The “Belt and Road Initiative” (BRI) As an Economic Development Strategy for China

Professor Dr. Zdzisław W. PUŚLECKI
Adam Mickiewicz University, Poznań

Abstract: In this research work, Author focus on the analysis the ‘Belt and Road Initiative’ (BRI) or ‘One Belt, One Road’ (OBOR) as an economic development strategy for China. The initiative is focused on creating networks that will allow for a more efficient and productive free flow of trade as well as further integration of international markets both physically and digitally. BRI is comprised of the ‘21st Century Maritime Silk Road’ and the ‘Silk Road Economic Belt’ together they will connect more than 65 countries making up over 62% of the world’s population, around 35% of the world’s trade and over 31% of the world’s GDP. It will take the form of a series of highways, railways and ports as well as facilities for energy, telecommunications, healthcare and education. It must be emphasized that the initiative merges both the land-based Silk Road (from China via Central Asia to Turkey and the EU) with the Maritime Route (via the Indian Ocean and Africa to Europe). Both routes were created with the intention of developing transportation infrastructure, facilitating economic development and increasing trade. This 21st-century initiative is not merely for China to romanticize its historical legacies: it carries major strategic economic and geopolitical calculations. The EU must decide now if and how to engage in these emerging processes. The main aim of the article is the presentation of the ‘Belt and Road Initiative’ (BRI) as an economic development strategy for China.

Key words: Belt and Road, initiative, China, European Union, infrastructure

Introduction

According to Chinese President Xi Jinping as of January 2017 more than 100 countries and international organizations have responded well to the initiative and over 40 have signed cooperation agreements. Already, over $900 billion USD of BRI related projects are under way. However, it is worth noting that The Asian Development Bank estimate that by 2030 the initiative will cost over $22.6 trillion. None the less the Initiative has received an immense amount of positive reactions. In collaboration with the Belt and Road Initiative the Asian Infrastructure Investment Bank (AIIB) was established with its headquarters in Beijing. AIIB is, (according to its official website) “a new multilateral financial institution founded to bring countries together to address the daunting infrastructure needs across Asia” (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

It was formally opened in January 2016 and to date has 56 member states and 26 prospective members including all BRICS countries as well as United Kingdom, France, Italy, Germany and Hong Kong. China is the largest shareholder with 26.06% of the votes. It is the only party with more voting power than the combined power of the 14 EU members of AIIB who hold a total of 19.04% of voting rights. In 2016, the bank committed $1.73 billion USD to nine development projects along the Belt and Road, 6 of which are in collaboration with lenders including the World Bank and the Asian Development Bank. The bank is credited with further connecting China to the rest of the world through international financial transactions and funding infrastructure (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

1. From anothers Projects to the Belt and Road

It remains to be seen if the United States and China will clash over their competing plans for developing energy resources in Central Asia’s Turkmenistan, creating infrastructure in Pakistan, or winning political influence with local governments throughout Asia. Other Asian powers like India and Russia, meanwhile, are seeking to define their own approach to regional integration. While these ambitious projects hold the potential to reshape one

1Paper prepared in the framework of the Grant OPUS, National Centre of Science– NCS, Nr UMO–2013/11/B/HS5/03572
of the world’s least integrated areas, all must contend with local rivalries, logistical roadblocks, security risks, and political uncertainty.

The ‘Belt and Road Initiative’ includes 6 international ‘corridors’. These include; (1) ‘The new Eurasia land Bridge’, (2) ‘The China-Mongolia-Russia economic corridor’, (3) ‘China-Central Asia-West Asia economic corridor’, (4) ‘China-Indochina Peninsular Economic Corridor’, (5) ‘China-Pakistan Economic Corridor’, (6) ‘Bangladesh-China-India-Myanmar Economic Corridor’. BRI focuses on five main goals. (I) ‘Policy Coordination’; meaning the initiative intends to encourage Countries to jointly work and cooperate with each other to achieve projects. (II) ‘Cultural Exchange’; this being the aim to promote people-to-people bonds and friendly interaction between enterprises as well as deeper cultural understanding so as to further international cooperation. (III) ‘Financial Integration’; BRI is designed to enhance monetary and financial cooperation when monitoring and dealing with risk as well as general financial interactions. In addition, it looks to expand currency exchange and scope. (IV) ‘Trade and Investment’; through BRI cross-border investments and trade are aimed at being made easier and more cooperative between countries on the Belt and Road, promoting economic integration. (V) ‘Facilities Connectivity’; this is the

Chart 1
The six economic corridors of the new Silk Road

Source: http://china-trade-research.hktdc.com/business-news/article/One-Belt-One-Road/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm

focus on building facilities to enable greater connectivity between countries on the Belt and Road e.g rebuilding and developing ports, removing barriers, fixing roads etc (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

The original Silk Road came into being during the westward expansion of China’s Han Dynasty (206 BC–220 AD), which forged trade networks throughout what are today the Central Asian countries of Kyrgyzstan, Tajikistan, Kazakhstan, Uzbekistan, Turkmenistan, and Afghanistan, as well as modern-day Pakistan and India to the south. Those routes eventually extended over four thousand miles to Europe.
Central Asia was thus the epicenter of one of the first waves of globalization, connecting eastern and western markets, spurring immense wealth, and intermixing cultural and religious traditions. Valuable Chinese silk, spices, jade, and other goods moved west while China received gold and other precious metals, ivory, and glass products. The route peaked during the first millennium, under the leadership of first the Roman and then Byzantine Empires, and the Tang dynasty (618–907) in China.

