

# CHINA:

## The New Silk Road

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# CHINA: *The New Silk Road*

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The Belt and Road Initiative is the most significant diplomatic project of the twenty-first century, the equivalent of the mid-twentieth-century founding of the United Nations and World Bank plus the Marshall Plan all rolled into one. The crucial difference: BRI was conceived in Asia and launched in Asia and will be led by Asians.

PARAG KHANNA

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## INTRODUCTION

### I.

The first opening and reform of China in 1978 comes as an obligatory act, as an exogenous alternative that helps to alleviate the serious social lags of food, clothing, and housing suffered by the Chinese population as a result of the economic insufficiency of its post-revolutionary period.

In its millenary trajectory, as the oldest living society on Earth, China had never opened, so its opening was quite an event that generated innumerable concerns both in its internal life and in a global society that had already forgotten its importance and its historic success.

The first reform and opening of China, oriented towards the Pacific, which was its strategic strength, was conducted as an experiment in an economic orbit that China did not know. Despite this, China managed its opening with great talent in spite of its structural and financial weakness and its lack of experience in inhabiting the capitalist world of development and the market.

After 43 years, the economic, social, and political successes of its decision to open itself up to the global world of its time are beyond doubt, and these successes are entirely well known.

From the China of Deng Xiaoping of 1978, that launches a project of global reform within the framework of its economic weakness and large social needs, we moved, in 2012, to a China of Xi Jinping, which, in line with its shocking economic and geopolitical success, warns us of a second phase of reforms and opening, now toward the West, through the launch of the BRI project (Belt and Road Initiative).

Since its start, the BRI is presented as a project of great dimensions that involves more than 70 countries from Asia, Eastern Europe, and Africa; approximately 70% of the world population, 55% of the world economic GDP, and 75% of the world oil and gas reserves.

From a China, apprentice of the global phenomenon, we now turn to a China that takes the banner of 21<sup>st</sup> century economic development and,

through the BRI, invites the majority of the world population to the integration of a new strategy of *fairer* and more *reasonable* development.

The global society that contemplated the opening of China in the seventies with surprise and carelessness, faced with the strength of the now second world economy, wonders about the terms of the strategy and dimensions of the BRI, and together with it, about the economic and political objectives that China is pursuing with it.

President Xi Jinping announced the BRI in Kazakhstan in 2013, and he ratified its maritime part in Indonesia in the same year. However, the structure and content of the BRI are still in their formative stage, where a good part of its central aspects are expectations. Nevertheless, in 2015, the National Development and Reform Commission (NDRC), in coordination with the Ministries of Trade and Foreign Affairs, through the agreement entitled Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road, issued the statement of its objectives, background, and general projects. To date, this Program contains the general elements of the proposal. The fact that it is an international cooperation initiative for a more reasonable and fairer global governance stands out among its objectives. It is a proposal for the facilitation and opening of markets to increase trade and investment, favoring a more rational regulation of international trade. It serves as a tool to stimulate regional cooperation, which proposes a new thinking and a new project to perfect global governance (Shicheng, 2018).

Despite its short institutional life, the BRI is currently supported by nearly 100 countries and international organizations. China has already signed Agreements of Cooperation with 40 of these countries and has invested nearly 50 billion dollars. Moreover, six International Economic Cooperation Corridors and 56 economic cooperation zones, with more than 20 countries, have been installed through the BRI scheme, through which 180,000 new jobs have been created in the BRI countries. Alongside this, multiple government scholarships, social programs of support and welfare, South-South aid programs, and health and poverty improvement packages, etc. have come about.

The financial strength of the project is supported by its own Asian Infrastructure Investment Bank (AIIB, 2015), together with the Silk Road Fund (SRF, 2015) and the New Development Bank (NDB, 2015), as well as the entire Chinese state-owned banks and international financial bodies.

Furthermore the special proposal of the Digital Silk Road, presented as an innovative instrument typical of the 21<sup>st</sup> century, enriches the regional integration process. It breaks with previous integration models and suggests

that the agreements to be reached in the coming decades should include these alternatives, which are already making a difference in the economic development of the world.

Despite its short Introduction, the initiative already presents itself as the most important geopolitical and geo-economic project of the century, with characteristics and definitions that in many cases break with the trade paradigms that dominated the 20<sup>th</sup> century.

Therefore, in this take-off of the BRI through multiple initiatives, credits, actions, plans, regions, etc. of different speeds and depths in six economic corridors and about 70 countries, knowing the level and scope of the proposal becomes an imperative for academia, the private sector, and the public sector in general, with the idea of establishing the appropriate benchmarking and opportunity lines that proceed from it, as well as clarifying its impact or possible consequences on the internal life of the other countries and regions of the world.

## II.

The Chinese offer of informal association launched to the world and in particular, to the Asian continent, under the acronym BRI (Belt and Road Initiative), breaks with the regional paradigms established since the postwar period, and because of its size and possible implications, poses the starting point of a new global economic and political order with Asian characteristics, in general, and Chinese characteristics, in particular.

Its installation is explained in the geopolitical phenomenon evidenced at the beginning of the century, of a China and East Asia on the rise, and a Western decline shown by the main European countries and the United States.

Similarly, the BRI offer is part of the re-launching of the Chinese economic and political project (Second Opening and Reform), that from a measured and tolerant policy regarding its role in the global order established by the West (Deng policy), through the BRI, it starts to lead a more active role, which, in its unveiling, tries to raise new flags for a globalization with Chinese characteristics (Xi policy). In that sense, “The BRI goes beyond the global trading system during the implementation of objectives, of mechanisms and of principles; at the same time, it is an exploration of a new model of global cooperation and governance, which not only seeks the development and prosperity of the world economy, but also proposes a more just and reasonable system of global governance” (Xixia, 2018).



Under this perspective, the possibilities of the analysis of the OBOR expand and multiply geometrically, hindering its explanation, which ranges from a new regional trade proposal, to the possibility of becoming a geopolitical and geo-economic strategy of unsuspected dimensions, which could have as its ultimate objective the repositioning of China as a hegemonic leader in the middle of the century. Furthermore, within this last objective, it could include the cultural and civilizational recovery of an always present Orientalism that was relegated in the last two centuries (small parenthesis from Huntington) in the face of the Western subjugation of the former Asian powers such as China, India, Japan, etc.

Seven years after its launch, the BRI also moves freely between a geopolitical megatrend and an amorphous mechanism under construction, which has not yet been defined in structure, content, and direction. Likewise, its current narrative is divided between the celebration of a new economic and political global order, such as a high-risk investment scheme, located in a fearful and timid Asian geopolitical framework.

The interpretations of the BRI will tend to be more objective as its juridical, economic and political structure advances, which will allow the establishment of its true frontiers and possibilities.

In that regard and beyond the degree of success of its goals, the BRI scheme would have to be positioned as the spearhead of a Second Chinese Reform and Opening to the West, as a strategic movement of complementation with respect to its first Reform and Opening towards the Pacific in 1978, which to date is exhausted, not to sustain a moderate economic development of China, but to give China that final impulse to an Asian project that unlike the seventies, now seeks the leadership of a new global order with Chinese characteristics.

In the logic of this approach, the Second Reform cannot be seen only through the BRI, but because of its importance and strategic value, both the Economic Reform led by the Made in China 2025 program, as well as the Reform of its Political Power which came about in 2017/2018 through its Constitutional Reform should be included in this impulse.

These three reforms, each within the framework of its competency, are now a fundamental part of the new Chinese project of the 21st century, with which it is betting on its hegemonic leadership by the middle of the century.

