. Strategically align each country's BRI engagement with the national implementation of the SDGs as a mechanism to guarantee countries' leadership and ownership.

- » *Strengthen the strategic alignment of the SDGs national plans with the BRI's projects to facilitate effective implementation and the achievement of sustainability in the long-term; ensure governments play a proactive role in promoting the integration of sustainable development.*
- » *BRI participating countries can engage on the basis of their development demands, while articulating their ownership and leadership throughout the process.*
- » *Ensure that domestic policies aim for long-term effectiveness across sectors and between domestic and international policies, thereby ensuring consistency in decision making across all governance levels, covering planning, design and implementation.*

3. Enhance communication at the national, regional and global level to consolidate policy coordination by convening and facilitating dialogue across sectors levels.

- » *Ensure that structures are in place, for the allocation of sufficient and appropriate resources to achieve effective coordination for policy coherence aimed at sustainable growth within the BRI context.*
- » *Create mechanisms for collaboration, coordination and policy formulation across the BRI, with a focus on cross-government collaboration, multi-stakeholder engagement and private sector engagement.*
- » *Support community development through governance systems in which all segments of a community have an effective voice in development initiatives.*

4. Build capacity for leadership to support effective and coherent policy making across different BRI levels.

- » *Provide platforms for political leaders to appropriately engage and increase their understanding and cooperation across different BRI interventions*
- » *Build up relevant skills and competences to support effective and coherent policy making across different BRI sectors.*
- » *Develop mechanisms to identify the demands of assessment, planning, and monitoring support for the BRI's related development needs.*

5. Transform the BRI into a platform for green trade, finance and investment.

- » *Facilitate and commit to policies that incorporate green trade, finance and investment as part of the BRI project portfolio, and develop approaches to increase the availability of green finance through cooperation with BRI partners in the participating countries.*
- » *Commit to the promotion of a sustainability-supporting trade, finance and investment architecture based on marketization, risk management, and digitization.*
- » *Encourage the streamlining of technologies (e.g. between resource-intensive and green technologies) towards the development of green infrastructure systems (sustainable transport infrastructure, renewables-based electricity, climate resilient and energy and resource efficient infrastructure). Streamlining efforts have to be based on research and development and supported by digitization.*

6. Enhance the creation of job opportunities for local communities through systematic support for participation in investments, as well as SME development and life-long learning training in line with each BRI country's needs.

- » *Assist job creation through structured support for human capital training initiatives.*
- » *Provide enabling environment for local workforce to develop and participate in BRI investments, as well as develop SME potentials.*
- » *Develop policies that align the BRI's economic goals with inclusive growth. Such an alignment is to be based on sustainable development. This could be realized through the adoption of tools such as: the social rate of return, promotion of organizational and technological innovation, incorporation of human capital improvement into BRI projects, and usage of rigorous benchmarking and evaluation tools. Benchmarking tools should incorporate both economic return parameters (e.g. net present value), and social return parameters (e.g. employment generated and the value-addition provided by SMEs).*

7. Enabling private sector participation.

- » *Provide support for creating an enabling policy, legislative and regulatory environment for private sector development across the BRI, by providing assistance to member countries to address constraints to private sector development.*
- » *Enhance industrial cooperation, as well as sustainable large-scale industrialization through enabling linkages and spillover opportunities between multinational companies and local companies.*
- » *Support responsible business conduct and use best practices in advanced BRI countries to address obstacles to private sector participation in recipient countries, including: regulatory barriers, insufficient infrastructure, unavailability of skills and human capital, credit and other barriers to small and medium enterprise (SME) development, barriers to the digitization of transactions (e-commerce), sector informality, and the difficulties associated with obtaining medium and long-term finance.*
- » *Strengthen public-private partnership (PPP) policies to recognize the specific value of the public and private sector for particular BRI projects, and calibrate these policies as the source of value change.*

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