But the Crusades, as well as advances by the Mongols in Central Asia, dampened trade. By the sixteenth century, Asian commerce with Europe had largely shifted to maritime trade routes, which were cheaper and faster.
Today, Central Asian countries are economically isolated, with intra-regional trade making up just 6.2 percent of all cross-border commerce. They are also heavily dependent on Russia, particularly remittances—which dropped 15 percent in 2014 due to Russia’s economic woes.

For the United States, the New Silk Road refers to a suite of joint investment projects and regional trade blocs that have the potential to bring economic growth and stability to Central Asia. Following the surge of thirty thousand additional troops into Afghanistan in 2009, which President Barack Obama’s administration had hoped would lay the groundwork for complete withdrawal a few years later, Washington began to lay out a strategy for supporting these initiatives through diplomatic means. These plans emphasized the need for Afghanistan to build an economy independent of foreign assistance. More than 1.6 billion consumers in India, Pakistan, and the rest of South Asia are increasingly demanding energy supplies of the kind that Kazakhstan or Turkmenistan, with their hydropower and natural gas reserves, are capable of providing.

The proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, which could provide major economic dividends to Afghanistan, has been a focus of U.S. policy. Turkmenistan is home to the world’s second-largest deposit of natural gas, and the TAPI would allow it to diversify its exports away from China by delivering energy to India and Pakistan. But the $10 billion project has been repeatedly delayed by difficulties in securing investors. Without the possibility of an equity stake, which Turkmenistan has refused to allow for foreign companies, major Western oil companies have so far balked at the project.

Chart 3
The Proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline

In addition to the $1.7 billion that the United States has directed toward energy projects in Afghanistan since 2010, the State Department has spent over $2 billion to build some 1,800 miles of national roadways. That is a small fraction of the $62 billion the U.S. has spent on the Afghan security forces.

In 2011, the U.S. Agency for International Development (USAID), helped create the Almaty Consensus, a "Regional Cooperation Framework" among Central Asian nations. Its projects include reducing trade barriers, developing export capacity, and supporting World Trade Organization (WTO) accession for Afghanistan.

These initiatives include the Cross-Border Transport Accord (CBTA) between Afghanistan, Tajikistan, and Kazakhstan, the CASA-1000 electricity grid, which would allow Tajikistan and Kyrgyzstan to transmit hydropower electricity to consumers in Afghanistan and Pakistan, and the Transit-Trade Agreement to allow Afghanistan to
export goods duty-free into Pakistan. The United States committed $15 million to the CASA-1000 project, but its role—in contrast to China’s tens of billions of direct investments in Central Asia—is largely to facilitate these efforts diplomatically.

China has multiple reasons for pursuing the New Silk Road. Xi has promoted a vision of a more assertive China, while the "new normal" of slowing growth puts pressure on the country’s leadership to open new markets for its consumer goods and excess industrial capacity. Promoting economic development in the troubled western province of Xinjiang, where separatist violence has been on the upswing, is another major concern, as is securing long-term energy supplies.

China’s strategy is conceived as a two-pronged effort. The first focuses on overland infrastructure development through Central Asia—the "Silk Road Economic Belt"—while the second foresees the expansion of maritime shipping routes through the Indian Ocean and the Persian Gulf—the "Maritime Silk Road."

**Chart 4**
China’s Proposed New Silk Roads

In 2013, Xi told an audience in Kazakhstan that he wants to create a vast network of railways, energy pipelines, highways, and streamlined border crossings, both westward—through the mountainous former Soviet republics—and southward, toward Pakistan, India, and the rest of Southeast Asia. Such a network would also expand the international use of Chinese currency, the renminbi, in transactions throughout the region, while new infrastructure could "break the bottleneck in Asian connectivity," according to Xi. The Asian Development Bank, highlighting the need for more such investments, estimates that the region faces a yearly infrastructure financing shortfall of nearly $800 billion.

Xi subsequently announced plans for the maritime silk road at the 2013 summit of the Association of Southeast Asian Nations (ASEAN) in Indonesia. To accommodate expanding maritime trade traffic, China will invest in port development throughout the Indian Ocean, in Bangladesh, Sri Lanka, the Maldives, and Pakistan.

In 2014, Xi concluded deals worth $30 billion with Kazakhstan, $15 billion with Uzbekistan, and $3 billion with Kyrgyzstan, in addition to spending $1.4 billion to help revamp the port of Colombo, in Sri Lanka. By November 2014, China had announced the creation of a $40 billion Silk Road Fund.

It must be emphasize that we can seen closer relations between India and the United States, finalizing a new Joint Strategic Vision of common cooperation. As the fifth-largest donor to Afghanistan’s reconstruction, India has played a leading role in supporting the U.S.-led efforts, spending more than $2 billion over the past decade.
Yet persistent territorial disputes have complicated deeper integration between India and its neighbors. Its borders with China have been unsettled since the two countries went to war over a disputed Himalayan border in 1962. India-Pakistan relations have been fraught since independence in 1947, and trade barriers persist between them, sowing doubt over the ability of the two countries to undertake the kind of joint projects, like the TAPI pipeline, foreseen by the U.S. Silk Road strategy.

While China has expressed reservations over the deepening of India-U.S. relations, policymakers in New Delhi have long been unsettled by China’s embrace of Pakistan. In April 2015 China’s Xi announced a massive $46 billion investment plan for Pakistani energy and transport infrastructure. This so-called China-Pakistan Economic Corridor (CPEC) aims to link Pakistan’s Indian Ocean port of Gwadar (now under Chinese management) to the western Chinese province of Xinjiang. Concern has also grown in India over Chinese investment in Sri Lanka, where China has expanded military as well as economic cooperation.

