

# A Study on the Impact of the Belt and Road Initiative on the Global Financial System

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**Abstract.** Since its inception, the Belt and Road Initiative (BRI) has significantly influenced the development of the global financial system. This study mainly explores the specific measures and achievements of the BRI in promoting global financial market connectivity, the construction of diversified financing channels, and addressing financial risks. The research analyzes the progress made through the establishment of cross-border payment and RMB settlement systems, which enhance transaction efficiency, reduce costs, and promote the internationalization of the RMB. It discusses how diversified financing tools, such as the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), provide financial support for infrastructure development and economic cooperation, as well as their role in fostering regional economic integration. The study also emphasizes the challenges and strategies for financial risk management and regulatory coordination under the BRI. By strengthening financial market connectivity, promoting diversified financing, and enhancing financial risk management, the BRI has improved the stability and sustainability of the global financial system.

**Keywords:** Belt and Road Initiative, global financial system, cross-border payments, financing channels, RMB internationalization.

## 1. Introduction

The global financial system has seen significant changes over the past few decades, driven particularly by globalization and advances in information technology, which have brought national economies closer together. However, as globalization has deepened, the instability of financial markets has also increased, posing a range of serious challenges to the global financial system, including financial crises, geopolitical risks, and the rise of emerging markets.

The current state of the global financial system reveals a heightened sensitivity to capital flows, and the ongoing evolution of financial markets has further amplified economic uncertainty [1]. In particular, the increasing volatility and complexity of global financial markets in recent years have had extensive and profound impacts on national economic policies and social stability.

The Belt and Road Initiative (BRI) emerged in this context, injecting new vitality into the global economy. The initiative aims to establish a more inclusive and sustainable global economic order by promoting infrastructure development, facilitating trade and investment, and deepening regional cooperation.

However, the implementation of this initiative faces numerous challenges, including financial risks associated with cross-border capital flows, limitations in financing channels, and the effective coordination of cross-border financial regulation. Addressing these issues is crucial for the successful advancement of the BRI.

This study aims to explore the profound impact of the Belt and Road Initiative on the global financial system, analyzing its role in promoting global financial market integration, driving innovation in financing tools, and managing financial risks. Additionally, the paper will delve into the challenges of cross-border financial regulation within the context of the BRI and offer relevant policy recommendations.

## **2. The Specific Impact of the Belt and Road Initiative on the Global Financial System**

### **2.1. Promoting Interconnection of Financial Markets**

#### **2.1.1 Establishing cross-border payment systems**

Under the Belt and Road Initiative, the interconnection of cross-border payment systems is a crucial component in promoting the global financial system's integration. The establishment of cross-border payment systems can effectively address issues related to timeliness and cost in cross-border transactions, thereby enhancing transaction efficiency and security. In this context, the digital RMB, as a form of central bank digital currency (CBDC), has played a significant role. Currently, the infrastructure for RMB cross-border payments has begun to take shape, including the China National Advanced Payment System (CNAPS), the Cross-Border Interbank Payment System (CIPS), and offshore RMB payment systems [2]. CNAPS and CIPS allow domestic and foreign banks to participate directly or indirectly, enhancing the convenience and applicability of RMB in international payments.

International cooperation projects, such as the multilateral Central Bank Digital Currency Bridge (mBridge), are working towards establishing a new platform for global financial exchange and cooperation. The mBridge project, through technological innovation and multilateral cooperation, aims to address the inefficiencies and high costs of existing cross-border payment systems. China is actively participating in this project, with the goal of promoting the internationalization of the RMB through its application within the mBridge framework.

The establishment of a CBDC cross-border payment system has significantly improved the efficiency of cross-border payments, shortened transaction times, reduced transaction costs, and promoted the development of cross-border trade [3]. Furthermore, the application of the digital RMB in cross-border payments has not only enhanced its status as an international settlement currency but also increased the global influence of the RMB. As more countries choose to transact using the digital RMB, its recognition and usage in international markets continue to grow. The advancement of the mBridge project is gradually demonstrating a substitutive effect on existing international payment systems, such as SWIFT and CHIPS, challenging the dominant position of the US dollar and promoting the development of a more diversified international payment system.