Within a global disorder and a world in transformation, the Chinese proposal appears as an articulated option, waiting for a better response and interpretation from the West and peripheral countries.

### III.

Under this concern, the Institute of Juridical Research (IJ) of the National Autonomous University of Mexico (UNAM), in coordination with the University Program of Studies on Asia and Africa (PUEAA,UNAM), established the need to carry out a comprehensive investigation of the BRI, through it, both the geostrategic elements, which originated it, and the first results of its contact with the various regions and nations of the BRI system could be known. The premise is that the global society now finds itself in a period of profound transformation, of the realignment of geo-economic and geopolitical actors and blocs, which must be known in a timely manner.

For this purpose, the participation of 25 specialists from countries of Asia, the United States, and Latin America was scheduled, under an interdisciplinary index, to contribute to better understanding the global phenomenon of the BRI.

We deeply appreciate the generous participation of all the participants of each of the invited countries in the completion of this book, understanding that its content is just a starting point for a task that will demand, in the coming decades, the greatest study and rigor to interpret a multi-factorial strategy that in any of its scenarios is already changing the paradigms of the 21<sup>st</sup> century.

Arturo OROPEZA GARCÍA  
*Winter, 2021*

## CHAPTER I THE PERSPECTIVE OF CHINA

## PRACTICAL MEASURE TO PUSH FORWARD CHINA-SPC BRI COOPERATION

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SUMMARY: I. *Abstract*. II. *Introduction*. III. *Basic China-SPC BRI Cooperation*. IV. *What is Special: Advanced China-SPC BRI Cooperation*. V. *Approaches for Implementation*. VI. *Conclusion*. VII. *References*.

### I. ABSTRACT

Amongst all directions of the Belt and Road initiative, the South Pacific direction of the 21st Maritime Silk Road attracts relatively less attention but occupies a particular position. However, our knowledge about the South Pacific countries remains insufficient. As a result of this, we propose a policy study on the practical policy measures for China to push forward China-South Pacific Countries (SPC) Belt and Road Initiative (BRI) cooperation. In this article, we put forward two interconnected sets of policy measures: “basic” and “advanced”, the former refers to the basic measures that lay the foundation for the BRI cooperation while the latter utilizes the specialties of South Pacific region. Then we drafted the implementation strategy for these policy measures that include enhancing policy coordination through the Multilateral Institutions and inspiring the local initiatives.

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## II. INTRODUCTION

The “Belt and Road” initiative marked a new chapter of China’s opening-up processes. Since 2013, the Belt and Road initiative has been gradually gaining momentum around the globe. (Wesley-Smith 2013; Webb 2015) Considerable achievements have been made over the past years. Many joint projects have covered extensive areas, and cooperation has expanded into various fields (NDRC *et al.*, 2015; Wang 2016).

However, the development of the belt and road cooperation is not balanced from the perspective of geographic directions. The South Pacific Maritime Silk Road has attracted less attention if compared with other directions of the Belt and Road. In fact, the South Pacific region has a high potentiality for a deepening BRI cooperation in the future (Browne 2015; Connolly 2016). In this article, we analyzed the current political-economic situation of South Pacific countries and then suggested practical measures to promote China-SPC BRI cooperation (Zhang and Lawson 2017). The main idea of the practical measures to push forward the cooperation’s in a specific region is like gymnastics, which have two different sets of routines: “basic” and “advanced” sets. The “basic” sets provide the foundation for “advanced” measures while both are to be implemented practically.

## III. BASIC CHINA-SPC BRI COOPERATION

To establish effective BRI cooperation with South Pacific countries, some basic requirements should be fulfilled, and practical measures must be taken to ensure that joint projects can cover a wider range of sectors and reach a certain depth in the major sectors. In our view, the fundamental requirements for BRI cooperation in this specific region at least include four among the “Five Priorities” of the “Belt and Road” initiative: Facilities Connectivity, Unimpeded Trade, Integration and People-to-People Bond, and Policy Cooperation is always the key throughout the process. (NDRC *et al.*, 2015) Laying basic foundations for further BRI cooperation, these priorities are like the core sets in gymnastics, which will lead to various future performances.

### 1. *Facilities Connectivity*

As one priority of the “Belt and Road” initiative, “Facilities Connectivity” underlines the significance of the infrastructural development in the

BRI cooperation. With the rich endowment of marine resources, the South Pacific countries reserve a considerable potentiality for future economic development. However, this region has been facing a bottleneck of infrastructural development for a long time that the development level remains stagnant (UNDP in China 2017). This bottleneck is the result of at least two main factors: geographical conditions and a lack of capacity and resources to launch large construction projects. Thus, overcoming the bottleneck should be the stake in future joint ventures.

The first and foremost, the cooperation over civil aviation and infrastructure should rank high on the agenda. In addition to Australia and New Zealand, the South Pacific region consists of a vast number of small islands and islets (Fry 1981; Herr 1988). The only way to reach these remote Pacific Isles in a relatively short time from China is to take flights. However, there is still no direct flight operated between mainland China and South Pacific isles by so far. We suggest conducting further researches on the feasibility of building the new direct route to South Pacific region via institutional cooperation with local partners. According to the research and analysis, domestic airline companies may pick certain coastal airports in Eastern China to serve as the hubs of direct routes from inland China to South Pacific. Also, the South Pacific region can also be the potential pivot of air routes from China directly to Latin America (Pacific Islands Forum Secretariat 2017). Especially Auckland, a city in New Zealand, bears this potential. To support these new air routes, that region also shows needs to strengthen the infrastructure of local airports and update the local airlines, which are excellent opportunities for domestic companies to grow the business and form new partnerships with local partners.

Secondly, the combination of Maritime Silk Road and the maritime economy will lead to a stronger economic growth. Although the South Pacific region covers a large scale of the ocean, the local marine transportation network remains underdeveloped due to a lack of financial and institutional capacity. To facilitate local maritime transportation and strengthen economic ties between Southeast China and South Pacific, institutional cooperation between China and local partners is needed so that joint efforts can be taken to deploy more financial, human and intellectual resources to expand and update local port facilities of several hub ports like Suva of Fiji (Lawson 2015; Bainimarama 2017). On the other hand, these port facilities set the building blocks of maritime economic cooperation. In our opinion, both marine tourism and fishery are promising sectors that future cooperations should cover.

Thirdly, ICT (Information Communications Technology) facilities and basic civil infrastructure play important roles in BRI cooperation. ICT facilities, especially communications infrastructure will reduce the isolation of South Pacific islands from the outside world (Cullen and Hassall 2017). Civil infrastructure can help local communities to address the environmental and climate challenges ahead. Throughout the whole process of developing joint infrastructure projects, we should keep the idea of green, low-carbon and environmental-friendly projects in mind and meet the local economic, social and environmental needs. We suggest that Chinese enterprises make further investment in the development of new energy industry in South Pacific. To address the natural disasters brought by climate change, intergovernmental cooperation can focus on the construction of an early alarming system of typhoon and tsunami, maritime environment monitoring system and climatological observation facility. By carrying out these plans and actions together with South Pacific partners, China will take an active part in global governance.

## 2. *Unimpeded Trade*

As a WTO member and major trading nation, China emphasizes the importance of trade in BRI cooperation by listing “Unimpeded trade” into the “Five Priorities.” The South Pacific region, with its diverse resources and products, is an indispensable part of the Asia-Pacific regional trade arrangements. However, the fragmented regional trade institutions lead to a certain degree of “Spaghetti bowl phenomenon”, which affects the further regional economic integration and economic cooperation with foreign partners. China should play an active role in regional trade institution-building through both bilateral and multilateral trade cooperation with South Pacific countries to meet the BRI vision of “Unimpeded Trade”.