China’s ambitions have already run into local opposition. In Myanmar, popular pressure stalled a planned $20 billion railway between the Myanmar city of Kyaukpyu and Kunming in China over anger that locals weren’t consulted on the project. Similarly, the newly elected government in Sri Lanka is subjecting the previous administration’s investment deals with China—which were shrouded in secrecy—to additional scrutiny.

For both the United States and China, Central Asian infrastructure projects face unforgiving terrain through steep mountain passes, as well as threats from armed militants. Separatist attacks in China’s Xinjiang and Pakistan’s Balochistan provinces as well as a resurgent Taliban in Afghanistan are constant worries. Afghanistan in particular has now endured decades of civil strife and foreign intervention, and the country’s ability to shift from a war footing to embrace ambitious commercial projects will be central to the success or failure of the U.S. Silk Road strategy.

Chart 5
Silk and spice trade routes

Source: http://www.silkroutes.net/OBOR/1MapUNESCO.jpg

Finally, it remains to be seen how Russia’s ambitions in its own "near abroad" in Central Asia will intersect with U.S. and Chinese efforts. With U.S.-Russia relations at their lowest point since the end of the Cold War, Russia has pursued its own regional integration efforts through the Eurasian Economic Union, which unites the economies of Russia, Kazakhstan, Belarus, and Armenia. China, too, is increasingly competing with Russia—displacing Russian investment and energy ties in Turkmenistan, Uzbekistan, and Kazakhstan—potentially ratcheting up tensions between Beijing and Moscow in the coming years. (https://www.cfr.org/backgrounder/building-new-silk-roadaccess-07.06.2018).
2. The Belt and Road in the face of the EU

It must be emphasized once more that the initiative merges both the land-based Silk Road (from China via Central Asia to Turkey and the EU) with the Maritime Route (via the Indian Ocean and Africa to Europe). Both routes were created with the intention of developing transportation infrastructure, facilitating economic development and increasing trade. This 21st-century initiative is not merely for China to romanticize its historical legacies: it carries major strategic economic and geopolitical calculations.

Chart 6
Iron Silk Road

Source: http://www.chinadiscovery.com/china-silk-road-tours/maps.html

There is an agreed EU-China connectivity platform which involves cooperation on investment projects (predominantly on the Belt and Road). In June 2017, the 19th summit for the EU and PRC was held. This resulted in developments on the extent of their cooperation. Developments were focused on the field of transport connections between the two and cooperation on ‘green’ transport solutions. Further movements were also made regarding; “concrete projects based on agreed criteria including sustainability, transparency and a level-playing field.” The European Investment Fund and the Silk Road Fund also signed an MOU committing €250 million from each fund towards private equity and venture capital funds.

China seems to pursue three key objectives:

1. A new impetus for its economy. China’s GDP grew around 7.4% in 2015, the lowest since the 1990s, and a further slowdown seems inevitable. Given the massive overcapacity in the manufacturing sector, the vast and largely inefficient state-owned enterprises with falling return on equity, as well as the real estate bubble and increasing environmental pressures, China urgently needs to find new economic engines. One Belt, One Road focuses on infrastructure development and matches the appetite of Chinese state-owned enterprises with overcapacity.

2. The Silk Road will help to alleviate China’s thirst for energy, with new gas pipelines in Central Asia and new deepwater harbours in South Asia to be constructed. These massive infrastructure projects will also accelerate the renminbi’s internationalization and its emergence as an alternative reserve currency, a strategic economic objective.

3. Most importantly, the core of this initiative lies in its strategic and geopolitical importance. China seeks to build a cordon sanitaire of regional stability. Its leadership firmly believes economic prosperity is the only way to maintain peace in its fragile neighbourhood, from volatile Central Asia via a fragmented Pakistan and wartorn Afghanistan to the terror belt in the Middle East and North Africa. The Chinese government
has resisted the idea of labelling the “belt and road” project as its own Marshall Plan, but the commonality of China’s economic interests with the corridor nations and a sound infrastructure bond will be the best way to prevent regional conflicts. It’s also a viable way to export China’s model of development: the right to develop irrespective of political systems.

Strategically, the belt and road concept – as well as the establishment of the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and other related initiatives – send out a clear signal: China is ready to take more of a role in regional and global governance. Over the past decades, China was an agenda-follower rather than agenda-setter. A key principle of its foreign policy has been a “peaceful rise with a low profile”. Accordingly, China initially accepted and integrated into the existing system of global governance.

Chart 7
Outline of New Silk Roads and AIIB members

This phase is coming to an end. China’s economic power and political weight are strong arguments for Beijing that its development must not continue to be subject to rules mainly decided by industrialized nations. Beijing intends to be more proactive in protecting national interests.

Based on a mixture of Marxist and Confucian traditions, the Chinese leadership has started to articulate more explicit policies towards regional and global governance, through concepts such as the Harmonious Society by former President Hu Jintao, and President Xi Jinping’s “new type of major power relations”. These concepts, mostly ignored by Western governments, are not just slogans. They have led to a number of visible changes in its foreign engagement: the Shanghai Cooperation Organization, the BRICS, G13 and economic forums such as the Boao Forum.

This strategic shift is potentially a game-changer for global governance. Its explicit focus on the wide definition of inclusiveness, the right to development, and based on a relatively fuzzy management style, will inevitably challenge the current Western principles of global governance (https://www.weforum.org/agenda/2015/11/europe-china-new-silk-road, access 07.06.2018)
The surprisingly highly successful launch of AIIB may just be a teaser from China on the existing institutions. But it should be taken as a wake-up call. The EU must decide now if and how to engage in these emerging processes.