The construction of cross-border payment systems under the Belt and Road Initiative not only optimizes cross-border transaction processes, enhancing transaction efficiency and security but also strengthens China's influence in the global financial system by promoting the internationalization of the digital RMB [4]. These initiatives contribute to the establishment of a more efficient, transparent, and secure global financial system, supporting the healthy development of the global economy.

#### **2.1.2 Settlement systems**

The Belt and Road Initiative (BRI) has not only promoted the interconnection of cross-border payment systems but also achieved significant progress in the RMB settlement system, further enhancing the RMB's position in international trade and financial transactions. Through trade and investment activities in countries and regions along the Belt and Road, the frequency of RMB usage has significantly increased, reducing dependence on the US dollar and elevating the international status of the RMB.

Under the framework of the BRI, China has established and improved various RMB settlement infrastructures, including the Cross-Border Interbank Payment System (CIPS) and the China National Advanced Payment System (CNAPS). These systems provide efficient and secure settlement channels for cross-border RMB transactions, enhancing the liquidity and applicability of the RMB in international markets [5]. Since its launch in 2015, CIPS, by connecting global banking networks, has provided RMB cross-border payment and settlement services, becoming an important financial infrastructure for countries and regions along the Belt and Road, facilitating the convenience of cross-border trade and investment.

Additionally, China actively participates in multilateral cooperation projects, such as the multilateral Central Bank Digital Currency Bridge (mBridge) project, which aims to improve the efficiency of cross-border payments and settlements and reduce costs through technological innovation and multilateral cooperation. The application of the digital RMB within the mBridge framework further promotes the internationalization of the RMB, contributing to the diversified development of global financial markets.

However, in constructing the RMB settlement system, various risks and challenges are encountered, including the lack of comprehensive legal regulations, inconsistent technical standards, and the complexity of regulatory cooperation. Through bilateral and multilateral cooperation, China and the countries along the Belt and Road jointly formulate and improve relevant laws and regulations to ensure the safety and effectiveness of the settlement system. Meanwhile, through a ‘centralized’ regulatory authorization model, system owners or operators jointly authorize third-party power institutions to be responsible for the system’s normal operation and risk emergency handling, thereby reducing the risks associated with cross-border settlements.

## **2.2. Establishing Diversified Financing Channels**

### **2.2.1 Silk road fund**

The Silk Road Fund, established in December 2014, plays a crucial role in the Belt and Road Initiative (BRI) by providing essential financial support for infrastructure, resource development, and industrial cooperation projects in participating regions. The fund’s initial capital was USD 40 billion, provided by the State Administration of Foreign Exchange, China Investment Corporation, the China Development Bank, and the Export-Import Bank of China. It serves as a cornerstone of China’s strategy to enhance connectivity along the Belt and Road and promote economic integration [6,7].

The Silk Road Fund has been instrumental in broadening diversified financing channels by using a range of financial instruments and strategic investments to advance infrastructure development and economic cooperation under the BRI. Since its inception in 2014, the fund has offered various financing solutions, including equity investments, debt financing, and loans, flexibly addressing the needs of different projects. These diversified financing channels effectively address the shortcomings of traditional financing models, supporting the implementation of projects in critical sectors such as transportation, energy, and telecommunications. As a result, regional connectivity and economic integration have improved. Additionally, the Silk Road Fund’s investment in sustainable development, particularly in prioritizing renewable energy and environmentally friendly infrastructure, has not only promoted the development of a ‘Green Belt and Road’ but also enhanced the financial viability and long-term sustainability of its projects.