Free trade agreements (FTA) between China and South Pacific trade partners will facilitate trade flows and increase the welfare of both sides (Hannan and Firth 2015). Exporting high-quality mineral and agricultural products to China, Australia and New Zealand are China’s main trade partners in this region. Meanwhile, they lead the trade cooperation in South Pacific. Therefore, we can give priorities to the updates of FTA between China and New Zealand. Since New Zealand is a developed industrial country, it will be a good chance for China to learn about the institution design of the “Next Generation” of FTA with developed countries. Besides, we should form broader and deeper trade relations with Australia and other

South Pacific countries to prepare for the future South Pacific FTA network. Gradually, we can integrate the network of bilateral FTAs into the multi-lateral institution structure of Regional Comprehensive Economic Partnership (RCEP), thus to some degree overcoming the fragmented “spaghetti bowl phenomenon” of the regional trade institutions that hamper further cooperation.

Policymakers in China should create a supportive policy environment to help Chinese enterprises gain competitiveness overseas without violating WTO trade regulation. Due to the different factor endowments of both sides, China imports a huge number of resource products from South Pacific trade partners while the South Pacific countries import a moderate number of Chinese manufactured goods. To some extent, result in a structural trade imbalance between both sides. Apart from that, Chinese manufacturers still have relatively low bargaining power over the trading of resource products. Their manufactured goods also confronted non-tariff trade barriers and competition in South Pacific markets. To improve the situation, on the one hand, Chinese government agencies should adopt policy levers to encourage domestic enterprises to enhance their competitiveness. These policy levers may at least include facilitation of merger and acquisition

(M&A) to optimize the allocation of productive resources, integration of domestic and international inspection and quarantine regulation, the creation of strategic rooms for Chinese enterprises over sensitive trade issues in trade negotiations. On the other hand, domestic firms need to learn more about new international trade rules and make full use of preferential terms in FTAs to enter the markets with fewer barriers and risks. Also, we should encourage the development of modern high-end business service sectors so that Chinese manufacture industries can enjoy better and cheaper business services when going global.

Confronted with increasing numbers of anti-dumping investigations and trade disputes, it is the right time for China to cooperate with South Pacific trade partners to establish dispute settlement mechanism and improve the negotiating skills of domestic enterprises. Macroscopically, since China is already a major player in global trade, its voice should be carefully treated when the international community sets trade and investment rules. We suggest that Chinese scholars and think tanks do more research on international trade standards and regulations and strive for more significant influence on international policy. From the medium view, to address immediate trade disputes, we attach more importance to the research of domestic regulation and protection policies of South Pacific trade partners done by



scholars, think tanks, and then they can provide more practical advice to Chinese enterprises and government agencies when dealing with disputes. Microscopically, Chinese companies should work together to meet the challenges when going abroad. They should establish cooperation platforms to facilitate information sharing and anti-risk capacity building.

### 3. *Financial Integration*

With the development of domestic financial sectors, China is gradually gaining ground in international monetary and financial system. As one priority of BRI cooperation, “Financial Integration” combines the strategy of RMB internationalization with the actual demand for investment and financing services of joint projects in BRI cooperation. In South Pacific region, there exists a relatively large funding shortfall in infrastructural investment and project financing, thus limiting the full exploitation of resources. This calls for closer monetary and financial cooperation between China and South Pacific countries.

Development financing is the key tool to boost infrastructural investment in South Pacific region. China has rich domestic experiences in the application of development financing in impoverished regions to build essential public health, education and agricultural infrastructures (UNDP in China 2017). These infrastructures, in turn, improve the local investment environment and attract private investment. The idea of development financing spreads widely both in China and other emerging economies, giving birth to the newly founded Asia Infrastructure Investment Bank (AIIB) and New Development Bank (NDB). Among the two banks, AIIB mainly covers Asia-Pacific region. Fiji, a main South Pacific island country, has just become a member of AIIB in 2017, showing that the AIIB has already started its business in South Pacific region. If the financing gap is filled by development loans allowed by AIIB and other development financial institutions, we can confidently expect that the infrastructure in South Pacific region will experience better development. Besides, since civil and transportation infrastructure is of vital significance for small island countries, the increase of Chinese infrastructural financing will help gain more support in local communities (Lowy Institute 2019).

Third, the “Go Global” strategy encourages Chinese financial institutions to expand their business overseas. Since the 2000s, Chinese state-owned commercial banks have experienced dramatic growth and expansion. However, these financial giants are now facing more fierce competition

and are slowing down at home. Policy studies show that a greater degree of two-way opening up of financial sector does improve the efficiency of state-owned banks. Then BRI cooperation, in fact, becomes an opportunity for Chinese financial sector to achieve further development overseas. In South Pacific region, China has already formulated official monetary and financial cooperation with Australia and New Zealand. Both two countries have relative complete financial infrastructures and systems, which provides a supportive environment for Chinese financial institutions to test the waters in the regional markets. So, we suggest that Chinese commercial banks and development bank enter the South Pacific region and expand their business to provide financial service to trade and investment between China and South Pacific.

#### 4. *People-to-People Bond*

Evidently, the mutual understanding between China and South Pacific countries is still quite limited, which calls for a multidimensional “People-to-people Bond”. In history, the South Pacific region has been under the influence of western countries for such a long period that western cultural context mostly constructs their basic impression of China and its people. This impression is somehow biased by western media and may lead to various misunderstanding. Therefore, future China-SPC BRI cooperation must take public diplomacy into account and promotes people-to-people exchange to form firm human bonding with the people in South Pacific region.

There are various ways to facilitate people-to-people exchange in BRI cooperation in the South Pacific region (Yang 2011). Cooperation over tourism is a commercial way to increase civil exchange. With its large population, China is the potential market for South Pacific marine tourism. China welcomes South Pacific countries especially island countries such as Fiji, Palau and Vanuatu to promote their tourist spots to attract more Chinese tourists. In turn, the Chinese government and tour operators also need to promote tourist attractions in China to attract more tourists from the South Pacific region. Since China is becoming a new market for the cruise industry, we suggest touring operator and cruise companies to do more research on opening up cruise lines from China to South Pacific region so that cruise ships can directly bring tourist to South Pacific tourist spots. The development of tourism makes it possible for more people from both China and South Pacific region to see the reality and know

more about each other. In the meantime, it brings real commercial profits for local communities, thus stimulating the local economy of the South Pacific region. Cooperation over public affairs creates more public goods that serve the local community's immediate need, thus building a closer relationship between China and local grassroots community in South Pacific countries. For instance, the public health system in South Pacific island countries remains underdeveloped. Confronted with a critical shortage of public sanitary facilities, techniques and medical personnel, the people in South Pacific region suffer a lot from various diseases such as diabetes, hypertension and dengue fever. These diseases affect the quality of local labor, impeding development and economic growth for long. Previously, China has only provided temporary medical service through the visit of naval hospital ship Peace Ark to Tonga, Fiji, Vanuatu and Papua New Guinea in 2014, which is far from enough. Recently, China has been committed to fulfilling its international obligations to pursue the Sustainable Development Goals (SDGs) put forward by U.N. in 2015. Therefore, it is necessary for China to work together and cooperate further with South Pacific countries to cope with the public health challenges. (UNDP in China 2017) On the one hand, we can help building local hospitals and clinics to overcome the infrastructural bottleneck. By infrastructures, more armamentarium and medicines should be provided accordingly to ensure the accessibility of medical service. On the other hand, we should provide training programs for local medical personnel, only by training the local people can we improve the situation in the long run.