3. ‘The New Eurasia Land Bridge’

This corridor, as proposed by China, will take the form of an international railway line from China’s Jiangsu province essentially in a horizontal line west to Rotterdam in Holland. According to plans it will be 11,800 km long and will serve over 30 countries. Along this corridor, China has already opened four freight train routes. These include a route from Chongqing to Duisburg (Germany), a direct route from Wuhan to Mělník to Pardubice (Czech Republic), a route from Chengdu to Lodz (Poland) and one from Zhengzhou to Hamburg (Germany). In addition, along these routes China has issued the policy “one declaration, one inspection, one cargo release” to improve efficiency and ease. Further construction projects of power transmission lines, highways and ports are progressing steadily (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).
Chart 9
The commercial weight of the New Silk Roads affected by the large regions in 2014


Chart 10
The New Silk Road Commercial Corridors

Source: http://www.chinainvestmentresearch.org/press/massive-chinese-lending-directed-to-silk-road/
4. ‘The China-Mongolia-Russia Economic Corridor’

This includes the three countries mentioned and is focused on two main routes; one being: Beijing-Tianjin-Hebei region-Hohhot-Mongolia-Russia and the other being: Dailan-Shenyang Changchun-Harbin and Manzhouli to Russia’s city Chita. As far as the development of this corridor there were two major breakthroughs. First, in September 2014 the three Heads of State of the countries in question met at the Shanghai Co-operation Organization (SCO) Dushanbe summit. Here they agreed on a tripartite cooperation based on bilateral ties. In addition, they agreed to renovate Russia’s Eurasian Land Bridge and potentially develop Mongolia’s Steppe Road. The intention of their agreement was to strengthen railway and highway connectivity, advance customs clearance, transport facilitation and promote cross-national cooperation. The second breakthrough was in July 2015 at a second summit held in Ufa in which the ‘mid-term road map for Development of trilateral Co-operation between China, Russia and Mongolia’ was formally adopted. In June 2016, the three countries created a development plan to follow through with. Further agreements were signed in the Belt and Road initiative forum held in May 2017. In August 2016, a ceremonial delegation of trucks from the three countries was sent out to test the proposed corridor (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

5. China-Central Asia-West Asia Economic Corridor

This corridor is from Xinjiang to Alashankou to the railways of Central and West Asia to the Mediterranean Coast and finally the Arabian Peninsula. The corridor mainly covers; Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan in Central Asia and Iran and Turkey in West Asia (although in total including 17 countries in West Asia). This corridor generally follows the path of the Ancient Silk Road. The most significant movement in developing this corridor was in June 2015 at the ‘Third China-Central Asia Co-operation Forum’ held in Shandong. Here a joint declaration was signed by China and the 5 central Asian countries committing to ‘jointly building the Silk Road Economic Belt’. In 2016, the AIIB approved a loan of $27.5 million USD Dushanbe-Uzbekistan Border Road improvement project in Tajikistan. In 2017, the rehabilitation of Nurek hydropower plant in Tajikistan was announced, (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).
6. China-Indochina Peninsular Economic Corridor (CIPEC)

This route is from the Pearl River Delta and goes west along the Nanchong-Guang’an Expressway and Nanning-Guangzhou high speed railway via Nanning and Pingxiang to Hanoi and Singapore. It links China with the Indochina peninsular and goes through Vietnam, Laos, Cambodia, Thailand, Myanmar and Malaysia. As far as advances go, in December 2014 during the ‘Fifth Leaders Meeting on Greater Mekong Sub-regional’ in Bangkok, Chinese Premier Li Keqiang proposed ways to deepen ties with the 5 countries in the Indochina Peninsular. Nine cross-border motorways in the area of the Greater Mekong Subregion are currently under construction. In the South, China has funded and built various roads in several regions of Indonesia. The Kunming-Singapore High-speed Rail network is a project designed to connect China to Indochina through 3 high-speed railway routes; East, via Hanoi, Ho Chi Minh, Phnom Penh and Bangkok, Central (via Vientiane, Bangkok, Kuala Lumpur and Singapore) and West, (via Mandalay, Yangon and Bangkok). Most of this railway project within China is already complete and the railway is in operation in parts of Vietnam. Western segments are currently under construction whilst Malaysia and Singapore are jointly upgrading sections from Thailand to Singapore (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

Within this corridor there are many plans for Air route expansion and integration ASEAN and China have already made a deal to allow Chinese airplanes to use ASEAN gateway city airports. This is in addition to the ASEAN ‘open skies policy’, a policy which all ASEAN countries have a ratified agreement except for Indonesia, Laos and the Philippines who are still in the process of fully enacting it. Currently there are developments in the linking of Southeast Asian ports to major Chinese cities. The ASEAN region has a lot of potential for untapped coal, oil and gas which are likely to be utilized within next 10 years. China already has many projects in this area underway for example, in Laos, China’s Three Gorges Corporation has completed two hydropower projects. Opportunities and Challenges This corridor is made of ASEAN members most of whom already have a series of exceptionally well developed economic agreements, this will make trade easier. With the development of these countries there are many opportunities to develop the banking, finance and other professional services sector particularly since Cambodia, Laos and Myanmar are revising regulations to encourage growth in this sector. Furthermore, regional institutions like the Asian Development Bank (ADB) are encouraging sustainable and efficient agriculture within this region. However, China’s ties with Indochina are tense which may put a halt on the initiative in this corridor. For example, various CIPEC projects have been delayed due to disagreements over money (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