Currently, the Silk Road Fund’s investments in the energy and transportation sectors have yielded significant results, with support for railways, highways, and ports greatly improving infrastructure conditions in countries along the Belt and Road, thereby facilitating cross-border trade and economic cooperation. The successful practice of diversified financing not only provides stable financial support for the Belt and Road Initiative but also offers new solutions for the effective allocation of international capital and regional economic growth.

Despite its achievements, the Silk Road Fund still faces challenges. Navigating complex regulatory environments, managing geopolitical risks, and balancing economic returns with development goals are ongoing concerns for the fund. Moreover, ensuring the financial sustainability of its investments while achieving social and economic benefits requires careful project selection and risk management. Looking ahead, the Silk Road Fund is expected to remain a key participant in the Belt and Road Initiative. Its efforts in diversifying financing channels, supporting sustainable development, and promoting international economic cooperation are crucial to the long-term success of the Belt and Road Initiative. The fund’s role in enhancing connectivity and promoting economic growth underscores its importance in building a more interconnected and prosperous global economy [8].

## 2.2.2 Asian infrastructure investment bank

### (1) Overview

The Asian Infrastructure Investment Bank (AIIB) was initiated by China and established in 2016 to meet the infrastructure needs of Asia and other regions. As an alternative to the World Bank and the International Monetary Fund (IMF), AIIB provides new financing avenues for borrowing countries through concessional loans and policies with fewer interventions. Since its inception, AIIB has expanded to 106 member countries and has a capital of USD 100 billion. Although initially met with skepticism from some Western countries, AIIB has gradually gained international recognition, with several NATO member states and major Asian countries (except Japan) joining the bank.

### (2) Structure and governance

The AIIB is governed by a Board of Governors and a non-resident Board of Directors. The former is appointed by member countries, while the latter is responsible for strategic guidance, policy formulation, and oversight. The bank's president serves a five-year term and is assisted by vice presidents and other senior officials. As of 2023, Jin Liqun serves as the president of AIIB.

### (3) Investment priorities and examples

AIIB prioritizes investments in sustainable infrastructure, focusing on transportation, energy, ports, and telecommunications projects to enhance regional connectivity and promote economic development. For instance, in India, AIIB partnered with the World Bank to advance a rural road connectivity project, improving transportation and educational conditions for over 5,600 villages and benefiting 1.5 million residents.

AIIB's funds are not only concentrated in Asia but also extend to other regions, covering multiple sectors such as energy, transportation, and urban infrastructure. Representative projects include upgrading Bangladesh's power transmission network and road construction in Indonesia. Moreover, AIIB has recently increased its investment in climate-related projects, such as green energy infrastructure and environmental protection initiatives, to address global environmental challenges. Through this diversified project portfolio, AIIB has achieved significant success in infrastructure development and played an important role in promoting sustainable development and regional economic cooperation.

### (4) Strategic importance and impact

The establishment of AIIB marks China's growing influence in the global financial arena and represents a strategic move to create an alternative to the US-dominated financial system. By providing substantial funding for infrastructure projects, AIIB supports the Belt and Road Initiative (BRI), strengthens regional connectivity, and promotes economic integration. In turn, this contributes to broader goals of sustainable development and economic growth in Asia and beyond.

## 3. Challenges and Difficulties Faced by the Belt and Road Initiative

### 3.1. Risks in Cross-Border Payments and Settlements

The Belt and Road Initiative (BRI) involves multiple countries and regions, and the risks associated with cross-border payments and settlements present significant challenges. Due to differences in currency systems, financial infrastructures, and regulatory frameworks among countries, cross-border payment and settlement processes may encounter delays, errors, or even financial losses. Additionally, exchange rate fluctuations and capital controls can impact cross-border payments, increasing transaction costs and uncertainty. Therefore, it is crucial to establish more secure and efficient cross-border payment and settlement systems.

### 3.2. Ensuring the Stability of Financial Markets

#### 3.2.1 Risk management

While the Belt and Road Initiative promotes global infrastructure development and economic cooperation, it also introduces new challenges for financial risk management. Projects funded by the

Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB) in countries along the Belt and Road often face political, economic, and environmental risks [9]. If not effectively managed, these risks could negatively impact the stability of financial markets.