Public diplomacy and education cooperation will directly help to improve the image of China in South Pacific region. To promote understanding of humanity and culture traditions alongside with political-economic condition about the other side, universities and think tanks from both sides ought to launch more dialogues and provide joint training programs. Therefore, having a better knowledge of the cooperation partner, officials, businessmen and young volunteers from both sides can be exposed to the real local social environment and get their work done more smoothly when working together. Chinese television, social media, and Internet companies are now gaining greater and greater impact overseas. Their presence in the South Pacific region offers us flexible and diverse forms of publicity to shape an advanced image of a modern contemporary China. Although the joint programs have just started and the real effect is yet to come, our view remains positive.

#### IV. WHAT IS SPECIAL: ADVANCED CHINA-SPC BRI COOPERATION

Under the guidance of the basic cooperation, China can focus on more detailed and specific fields to deepen the cooperation with South Pacific countries. Those countries, headed by Australia and New Zealand, most of which are separate island countries, are rich in energy resources and other kinds of maritime resources. Also, they have unique geographical features. Consequently, China can make the best of the advantages and make up the disadvantages in South Pacific countries through formulating cognitive development and cooperation plans according to the real regional conditions, which are like the “advanced” exercises in gymnastics.

##### 1. *“Energy Silk Road”: Natural gas boosts cooperation*

Energy is a fundamental sector in China-SPC BRI Cooperation, and natural gas is an excellent sally port for China and South Pacific Countries to build an “Energy Silk Road jointly”. On the one hand, with domestic economic structural adjustment, China’s demand for overseas energy import has been increasing, and the energy trade, as well as investments abroad, have been extending. On the other hand, the energy strategies of South Pacific countries have been adjusted, in which they are intended to export more of their energy rich in the amount and varieties to China via ASEAN. In consideration of these two sides, there is no denying that China and South Pacific countries have potential in furthering their existing energy cooperation since their interest demands correspond to each other. Thus, centering on natural gas, China can build energy channels via the coastal area, the South China Sea, Indonesia to Oceania, which will play a major role in diversifying the energy source strategies in China.

The construction of the infrastructure networks is one of the priorities to deepen the energy cooperation with South Pacific countries, which can promote the connection and integration of resources in the whole region, accelerate regional economic development and boost the international cooperation in production capacity. Among the diverse energy resources in South Pacific region, China should emphasize the exploitation and trade of natural gas and liquefied natural gas and focus on the construction of channels and pivots of gas in short-range design. By making the use of the channels, China could rebalance the domestic structure of energy supply, and to a certain degree address environmental problems, especially atmospheric

pollution. Australia plays a prominent role in the exploitation and export of natural gas, with which China can increase the collaboration space to constitute the foundation of the whole China-SPC energy channels in a short-and-mid-term.

To connect the “supply” side with the “demand” side of the China-SPC energy channels, the first approach is to construct natural gas pipelines. The pipelines might start in the natural gas fields in Australia’s Northwest Shelf, go through Indonesia, South China Sea and finally, reach China. Since there exist many risks in the pipeline construction, China can divide this blueprint into different projects, respective but aligned with the whole structure, such as Brunei-China coastal gas pipelines, Cross-ASEAN natural gas pipelines, Australia-Gulf of Carpentaria pipelines, etc. China should pay more attention to are feasibility, political and diplomatic risks. Besides, the exploitation and infrastructure construction upstream and downstream of the channel need to be discussed and researched further, including gas field exploration, the building of refineries and trade pivots. Once the related investment occurs, we can expect that the construction of the transportation network of highways, railways and ports will be largely expanded.

The second approach is to gain the initiative of the trade of liquefied natural gas (LNG). Currently, Singapore, one of the countries along the route, is planning to build a pivot of natural gas trade. Under particular circumstances, China needs to seek other complementary partners to create energy pivots together in order to implement the energy strategies. As for LNG, China’s top priority is to transfer the pricing power over LNG from predominant Western international oil companies to Asian consumers.

On the premise of the gradual improvement of infrastructure, China should help to integrate the energy industry in South Pacific region by expanding investment, constructing cross-border electricity grid and information platforms. With the decline of oil price, China has more advantages in the acquisitions of energy assets in South Pacific region, and it is a chance to promote the development of energy-related industries. On the basis of the existing qualifications in South Pacific region, China should deepen the cooperation of connectivity of cross-border power grids with South Pacific countries while emphasizing exporting expertise, undertaking projects and management of power grids. There are several major projects in the whole plan, such as Papua New Guinea-Queensland high-voltage power lines, Indonesia undersea cable, etc. In the long run, China should pay attention to the standardization of data and information on energy production and trade since the connectivity of energy will raise demand for the establish-

ment of a specialized energy database. To achieve this long-term goal, China needs to strengthen the communication, jointly form agreements and ensure the sharing of energy information with South Pacific countries.

From the perspective of global governance, since investment and trade happen much more frequently, it is inevitable that more trade disputes and cross-border transportation problems will occur. Confronted with this reality, China should put it on the agenda to deepen the regional energy governance and strengthen the protection of overseas energy investment as soon as possible. To be specific, China needs to consider setting up institutions of energy cooperation focusing on China-SPC energy channels and conducted by China, through which China is capable of promoting energy trade with partners, investment and facilities connectivity. To accomplish the goal, China could hold forums on the theme of China-SPC energy channels by referring to the governance pattern of International Energy Charter and make full use of the existing achievements of global governance. Through the regular forums, China can gather experience of how to operate international organizations and reserve talent to make great preparation for adjusting the energy market structure in South Pacific region and enhancing the regional energy governance.

## 2. *“Green Silk Road”: Address Climate Change together*

In the world today, the environmental issues are brought to the forefront of international community’s attention to a larger degree. For South Pacific countries, especially island countries, climate change is such a vital issue as can threaten their existence and survival because of their common geographic features. In the process of pushing forward China-SPC BRI cooperation, how to address climate change together and build a “Green Silk Road” can’t be ignored since it plays such a special role among all the fields.

Alliance of Small Island States (AOSIS) is a radical group of nations that represent the interests of developing island countries and appeals to the reducing of emissions of carbon dioxide. Their voice gains the moral high ground and always has a significant effect on the process of international negotiation and conferences on the theme of global climate. On that account, with China’s emissions of carbon dioxide having ranked first, the pressure on China exerted by those island countries has been increased extremely. Donald Trump, the newly elected president of USA under whose leadership USA has presented the documents to the UN that mean their formal withdrawal from The Paris Agreement, seems to evade the respon-

sibility for the global environmental governance. Under this background, China needs to get involved in the global climate governance with a more positive attitude and fit it into the blueprint of the 21st-Century Maritime Silk Road.

To help South Pacific countries address climate change and realize sustainable development, China should integrate all kinds of resources and stick to the measures as follows.

First and foremost, China could set up a specialized fund to support the South Pacific region to address climate change under the bailout fund framework of South-South cooperation. Especially, Fiji is going to take over the presidency of the 22nd United Nations Climate Change Conference and can set the agenda. As a result, China should attach as much importance to China-Fiji bilateral climate partnership as to multilateral climate negotiations.