7. China-Pakistan Economic Corridor

This route is 3000 km long and starts in Kashgar ending in Gwadar, connecting the Silk Road Economic Belt in the North and the 21st Century Maritime Silk Road in the South. In April 2015 both countries signed a joint declaration which stated that the two countries would be proactive in their joint projects that are designed to further connect the two countries. China has already invested $62 billion into the China-Pakistan economic corridor. Along this corridor there is the plan to make Gwadar a special economic zone: a ‘new Dubai’. The Gwadar port is central to the corridor with China investing £1.3 billion in order to develop it into a deep-sea port which will be managed by China under a 43 year lease granted to Chinese Overseas Ports (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

With the hopes to make Gwadar into a ‘new Dubai’ there are plans to turn it into an oil city with petroleum refining zone as well as hubs for mining and minerals, agriculture, food processing, technology and advanced manufacturing. There are also plans for a new Gwadar International Airport and Chinese investment in energy and water infrastructure. Furthermore, China is hoping to develop tertiary sectors and residential projects in Gwadar e.g education, business services, retail and leisure elements. In addition, there are plans for a Gwadar-Kashgar pipeline and transport network. This will be a network of railways, road, telecommunications and energy supply. The oil pipeline will cover 17% of China’s oil imports (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

It will be financed by China and built by Pakistani Frontier Works Organisation however, it will be technically difficult due to mountainous terrain. Over half of the investments in this corridor will be focused on energy projects in order to combat Pakistan’s energy shortage. These projects are expected to double Pakistan’s electricity capacity. China has already invested much in coal fired, nuclear energy and green energy. Current developments include what is set to be the world’s largest solar plant in Bahawalpur, a hydropower plant in Karot, a wind power plant in Jhimpir, two nuclear power stations near Karachi and a major coal-fired power plant is being
planned in Qasim which is aiming at providing around 20% of Pakistan’s energy shortfall (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

The Gwadar port will require technical and logistical investment, technical assistance in ports and petroleum refining zones as well as general shipping and maritime services. For the nuclear, solar and wind power plants there is a demand for companies specialised in design, construction and efficient maintenance. The Gwadar-Kashgar pipeline needs technical expertise to overcome mountainous technical issue However, there have been previous deals along this corridor that have fallen through previously due to issues of corruption and lack of transparency. Furthermore, there are issues between the Pakistani central government and local governments not cooperating as well as concerns over security across the country (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

8. Bangladesh-China-India-Myanmar Economic Corridor

This route includes the four countries mentioned with an emphasis on India. This corridor will cover 9% of the planets land mass and 440 million people. The main part of the corridor is a 2,800-km route running as follows; Kolkata-Dhaka-Mandalay-Kunming. It will take the form of a series of railways, motorways, airways, waterways and telecom networks. In May 2013 China and India jointly proposed building this corridor together. In December 2013, the ‘Working Group’ of the corridor met in Kunming. Here official representatives of the four countries embarked on in-depth discussions. Following this the countries signed meeting minutes agreeing to the ‘Bangladesh-China-India-Myanmar Economic Corridor Joint Study Programme’ establishing roots for cooperation between the four countries, (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

Bangladesh’s ‘Vision 2021’ proposed by the Bangladeshi government is focused on creating links with its neighbours as a main priority. In Bangladesh, the main area of investment will be energy, telecommunications and agriculture. Already, large transport infrastructure projects are being carried out such as Chinese companies building a £3.6 billion railway from Dhaka to Jessore. Energy infrastructure is also being developed, Bangladesh-China power 10 company ltd are focused on building £1.3 billion coal-fired power plant in South Dhaka furthermore, the AIIB have approved a £133 million loan for Bangladesh to expand electricity into rural areas India. In 2015 China and India signed a £17.7 billion trade agreement with a focus on renewable energy, steel, transport infrastructure and real estate sectors e.g Chinese company Wanda Group are building an £8 billion industrial park in Haryana near Delhi (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

In Myanmar there is a large twin gas and oil pipeline project from the port of Kyaukpyu to Guanxi and Yunnan. The gas pipeline is already in use and the oil pipeline opened in April 2017. China is highly invested in Kyaukpyu and have developed the ‘Kyaukpyu Special Economic Zone’ including a deep-sea port at Kyaukpyu which is under development led by Chinese CITI Group Corporation. China led power and energy projects across Myanmar are already in action as is demonstrated by the £2.4 billion refinery in the South East which was granted approval in 2016 Opportunities and challenges. Within this corridor there are issues over environmental concerns and security issues in all countries within the corridor. In addition, it is the least developed corridor. That being said, there are long-term opportunities in Shipping and Maritime services as well as technical and logistical suport (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

9. Opportunities the Belt and Road Initiative can offer Foreign Investors

By building greater connectivity and developing nations, once completed, the initiative will make it easier for large multinationals and start-ups alike to reach new large consumer markets. It has been estimated that the growing middle class in Asia could number 4 billion by 2021 and following on from this (according to HSBC) 66% of the world’s population could be living in Asia by 2030 (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018). This will mean a continuously growing buyers’ market in Asia demanding luxury goods and services. It is worth noting that the initiative will reportedly be open to all nations and not limited by geography. Thus, the benefits of easy access to a growing market will be accessible to all investors regardless of their geographic background. Consequently, through the initiative this immense market will be accessible for all(https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