Firstly, the cross-border nature of BRI projects means that investors must contend with varying political and economic risks across different countries. Research indicates that political stability and economic growth are crucial factors in attracting foreign investment. However, the diverse political and economic conditions of BRI countries increase investment uncertainty. Therefore, the Silk Road Fund and AIIB must consider these risks in their investment decisions and employ strategies such as diversification, joint investments, and insurance to mitigate them.

Secondly, environmental and social risks are also significant challenges for BRI projects. Many infrastructure projects involve large-scale land acquisitions and environmental impacts, which may lead to opposition from local communities and environmental concerns. To address this, the Silk Road Fund and AIIB have established strict Environmental and Social Management Frameworks (ESMF) to ensure the sustainability and compliance of projects [10]. These measures help reduce environmental and social risks, thereby maintaining the stability of financial markets.

In addition, financial risk management includes handling exchange rate fluctuations and interest rate changes. Since BRI projects often involve multiple currencies and financial markets, fluctuations in exchange rates and interest rates can significantly affect the financial viability of these projects. Research suggests that using hedging tools and financial derivatives can effectively manage these risks, ensuring the smooth progress of projects [11].

### 3.2.2 Coordination of financial regulation

The implementation of the Belt and Road Initiative requires coordination of financial regulation among different countries to ensure the stability of financial markets and the smooth execution of investment projects. Due to the varying regulatory systems and standards across countries, achieving effective regulatory coordination poses a significant challenge.

Firstly, the financial regulatory environments in BRI countries vary widely, with some countries having well-developed regulatory systems, while others are still in the process of developing theirs. Research shows that strengthening international regulatory cooperation and information sharing can enhance the overall effectiveness and transparency of financial regulation. The Silk Road Fund and AIIB, as international financial institutions, can play a positive role in promoting regulatory coordination among these countries.

Secondly, financial regulatory coordination also involves areas such as anti-money laundering (AML) and combating the financing of terrorism (CFT). Given that BRI projects involve large cross-border capital flows, these funds could potentially be exploited for money laundering and terrorist financing activities. To mitigate these risks, countries must enhance regulatory and law enforcement cooperation, establishing robust AML and CFT systems [12].

Moreover, financial regulatory coordination extends to the regulation of financial technology (FinTech) and innovation. As FinTech rapidly develops, the financial markets of BRI countries are undergoing profound changes. Research indicates that establishing a unified regulatory framework for FinTech can help standardize the development of FinTech, mitigate financial risks, and ensure the stability of financial markets [13].

## 3.3. Enhancing the Global Financial Governance System

### 3.3.1 Anti-Money laundering (AML) measures

The Belt and Road Initiative (BRI) has led to a significant increase in cross-border investments and capital flows, which, in turn, heightens the risk of money laundering activities. Effective AML measures are crucial for maintaining the stability and transparency of the global financial system. Research indicates that by strengthening international cooperation and information sharing, countries can effectively address the challenges posed by money laundering [14].

Firstly, institutions like the Silk Road Fund and AIIB strictly adhere to AML regulations in their investment projects and require their partners to do the same. This not only enhances the transparency of the projects but also mitigates the risk of potential financial crimes. Additionally, by collaborating with international AML bodies such as the Financial Action Task Force (FATF), these institutions can access the latest AML information and guidance, further improving the effectiveness of their AML efforts [15].

Secondly, as the BRI progresses, cooperation among countries along the route in AML is also intensifying. For instance, China has signed AML cooperation agreements with countries like Russia and Pakistan, establishing mechanisms for AML information sharing. This cross-border cooperation enhances the coordination and effectiveness of AML measures, thereby curbing money laundering activities [16].