Instead of emphasizing and repeating the macroscopic slogans, China should focus on those small-scale but practical projects of benefit to local people and draw some valuable experience from Japan's foreign aid models, which can not only foster the infrastructure connectivity but also promote the people-to-people bond. In coming years, China should accelerate the construction of related infrastructures, such as bulwarks, new measures and structures of erosion resistant, shelters against hurricane and so on, in which we suggest that Chinese-English marks of "China's Aid" be highlighted. Also, China should strengthen the trilateral cooperation, for instance, constructing the drinking water projects together with New Zealand in the Cook Islands.

China should consider the adverse effects of climate change and put forward effective solutions. Among those countries in need, China should be more concerned for small island countries and improve the aid in the fields of agriculture and medical treatment. To be specific, China may send agricultural specialists to do research into the region's condition and enhance those countries' ability to resist climate change. Moreover, it is necessary to upgrade the level of aid in medical treatment and public hygiene because the possibility of the outbreak of dangerous diseases related to climate change, such as malaria and cataract. The guarantee of health and safety of Chinese medical workers staying in those island countries must be attached equal importance too.

It is a wise choice to increase the investment in clean energy and low-carbon infrastructure, using which China could incorporate the Green Finance into the whole plan in South Pacific region. Not only will it improve

China's national image in that area, but also expand the overseas market for solar and wind power industry and power grid technology. Given the excess capacity in a new energy field, China can even present South Pacific countries with free equipment and provide installation, debugging and training, which can further promote people-to-people bond.

Increasing education input is a far-reaching approach in which China could offer courses about China's energy technology, climate change policy, agricultural technology, medical treatment, new energy, etc. Under the bailout fund framework of South-South cooperation, China could provide scholarships to encourage more youth talent to study and attend training courses about addressing climate change.

Never can the climate issues be solved drastically if South Pacific countries have not broken away from their inherent tendency to depend on other nations, which is typical in South Pacific region. During the process of aiding South Pacific island countries, China should combine international capacity cooperation with aids to island countries organically and help them take the path of self-reliance by making use of their advantages, which is expected to lead to a win-win situation. For instance, starting with the tourism cooperation, we can get down to developing more industrial chains, such as mineral water, organic food, ecological recuperate, etc.

### 3. *“Blue Silk Road”: A New Wave of Maritime Economic Cooperation*

In the South Pacific region, Australia is one of the countries that have the longest coastline. Also, although having small national territory, most of the South Pacific countries have a long coastline as well as relatively large territorial waters, contiguous zone and exclusive economic zone. Because of the unique geographical features, the economic structure of South Pacific countries has a particularly close connection with the ocean. (Lanteigne 2017) To push forward China-SPC BRI cooperation, it is one of the top priorities to boost maritime economic cooperation.

The South Pacific region has a long history of ocean exploitation, especially the exploitation of the marine resources. As the only two developed countries in the Southern Hemisphere, Australia and New Zealand own advanced technology in the fields of protection of maritime environment and development of the maritime economy. They have surveyed and conducted reconnaissance in South Pacific for a long time and possess a significant amount of information about the hydrological and environmental conditions as well as the resource reservation in that area. The exclusive eco-



nomic zone that belongs to the Pacific island countries accounts for 10% of the world's ocean area, which is conducive to develop the fishery and tourist economy (Aqorau 2014). To sum up, with South Pacific countries' high potential of maritime resources and lack of capacity to exploit, China has the opportunity to push forward the maritime economic cooperation with South Pacific countries from different aspects to promote economic growth and improve the economic structure of those countries.

On the essence, China needs to construct an innovative framework for action of China-SPC BRI maritime economic cooperation. Under that framework, the negotiation between government agencies and discussion between enterprises and other non-governmental organizations can work efficiently and effectively. Furthermore, China should give priorities to key areas by investing human resources and techniques into them, through which new economic growth will be generated. In cooperation, there are four general objectives that should be always kept in mind —economic development—, scientific and technological innovation, structural adjustment and environmental protection.

It is worth mentioning and emphasizing that maritime economic cooperation is not equal to merely exploiting marine resources and we can never ignore the assessment of comprehensive benefits of social development and environment. To maintain sustainable development, China should design a development pattern considering both maritime economic development and maritime environmental protection on the premise that the government, enterprises and research institutions are familiar with the local geographical condition, ecological environment and humanistic society. To be precise, China can establish regulations to limit the negative effects on marine biodiversity and encourage the implementation of projects of renewable clean energy. It is also helpful to establish an environmental compensation mechanism in which a part of the income of maritime economic cooperation will be invested in the projects of environmental protection. All the policies and measurements above can not only produce excellent social culture effect but also improve China's national image.

#### 4. *“Future Silk Road”: New Frontier, New Cooperation*

Apart from cooperation in traditional sectors, China should combine financial and technological advantages with the local geographical advantages and rich energy resources to explore new frontiers, including ocean floor, polar region, spaceflight and space. It is a great opportunity for inno-

vative development and jointly building a “Future Silk Road” with South Pacific countries.

In the long term, cooperating with South Pacific countries to exploit the mineral resources in the ocean floor will be a major role in the maritime economic cooperation. It has been found out that there exists a variety of mineral resources on the ocean floor of the South Pacific, such as marine polymetallic nodules and hydrothermal sulfide, which is quite advantageous to facilitate the development of future science and technology. However, limited by technological and capital conditions, those countries are not capable of exploiting the enormous number of resources in seafloors. On the contrary, with the development of more than 20 years, China’s capability of investigation and exploitation of marine resources as well as other technological strength take the international forefront. In a word, China will be an appropriate partner for South Pacific countries to enhance bilateral and multilateral cooperation of maritime resources. As China conducts the exploration and exploitation of marine resources, the hydrology, geographical and ecological state of South Pacific will be further studied, which also shows significant value in China’s strategic disposition of future national defense and scientific research.

South Pacific region is the transfer station to the South Pole. To research into polar resources, China needs to strengthen the cooperation with countries with good scientific capability in that region, like Australia, New Zealand and Chile. Christchurch, a city in New Zealand, is both an important transfer station to the South Pole and one of the headquarters for scientific research of the South Pole, where the academic level of polar region ranks the first in the world. In order to improve China’s capacity of scientific research of the South Pole, we should strengthen the cooperation with New Zealand in the field of technological innovation under the guidance of China-New Zealand comprehensive strategic partnership. Furthermore, by sending students and young scientists to participate in the academic exchange and training activities in New Zealand and keeping close touch with the local scientific research institutions, such as the University of Canterbury, China can acquire talents for polar science research.

Since it is an important goal to develop the space industry and transform China into a space power, we should carry out the cooperation of aerospace observation and control with related countries in South Pacific region which have unique advantages in this field for their zero-latitude, zero-pollution and zero-altitude. In 1996, China built the Tarawa Space Measurement and Control Station in Kiribati, which was forced to with-

draw from there in 2003 because of the so-called establishment of diplomatic relations between Taiwan and Kiribati. In such situations, China should re-establish the diplomatic ties with Kiribati and try to establish diplomatic relations with those Pacific island countries out of our diplomatic system by all means, which can eliminate much of the hardship China would face and receive supports for the construction of overland space measurement and control stations from those countries.

## V. APPROACHES FOR IMPLEMENTATION

To push forward China-SPC BRI cooperation politically, economically and culturally, China should attach enough importance to the existing framework of multilateral institutions, which represents the consensus that has been reached by the South Pacific countries. Moreover, it is not a one-person show of China's government, so the local initiative in China needs to be inspired to guarantee the smooth implementation of cooperation.