The Belt and Road Initiative could be a good investment for private investors due to President Trump’s move to back out of the Trans-Pacific Partnership (TPP). The action means the Belt and Road Initiative is likely to gain more popularity and momentum as it is aimed at providing a vast network for international trade similar to the TPP. As the US are starting to become more introverted there is gap being left on the world’s economic stage which
will likely be filled by China. This view is supported by Louis Kuijs, head of Asia Economics at Oxford Economics in Hong Kong (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

By investing in the initiative’s developing countries, investors are investing in creating more buying power and establishing efficient routes to fully utilise these new markets. The Chinese government are encouraging a mixture of foreign investment and domestic investment in Belt and Road projects. Various banks and funds such as The New Development or ‘BRICS’ Bank and The Asian Infrastructure Investment Bank (AIIB) are providing loans for such projects. In 2016 AIIB committed $1.73 billion USD to nine development projects along the Belt and Road. According to the Articles of Agreement of the Bank they will “provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the Asia region” (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

AIIB has three main requirements for financing projects: sustainable in operation, environmentally friendly and widely accepted by public society. According to a China-Britain Business Council (CBBC) report, “immediate key sectors are infrastructure, maritime and logistics, banking and financial services, professional services and energy. Further opportunities also exist in the agriculture, fishing, food processing, light equipment manufacturing, education, tourism and consumer sectors.” (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018). Currently there are many large corporations who are in cooperation with Chinese banks and companies in countries along the Belt and Road for example BP and CNPC who in 2015 saw the highest record of oil production in Iraq since 1990. Chinese enterprises such as Changan, China Mobile and BCEGI Construction and foreign owned enterprises such as Pinsent Masons and NVC lighting are finding many opportunities for their service and expertise along the Belt and Road in aiding the development of the initiative (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

10. Key Investment Opportunities

10.1. Banking and Financial Services

Firstly, with the implementation of BRI there will be a large demand for expertise in complex financial tools, the participation of financial institutions in BRI will mean long-term access to capital and a more liquid and diverse market. Thus, companies investing in BRI will need both traditional services e.g loans and settlements but also complex financial tools e.g investment banking, third party agency facilities, risk control and financial management. Furthermore, BRI will push RMB to expand thus creating the need for overseas financial centres. Environmental sustainability is very important for BRI and much of it needs to come from private investors. This creates opportunities for financial intermediaries to support financial institutions and governments in identifying, monitoring, supervising and evaluating green projects as information disclosure and risk control become more in demand (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

Many banks such as the Bank of China (BOC) and China Construction Bank are issuing billions of dollars’ worth in BRI bonds. The bond market e.g Panda and Dim Sum Bonds, offers early access for foreign and private capital. Growth in BRI bond markets is likely to attract new bond issuers beyond Chinese banks thus creating greater opportunities for foreign enterprises. With the initiative, there is an increasing demand for commodities trading. This is evident by BOC launching offshore global commodity business centers in Singapore and providing £40 billion in financial services to support Chinese and Singaporean companies who want to invest in BRI (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

For other foreign investors, opportunities lie in providing input for the fostering of secure, efficient and robust commodity trading and RMB commodity financial innovation. The immense size of BRI and the nature of there being much risk in investing in the initiative means there are many opportunities in this field risk management and insurers. Insurers can develop novel insurance products and services to aid companies investing in BRI. In addition, there are more opportunities for asset managers to act as collective financing mechanisms who can provide smaller or private investors access to large infrastructure projects. This is promising as much of the funding for the initiative is expected to be from private investors (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

10. 2. Legal services
BRI investments require legal advice and services due to the complexities that emerge with operating in many of the BRI countries. Many countries along the Belt and Road have different policies and practices and so need specialized help to find a common understanding and follow the legal requirements. For example, Clifford Chance advised the Industrial and Commercial Bank of China, Bank of China, China Construction Bank Corporation and Export-Import Bank of China on £1.2 billion financing oil project in Jordan and Linklaters advised China Development Bank Corporation on the largest Chinese-led power project in Indonesia. In addition, many BRI countries are developing and thus have basic tax, accounting and audit regimes (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

However, investors must have an understanding of the differences. This provides the opportunity for foreign enterprises to aid Chinese enterprises in understanding local regulations and practices and assist them in following local tax and auditing laws. There are many opportunities for foreign enterprises in assessing investment environments and conducting feasibility studies as BRI requires strategic advice and practical business solutions. Examples of foreign companies who provided advice to Chinese parties includes JLT and PWC. China’s role in the shipping industry has grown and with it there are a multitude of legal requirements to be satisfied. A good opportunity for British investors lies in advising maritime services as English law is used in international maritime issues and processes. The size of this opportunity is immense given that China is currently producing 90% of the world's standard dry cargo. BMT group and Pinsent Masons have already become involved in this prospect (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

10.3. Infrastructure Planning and Development

Given the scale and nature of the initiative there are innumerable joint opportunities for international specialized companies and Chinese companies to build railways along the Belt and Road. Furthermore, there are numerous amounts of power generation and industrial development projects in BRI. Oil and gas pipelines as well as electricity transmission/distribution networks need to be sustainable and efficient and so need international specialists to aid these projects (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

In addition, water and waste management projects need specialists in city layouts, supporting regulatory frameworks, co-developing and operating the infrastructure. More infrastructure projects along the Belt and Road means increased supply chain manufacturing facilities and research centers in 3rd countries which provides many prospects for Sino-Foreign Joint Ventures. The development of the corridors increases the movement of goods, commodities and people thus requiring efficient logistics centers to cope with these ‘macro-flows’. DP world is an example of a company already invested in this project. In all the vast urbanization projects across the Belt and Road there emerge many opportunities such as investing in education within these new cities (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