### 3.3.2 Combating terrorist financing

While the BRI promotes economic development, it also carries the risk of being exploited by terrorist organizations for financing activities. Combating terrorist financing is a crucial aspect of global financial governance, requiring concerted efforts to establish robust mechanisms.

Firstly, AIIB implements strict counter-terrorist financing (CTF) review mechanisms in its projects to ensure that funds are not misused by terrorist organizations. Research shows that by collaborating with international counter-terrorism agencies, AIIB can promptly identify and address the risks associated with terrorist financing, thereby ensuring the safety and legitimacy of its projects [17].

Secondly, countries have strengthened CTF cooperation within the BRI framework. For example, China has established CTF cooperation mechanisms with Central Asian countries, focusing on intelligence sharing and joint enforcement to combat terrorist financing. This cooperation not only enhances the effectiveness of CTF efforts but also provides valuable lessons for other countries [18].

### 3.3.3 Coordination of international financial policies

The successful implementation of the Belt and Road Initiative depends on the coordination and cooperation of financial policies among countries. Coordinating international financial policies helps to reduce market volatility and maintain the stability of the global financial system.

Firstly, the Silk Road Fund and AIIB prioritize coordination with national governments and financial institutions in their investments to ensure that projects comply with local financial policies and regulations. Research indicates that such coordination can effectively reduce policy risks and increase the success rate and sustainability of projects [19].

Secondly, several financial policy coordination mechanisms have been established under the BRI framework. For example, China and ASEAN countries have formed a Financial Cooperation Committee that holds regular meetings to discuss financial policy coordination issues. These mechanisms enhance the alignment of financial policies among countries, reduce policy conflicts, and promote regional economic integration [20].

Furthermore, international financial institutions such as the International Monetary Fund (IMF) and the World Bank have played active roles in advancing the BRI. By providing policy advice and technical support, these institutions help BRI countries develop and implement financial policies that meet international standards, thereby enhancing global financial governance [21].

## 3.4. Legal and Regulatory Challenges

The implementation of the Belt and Road Initiative faces a complex landscape of legal and regulatory environments. The diverse legal systems and regulatory frameworks of countries along the route introduce numerous uncertainties in cross-border cooperation and project implementation. Additionally, the applicability of international law and the extent to which countries recognize the legal basis of the BRI also affect the progress of these projects. Therefore, achieving effective legal compliance and regulatory coordination across different legal systems is crucial to the success of the BRI.

### 3.5. Obstacles in Multilateral Cooperation

Multilateral cooperation is a core principle of the Belt and Road Initiative, but in practice, conflicts of interest among countries and difficulties in coordinating multilateral institutions often pose significant obstacles to cooperation. For instance, issues related to project financing, risk-sharing, and profit distribution may lead to differing demands from various countries, thereby hindering progress. Therefore, enhancing communication, building trust mechanisms, and using multilateral platforms to coordinate the interests of all parties are key to overcoming these challenges.

## 4. Conclusion

In examining the impact of the Belt and Road Initiative on the global financial system, we have systematically analyzed the current state and challenges of global financial markets, exploring the BRI's role in promoting cross-border capital flows, financial market integration, diversified financing channels, and financial innovation. This study not only reveals the opportunities brought by the BRI to the global financial system but also delves into its potential risks and challenges.

Future research directions could include the following: First, deepening cross-border financial regulatory coordination mechanisms to address the frequency and complexity of cross-border financial activities under the BRI, particularly in areas such as information sharing and collaborative mechanisms. Second, promoting the internationalization of the Renminbi (RMB) and studying its application and impact in cross-border payments, international trade, investment, and as a reserve currency in BRI countries. Third, innovating diversified financing tools, such as green finance and infrastructure bonds, to better support the implementation of BRI projects. Fourth, establishing scientific evaluation models to systematically analyze the long-term impact of the BRI on the financial markets of countries along the route. Fifth, strengthening regional economic cooperation and financial integration by researching how infrastructure connectivity, trade facilitation, and investment liberalization can promote sustainable regional economic development.

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