### 1. *Enhance Policy Coordination through Multilateral Institutions*

Making full use of multilateral institutions is an important way for China to enhance the policy coordination and gain the trust of South Pacific countries during the process of pushing forward China-SPC BRI cooperation.

Nowadays, there still lacks trusts and exists misunderstandings about joint construction of the "Belt and Road" initiative with China among South Pacific countries, which results in the weak supports in certain countries. On that account, in order to extend the influence of cooperation and draw the understanding and support of those stakeholders, it is essential for China to make the coordination process more transparent through the traditional global and regional multilateral institutions.

Since BRI started in 2013, South Pacific region has been attached more importance to in China's diplomatic strategies and played a much closer role with China in the multilateral field. Several significant cases are presented as follows.

Firstly, in multilateral institutions on a global level, including the UN, the World Bank, International Monetary Fund (IMF) and World Trade Organization (WTO), China has taken efforts to coordinate its strategies with South Pacific countries in fields, such as the implementation of 2030 Agen-

da for Sustainable Development, international development aids, financial regulation and crisis prevention and early harvest of the Doha Round negotiations, etc.

Secondly, in regional multilateral cooperation including Asian Development Bank (ADB), Asia-Pacific Economic Cooperation (APEC), Pacific Islands Forum (PIF), China has forged a new partnership with South Pacific countries and deepened the cooperation over the topics of Asia-pacific economic integration and other social issues. In November 2014, President Xi's visit to South Pacific upgraded the China-Australia and China-New Zealand relations to the level of comprehensive strategic partnership, which could lay a sound basis for the multilateral diplomacy in the region. Especially, by communicating with Pacific island countries in China-PIF Dialogue, China has played an important role in perspectives such as helping them addressing climate change and keeping sustainable development, as well as carrying forward Pacific-Regionalism.

Finally, under the newly developing multilateral institutions such as Asian Infrastructure Investment Bank (AIIB), the cooperation among China and South Pacific countries has faded into the next new chapter in the fields of developmental finance and infrastructure construction. On November 28, 2014, New Zealand submitted its formal application to become one of the members of the AIIB, also the first western member state, which came true on January 4 the next year. Hereafter, Australia, the largest economies in South Pacific region, also announced its membership as one of the AIIB founding members.

Under the pre-existing background, although the current predicament can be hardly ignored, the prospects are still bright for China to get out of the woods. Three precise measures are proposed here for China to enhance policy coordination through multilateral institutions.

Advance the functional cooperation through the multilateral institutions. Most importantly, China should give priorities to the economic field to strengthen the strategic alignment between the multilateral agencies and BRI initiative. Besides that, pragmatic cooperation should be carried out gradually in infrastructure construction, trade, energy, agriculture, direct investment, monetary finance, development aids and public health, etc.

Create and improve the multilateral institutions of China-SPC BRI cooperation in 3 to 5 years. On the one hand, more member states should participate the China-Pacific Island Countries Economic Development and Cooperation Forum. Since its potential influence on the cooperation and communication, the forum needs to be institutionalized to a higher degree

to become more influential and efficient. To become the dominant coordination institution in China-SPC BRI cooperation, the constitution of the forum should be established as soon as possible. On the other hand, to avoid the conflict between those existing institutions including China-Australia Strategic Economy Dialogue, China-New Zealand Partnership Forum, China-Pacific Island Countries Economic Development and Cooperation Forum and so on, it is necessary to integrate them into a unitary one, 21st Century BRI South Pacific Forum.

## 2. *Inspire the Local Initiative*

In the practice of international cooperation, it is the local governments, enterprises, and organizations that undertake the responsibility of specific projects. So not only should the central government endeavor to push forward China-SPC BRI Cooperation, but also all the provinces and cities in China should get engaged actively to make a difference.

Several vital coastal provinces including Shandong, Fujian, Hainan and Guangdong that have invaluable geographical resources together with Shenzhen should take the lead to forge a joint platform to push forward China-SPC BRI cooperation. As a developed commercial city, Shenzhen has its advantages in innovation, fund and talents, which make it one of the leading cities in respect of trade and investment with South Pacific countries. Further inspired and promoted, Shenzhen would play a more important role in the cooperation with South Pacific countries through combining its own advantaged with the requirements of those countries.

Apart from those coastal provinces, the inland provinces and cities are the same crucial in China-SPC BRI cooperation. Different from being able to connect with those South Pacific countries easily, the inland provinces are distinguished for their depth in geography and industrial sectors. First, the coordinated development in Beijing-Tianjin-Hebei Region and Bohai Bay Rim area should be boosted sparing no efforts. Moreover, the cooperation with Australia as well as Southeast Asia in those regions needs to be valued as much as possible. Also, the development in Yangtze River Delta needs to be attached enough importance to. To be precise, a host of pragmatic projects should be pushed forward and linked to South Pacific Region, such as China (Shanghai) Free Trade Experimental Area, Zhejiang Development of Marine Economy Demonstration Zone, Zhoushan Island New Area, Ningpo-Zhoushan Port Integration and so on.

Southwards, the coordinated development in Coastal Area of Pearl River Estuary and the regional cooperation in Pan-Pearl-River Delta Region (PPRD) should be enhanced. Specifically, the effects of the open cooperation zone including Nansha of Guangzhou, Hengqin of Zhuhai, Pingtan of Fujian and so on need improvement. Also, China should pay more attention to the construction of Guangdong (Shilong) Railway International Logistics Center, Fujian Straits Blue Economy Experiment Area and so on, which would have a significant influence on the cooperation with South Pacific Region. Moreover, having carried out specific policies favorable to trade and investment with South Pacific countries if utilized properly, Hainan Province should be further inspired, and several projects could be promoted to boost the international cooperation, for instance, the construction of Haikou Service Outsourcing Demonstration City, Yangpu International Energy Exchange Center, etc.

To sum up, a broader range of sub-national actors all over China should be inspired to fully exploit their respective advantages and get engaged in the BRI cooperation in South Pacific region. Besides, there are many other measures China can adopt to deepen the cooperation, like accelerating the development of cross-border e-commerce platform and perfecting the procedure of customs clearance in inland cities and provinces.

## VI. CONCLUSION

According to the Vision for Maritime Cooperation under the Belt and Road Initiative issued by the National Development and Reform Commission (NDRC) and the State Oceanic Administration (SOA), in the near future, China aims to synchronize development plans and promote joint actions amongst countries along the Maritime Silk Road, set up the all-dimensional, multi-tiered and broad-scoped Blue Partnership and protect and sustainably utilize marine resources to achieve harmony between humankind and the ocean for common development and enhancement of marine welfare. (NDRC and SOA 2017) Thus, there will be increasing need for China to communicate and cooperate with countries alongside the Maritime Silk Road. Also, the Belt and Road cooperation practices will call for more forward-looking policy studies conducted by Chinese research institutions and think tanks, which poses new challenges to think tank researchers. At this moment, we provide our own research findings and we hold that in cooperation between China and South Pacific countries, both “basic” and “advanced”

policy measures should be implemented pragmatically so that the China-SPC community of common destiny can come true in the future.

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## THE ONE BELT AND ONE ROAD INITIATIVE: BEYOND THE WORLD TRADING SYSTEM

Li XIXIA\*

SUMMARY: I. *Abstract*. II. *Introduction*. III. *The OBOR implementation objectives*. IV. *The OBOR implementation mechanisms*. V. *The OBOR implementation principles*. VI. *Concluding remarks*. VII. *References*.