10.4. Energy

Over half of the infrastructure funds along Belt and Road will go towards electricity supply thus meaning there are many opportunities in this sector. Areas in the ASEAN region have much gas and oil. There is thus, a demand for international expertise on marine environments, resource exploration, developments and optimal exploitation. The Keller Group are already involved in this opportunity. Similarly, coal/nuclear power generation requires legal, technical and operational/management support. Renewable energy projects are becoming more price competitive thus creating opportunities for smaller solar and wind power plants. In 2017 China announced a nationwide carbon trading market however, they need expertise on trading markets, carbon credit obligations schemes, regulatory frameworks and professional services that support planning and development. KPMG have already aided China in this area (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

11. How the Belt and Road Initiative Will Impact China’s Economy

There have been many queries over how the ‘Belt and Road’ initiative will achieve actualization due to its immense cost requirement and subsequent infrastructure financing ‘gap’. The issue is a result of China providing the majority of the funds. This is demonstrated by a 2015 case study where Beijing’s Import and Export Bank of China lent $80 billion USD to the initiative compared to the Asian Development Bank which lent $27 billion USD. Given that the Asian Development Bank estimate the initiative will cost over $22.6 trillion USD by 2030 it brings into question how China will be able to continue burdening this weight of carrying the initiative. The answer lies in China’s financing resources such as: The Silk Road Fund, the 10 major cooperation projects announced at the Forum on China-Africa Cooperation, the AIIB, The New Development Bank and loans from Chinese policy banks.
In addition, the Belt and Road Initiative will eventually start paying for itself or at least providing significant returns; as of March 2017, Chinese companies have made over $50 billion USD from investments related to the initiative and many projects have already been launched in countries connected through the initiative (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

Within the first eight months of 2016, China’s trade with BRI countries exceeded $600 billion USD. Estimates suggest that the initiative will make China’s annual trade along the Belt and Road over $2.5 trillion USD. Aside from monetary returns, the initiative provides an outlet for China’s immense industrial capacity. It creates and protects jobs in the industrial field as well as helping to maintain economic growth. Furthermore, the connections to Russian and Iranian oil and gas will protect China’s energy needs whilst pipelines on the coast of countries such as Myanmar and Pakistan enables more diverse maritime routes and thus a greater outlet for Chinese goods. Exports to BRI countries have grown faster than total exports since 2013 demonstrating the potential of the Belt and Road initiative for China’s growing economy (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

12. Potential Expansion of Renminbi

Firstly, it is worth noting that at this current moment the US dollar is still the most popular choice of currency for settlements along the Belt and Road. Whilst it is not a specific aim of the Belt and Road Initiative the initiative provides three possible routes through which Renminbi could be internationalized. BRI could promote RMB settlement through the current account. Currently China is aiming for their trade with BRI countries to reach around $2.5 trillion USD per year within the next 10 years. Given that China is promoting the use of RMB on the Belt and Road this would mean an immense amount of RMB exchanging hands internationally. In addition, greater export of goods and services along the Belt and Road will mean an increased demand for RMB trade settlement and currency mobility. For example, in 2015 Chinese companies signed 3,987 construction contracts in BRI countries this is 44.1% of the value of Chinese overseas construction projects (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

The Initiative could improve RMB outflows through the capital account. Between January 2012 and September 2015, the number of China’s Outward Direct Investments (ODI) settled in RMB increased from 0.2 billion RMB to 20.8 billion RMB. The Belt and Road Initiative means more markets. For example in 2015 China’s Outward Direct Investments (ODI) involved 49 BRI countries with investments connected to BRI reaching USD $14.8 billion (18.2% higher than 2014). ODI’s in BRI countries will increase with its development and thus RMB outflow will rise through the capital account as well as RMB trade settlements for BRI countries are more likely to utilize RMB to avoid transaction fees and exchange rate issues (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

BRI could promote the international spread of RMB as a store of value. Already the demand for RMB in BRI countries is increasing and countries along the Belt and Road are becoming more open to using RMB as a reserve asset. The initiative will also encourage countries to use RMB in their foreign exchange reserves, South Korea, Malaysia and Cambodia have already made RMB one of their reserve currencies, a trend expected to be followed with the growth of the initiative. Another contributing factor to the spread of RMB, which will only be enhanced by BRI is the inclusion of RMB by the IMF in the Special Drawing Rights (SDR) Basket on the 1st October 2016. Other currencies in the basket are USD, GBP, EUR, JPY, China is the first emerging economy to be included. Being in the SDR Basket massively boosts RMB credibility with international investors; the People’s Bank of China (PBoC) predicts that following this move RMB in foreign central banks’ official reserves could exceed 4% soon. Furthermore, Standard Chartered Bank predicts that the total net purchases of China’s bonds and stocks could reach RMB 5.5 trillion ($791 billion USD) and RMB 6.2 trillion respectively by 2020 (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

The inclusion of RMB encourages the Chinese government to continue banking and financial sector reforms as well as capital-account liberalization. If this reform and economic growth continues then RMB denominated assets will become increasingly regarded as ‘safe assets’ by global investors and sovereigns. As Eurozone bonds are not viewed as being as safe as they were pre-2008 downgrades have been issued to many European countries including Austria, the UK, the US and France resulting in the decline of their supply of global ‘safe assets’. Banks need more low-risk assets to meet regulatory requirements. Since the debt issues of developed countries cannot easily be solved there is the prospect of emerging economies such as China to develop opportunities for banks that satisfy the need for riskfree or low-risk assets(https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).
If RMB becomes seen as a safe and liquid asset the demand for RMB will increase. Standard Chartered Bank predicts proportion of RMB assets in global foreign exchange reserves will increase from 1% to 5% within 5 years. In addition, RMB is affected by the growth and international respect of Chinese bank AIIB. Through the increased credibility and use of RMB BRI countries will be even more inclined to utilize RMB in trade. Estimates from the Chinese Government suggest that by 2020 half of China’s foreign trade will be settled in RMB. Peter Wong, Deputy Chairman and Chief Executive, The Hong Kong and Shanghai Banking Corporation Limited says, “As the commercial activities between China and countries along the BRI become more frequent, RMB will gain wider acceptance.” (https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018). Consequently, HSBC recommended that “companies who haven’t already adopted RMB should consider doing so now if they plan on participating in BRI growth and expansion.” BRI growth has many advantages for foreign investors as laid out previously under ‘How the Belt and Road Initiative can affect Foreign Investors’(https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018).

13. OBOR an international incentive to fundamental reform in foreign and domestic policies in China

It must be emphasized that China’s foreign policy apparatus should pursue various reforms to strengthen its coordination of domestic and foreign policies (Xue 2015a. As China’s entry into the World Trade Organization (WTO) served as an outside incentive for domestic reform, the Chinese leaders could use OBOR as an international incentive to fundamentally reform China’s foreign policy apparatus (Xue 2015a; Xue 2015b. For instance, China could balance the internal and external functions of the National Security Commission and strengthen its control over foreign affairs (Xue 2015b) https://www.researchgate.net/publication/312533416_One_Belt_One_Road_Visions_and_Challenges_of_China’s_Geoeconomic_Strategy [accessed Jun 09 2018].

China’s economy itself will shape the trajectory of OBOR. Once a major engine of global economic growth, the Chinese economy faces increasing challenges. With as lowing economy and a falling foreign exchange reserve, China will find it increasingly challenging to fund all the ambitious OBOR projects. Recent market fluctuations and the economic slowdown in China may also undermine support for such grand international projects. Furthermore, it is unrealistic to assume that OBOR could solve all of China’s economic problems. As discussed before, OBOR could potentially worsen the policy atmosphere of China’s market-driven reform, as many government agencies and SOEs implement ambitious projects in a hasty manner. Ultimately, China must deepen its domestic reform to deal with its long-term economic challenges (https://www.researchgate.net/publication/312533416_One_Belt_One_Road_Visions_and_Challenges_of_China’s_Geoeconomic_Strategy [accessed Jun 09 2018]).

Conclusion

OBOR is typically viewed as an economic development strategy for China. Suggests that it could instead be viewed as China’s new geoeconomic strategy, given that the economic and political calculations are not separable. If implemented successfully, OBOR would potentially create a new, China-led international economic, diplomatic, and even security system. OBOR has great potential to transform China’s domestic and foreign policy, but it faces many challenges. While some argue that the implementation of OBOR indicates the ending of Deng’s Tao Gang Yang Hui (low-profiled) approach, there is still enormous continuity in China’s diplomacy. China continues emphasizing its developing country status as well as its peaceful development strategy.

China’s strategists and scholars are actively debating China’s visions of the international order in a new era. Should China support the existing order that has benefited its rise but might also constrain its potential? Or should China try to create an entirely new order, which might bring higher benefit with higher risk? China has different choices over the roles it could play. Suggests also that China could play the role of a spoiler, delegitimizing the existing America-led order and replacing it with something entirely new. It could also continue its integration into the existing order and play the role of a supporter. Finally, China could also act as a shirker, attaining the privileges of power but failing to pay for them by contributing to global governance. The uncertainties of OBOR are driven by the competing roles China might want to play on the world stage.

China has to manage its seemingly conflicted roles and interests, which are those of both a developing country and a developed one and a weak country and a strong one. With multiple identities, China finds it increasingly difficult to define its interests in a coherent way. Officials and scholars in China’s foreign policy circle
actively debate the opportunities and responsibilities of being a great power. While OBOR is an ambitious plan, it faces many challenges. China must deal suggest with huge security risks in many regions in which it is pursuing OBOR projects. OBOR also faces challenges in diplomacy and geopolitics. The US is increasingly suspicious of China’s long-term intentions. While the US wants China to play a larger role as a “responsible stakeholder,” China appears to have become not only a more influential stakeholder but also a potential “rule-maker.” While many neighboring countries welcome China’s economic opportunities, they also increasingly worry about the strategic implications of China’s economic power. To implement OBOR successfully, China must demonstrate self-restraint, reassuring its neighbors that it will continue pursuing a peaceful rise strategy. China also faces domestic and institutional challenges in the implementation of OBOR.

The future of China’s economy will shape the trajectory of OBOR. National power depends above all on the performance of the domestic economy and the ability to mobilize and allocate its resources. As China’s geoeconomic strategy, OBOR will largely depend on the resilience and strength of China’s economic power. The Chinese economy faces increasing challenges, and OBOR cannot solve all of China’s economic problems. Ultimately, China’s domestic reforms will determine whether its economy will be transformed into a more sustainable model. In this sense, Chinese foreign policies are an extension of China’s domestic politics.

References


[6]. Crookes P.I., (2013), Resetting EU-China relations from a values-based to an interests-based engagement, Contemporary China Studies Programme, School of Interdisciplinary Area Studies, University of Oxford, 74 Woodstock Road, Oxford OX2 6HP, UK.


[10]. https://www.aiib.org/en/projects/approved/index.htm access 09.06.2018


[20]. https://www.weforum.org/agenda/2015/11/europe-china-new-silk-road, access 07.06.2018