### I. ABSTRACT

Under the context of the profound changes in the international relations and global economy, China proposes the One Belt and One Road Initiative from a perspective of building a new pattern of opening up in an all-round way to the outside world. Looking from its implementation objectives, the first and foremost is to promote world economy development and prosperity; meanwhile they involve promotion for a more fair and reasonable global governance system and building a community of shared future for mankind. Its implementation mechanisms include both international rule of law and use of soft law rules. For its implementation principles, they not only uphold the purposes and principles of the Charter of the United Nations as the core of the international order and system, but also highlight the principles of “openness and inclusiveness” and of “consultation, co-construction and sharing”. Compared with the world trading system, the One Belt and One Road Initiative surpasses it in terms of implementation objectives, implementation mechanisms and implementation principles.

### II. INTRODUCTION

In September 2013, the One Belt and One Road Initiative (OBOR) was first-ly announced by Chinese President Xi Jinping. Since then, it has been further

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articulated in the official document “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” (hereinafter referred to as the “Vision and Actions”) issued on 28 March 2015 (NDRC, 2015) and in a series of speeches delivered by Chinese Governmental leaders on international occasions. Through these, the Chinese Government systematically elaborated the OBOR to the international community and its relationship with the world development, which showed China’s new concept for participating in the global governance and China’s efforts to promote for a more fair and reasonable global governance system (Chen, 2016; He, 2016, p. 49). Up to the present day, the OBOR has received warm response in the international community and has obtained some construction achievements. However, due to the complicated international political, economic and social reasons, and due to the OBOR not being as an international agreement or an international organization, there have appeared different understandings or interpretations of even doubts about the OBOR, such as whether it challenges the current international rules, and what geopolitical influence it may have, and so on (Lin, 2015; Liu and Ma, 2017; Liu, 2017). For this, close attention should be attached to and explanations and clarifications should be made through international exchanges and cooperation. To this end, this paper explores the relationship between the OBOR and the world trading system in that the former surpasses the world trading system in three aspects. In making my argument based on the current literature, I especially take references from policy documents connected to the OBOR and the latest construction progress for analyzing the OBOR. This paper unfolds as follows: the first part gives a brief introduction; in the next three parts, it analyzes the OBOR by separately focusing on its implementation objectives, implementation mechanisms and implementation principles. Finally, this paper concludes with tentative thoughts on the relationship between the OBOR and the world trading system, suggesting that the OBOR goes beyond of the world trading system in terms of implementation objectives, implementation mechanisms and implementation principles, it is an active exploration of new model for international cooperation and global governance.

Before the discussion, it is necessary to define scope of countries along the OBOR. Some Chinese scholars make their studies on different topics related to the OBOR based on 65 countries along the OBOR identified by academics (People, 2016; Cui, 2017). However, according to the official document the “Vision and Actions” of 2015, the OBOR is open to all countries. For this reason, this study is based on the official identification of the OBOR scope, including but not limited to the 65 countries.

### III. THE OBOR IMPLEMENTATION OBJECTIVES

Based on current literature especially policy documents and the latest construction progress of the OBOR, the OBOR objectives not only aim to promote the development and prosperity of the world economy, but also involve promoting for a more fair and reasonable global governance system and building a community of shared future for mankind, these objectives clearly go beyond the economic objective of the world trading system.

1. *The First and foremost objective is to promote the development and prosperity of the world economy*

The OBOR, proposed from a perspective of building a new pattern of opening up in an all-round way to the outside world, sets the promotion of the development and prosperity of the world economy as its first and foremost objective. The “Vision and Actions” of 2015 clearly states that the OBOR “aims to promote orderly and free flow of economic factors, highly efficient allocation of resources, and deep integration of markets; to encourage the countries along the Belt and Road to achieve economic policy coordination and to develop broader and more in-depth regional cooperation of higher standards; to jointly create an open, inclusive, balanced regional economic cooperation architecture that benefits all” (NDRC, 2015). This objective was set against the profound changes in international and domestic economic situations. On the one hand, after heavy blows of the Asian financial crisis in 1998 and of the subprime mortgage financial crisis in 2008, the global economic recovery continues to be weak with rising anti-globalization and as a result the development of the global economy faces many uncertain factors. Under this international background, China, by giving a full play to the advantages of the socialist system, has created a miracle in the history of world economic development. In 2010, China has developed into as the second largest economy in the world; in 2016, China’s contribution to the world economic growth reached 33.2% (Guo, 2017). The world expects China to play a greater role on the world stage and to take more responsibility (Sun, 2016a). On the other hand, China’s economy has entered into a “new normal” phase. The economy is moving from the previous high-speed to medium-to-high speed growth; the economic structure is constantly improved and upgraded; and the economy is shifting from an investment-driven to an innovation driven approach (Xi, 2014). The “new

normal” of China’s economy requires full use of international markets and resources in order to create conditions for its domestic economy restructuring and upgrading (Li and Li, 2015, p. 48). Thus, the implementation of the “Going Out Strategy” and the OBOR will help China better satisfy the new situations and requirements for being integrated into economic globalization or regionalization, to upgrade the level of openness of the inland economy, and to promote the building a new pattern of opening up in an all-round way to the outside world. Up to date, the OBOR construction has obtained some achievements. In specific, from 2014 to 2016, the volume of trade between China and the countries along the OBOR reached more than USD 3 trillion; China’s investment into the countries along the OBOR totaled more than USD 50 billion; Chinese enterprises established 56 economic and trade cooperation zones in over 20 countries, creating tax revenue nearly USD 1.1 billion and 180 thousand jobs (Xi, 2017a). These implementation achievements indicate that the OBOR gives great impetus to the development of the world economy.

2. *The Long-term objective is to promote for a more fair and reasonable global governance system*

In the contemporary world, the global governance system mainly includes the international political and economic system with the United Nations (UN) and the world trading system with the World Trade Organization (WTO), which has played a huge role in world peace and development after the World War II. However, the international community generally believes that the global governance system is at a historical turning point for a reform (Xi, 2015a). Firstly, the emerging market countries and a large number of developing countries as a whole have been growing rapidly and their international influence has been on the rise, which imply that international forces have experienced profound changes (Xi, 2015a). In such case, their representativeness in the global governance should be respected and reflected accordingly. For example, the International Monetary Fund was recommended to be more representative in terms of voting rights, membership qualifications and staff positions (Qin, 2010, p. 14; Wang, 2017).<sup>1</sup> Secondly,

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<sup>1</sup> Furthermore, although the International Monetary Fund announced the IMF 2010 share and governance reform came into force on 27 January 2016, the share formula does not reflect the growth of the economic strength of the emerging countries and developing countries; instead it overvalues the relative economic status of the developed countries and as a result has aroused a lot of discontent and criticism from its member states.

against the backdrop of increasing global challenges, it is a general trend to strengthen the global governance and to further promotes the global governance reform (Xi, 2015a). For instance, facing global security threats and transnational issues newly added to the global agenda such as terrorism, climate change, and major infectious diseases, the current international governance system is inadequate in addressing these global challenges and security issues. These have aroused reflection on the international order and international system under the framework of the UN Charter (Huang, 2017, p. 15). To address these issues, the OBOR proposes to explore a new model of international cooperation and global governance (NDRC, 2015), involving the global governance system reform. In this sense, to promote for a more fair and reasonable global governance system is also one of important objectives the OBOR is designed to achieve (Wang, 2016, p. 40; He, 2016, p. 50).

For promoting for a more fair and reasonable global governance system, first of all, China proposes to develop a new type of international relations of win-win cooperation (Wang, 2015a). This is embodied in the OBOR, which advocates for developing a new concept of international relations oriented to harmony and win-win cooperation and for rejecting zero-sum game thinking in international economic relations dominated by great powers (He, 2017a, and p. 8). The OBOR is a way for win-win cooperation that promotes common development and prosperity (NDRC, 2015). Secondly, the OBOR emphasizes interests of developing countries and considers it an important part of the global governance, this is a conceptual contribution that helps to better achieve the win-win cooperation. Thirdly, the international cooperation under the OBOR does not require any additional conditions, showing full respect for each other's sovereignty and internal affairs. Under the current international cooperation mechanisms, the establishment and operation of some of them are still premised upon additional conditions, such as commitment to human rights, the rule of law, and democracy required by some international organizations; specific additional conditions required for recipient countries under some international assistance programs, etc. However, the OBOR does not require any additional conditions in international cooperation. This indicates that it adheres to the principles of respect for sovereignty and of non-interference in internal affairs in international law; meanwhile it is conducive to the effective implementation of international cooperation and independent development of the countries concerned (He, 2016, p. 52). Although the above OBOR related proposals for reforming the global governance system respond to calls from the international society, but they cannot be achieved in a short time;

instead they can only be achieved by the gradual implementation over a long period of time.

### *3. The supreme objective is to build a community of shared future for mankind*

In today's world, the movement toward a multi-polar world and the rise of emerging markets and developing countries as a whole has become an irresistible historical trend. The world is going through a historical process of accelerated evolution (Xi, 2015b). At the same time, the tendency of globalization is intensifying; transnational and non-traditional challenges and threats are increasing, with their nature being changed into as common threats faced by all countries from threats faced by individual countries. As a result, either in theory or in practice, the current international governance systems designed for regulating relations between sovereign states become inadequate in addressing global and transnational challenges and security issues newly added to the global agenda, such as terrorism, climate change and major infectious diseases (Qin, 2010, pp. 13-15). In order to deal with these urgent problems faced by the global society, China advocates for building a community of shared future for mankind so as to promote world peace and development. It can be said that it is China's proposition for improving the global governance.

In November 2012, the 18th National Congress of the Communist Party of China (CPC) in its report advocates the idea of building a community of shared future for mankind, what provides important guiding ideology for China's diplomatic relations with other countries. Thereafter, the Chinese President Xi Jinping has actively advocated for building a community of shared future for mankind on various occasions such as important international organizations and multilateral summits, and constantly developed and enriched the concept of a community of shared future for mankind. In September 2015 at the UN General Assembly (Xi, 2015b) and in January 2017 at the United Nations Office at Geneva (Xi, 2017b), Chinese President Xi Jinping systematically elaborated the concept of a community of shared future for mankind and proposed the roadmap thereof, calling for the international community to make unremitting efforts for building a community of shared future for mankind. To achieve this goal, efforts needed should include but not limited to the following main aspects. First of all, we should adhere to the principles of sovereign equality enshrined in the UN Charter. This principle of sovereignty is not just limited to that the national sovereignty and territorial integrity of all countries is inviolable and that their

internal affairs should not be intervened, but also means that all countries have a right to make their own choice of social systems and development paths, that this right should be upheld, and that all countries' endeavors to promote economic and social development and to improve people's lives should be respected. Secondly, we should be committed to multilateralism and reject unilateralism; we should adopt a new vision of seeking positive outcomes for all, and reject the outdated mindset that one side's gain means the other side's loss, or that the winner takes all. Thirdly, we should create a security environment featuring fairness, justice, and joint participation and shared benefits. These main efforts toward the direction of building a community of shared future for mankind contain a new concept of the international order, which transcends the international order either established on the balance of power theory or the hegemony theory (Xu and Li, 2016, p. 112).<sup>2</sup>

The OBOR incorporates the concept of building a community of shared future for mankind. The "Vision and Actions" of 2015 proposed to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness. In 2017, Chinese President Xi Jinping pointed out that, "China will enhance friendship and cooperation with all countries involved in the OBOR on the basis of the Five Principles of Peaceful Coexistence. We are ready to share practices of development with other countries, but we have no intention to interfere in other countries' internal affairs, export our own social system and development mode, or impose our own will on others. In pursuing the OBOR, we will not resort to outdated geopolitical maneuvering. What we hope to achieve is a new model of win-win cooperation. We have no intention to form a small group detrimental to stability, what we hope to create is a big family of harmonious coexistence" (Xi, 2017c). The OBOR construction aims to build a community of shared future for mankind (Zhao, 2016). To date, although the concept of building a community of shared future for mankind is in its early stage of construction, it has been gradually recognized and accepted by the international community. At the international level, on 10 February 2017, the Chinese concept of building a community

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<sup>2</sup> This research argues that in contemporary international relations there have appeared two kinds of international order, "the balance of power" or "the hegemony". Specifically, from the "Westphalia order" (system of "balance of power" among European countries) of 1648 and the "Vienna system" at the beginning of the nineteenth Century (new system of the "balance of power" among European countries), to "Yalta System" (pattern of hegemony) after the Second World War and the "dominant pole pattern" of the world (the United States intended to dominate the world) after the end of the cold war.

of shared future for mankind was incorporated into a United Nations resolution for the first time (Xinhua, 2017a); on 17th March 2017, the concept was incorporated into a UN Security Council resolution for the first time (Xinhua, 2017b); on 23rd March 2017, the concept was incorporated into a resolution of the Human Rights Council (Xinhua, 2017c). At national level, the report of the 19th NPC National Congress in October 2017 put forward to promote the construction of new international relations and to build a community of shared future for mankind. Put it in other words, as China's proposition for the future of global governance, the concept of building a community of shared future for mankind has been gradually gaining a wide recognition both at international and domestic levels.

Through the above analysis, we can see that the OBOR contains three main objectives, they not only aim to promote international cooperation in economic field, but also involve promoting for a more fair and reasonable global governance system and building a community of shared future for mankind. To achieve these three objectives, the OBOR implementation mechanisms are very important, which will be discussed in the next part.

#### IV. THE OBOR IMPLEMENTATION MECHANISMS

As regards the OBOR implementation mechanisms, there have been many arguments and discussions on this issue by Chinese academics. Some scholars hold that the OBOR should be implemented through the international hard law (Bao, 2015; Liu, 2015; Peng and Mao, 2015; Li, 2017), while others believe that international soft law may also be adopted (Han, 2016; He, 2017b). This paper considers that China's foreign policy that "China will firmly uphold the international system with the UN as its core, and the basic norms governing international relations embodied in the purposes and principles of the UN Charter" (Xi, 2017b) should be certainly put into practices related to the OBOR construction. The existing bilateral, multilateral, regional and sub-regional cooperation mechanisms suggested by the "Vision and Actions" (NDRC, 2015) should be understood as including both binding international laws (such as WTO rules) and the international soft law without binding force (such as the "16+1 cooperation" platform between the 16 Central and Eastern European countries and China). This shares similar ideas with some scholars who insist that the OBOR implementation mechanisms inevitably include both hard law and soft law mechanisms given that the OBOR is open, pluralistic and inclusive (Han, 2016; He, 2017b). However, there should be a comprehensive and dialectical understanding of the hard law and soft law



mechanisms. On the one hand, in the perspective of global governance, the rule of law is the fundamental way (Zhao, 2014, p. 79). Thus, in advancing the OBOR construction, China respects and observes international law, which mainly embodies the following three aspects. For the first, in the contemporary international community there has established a relatively stable international order (including international law system), to which China is a firm defender. For the second, the OBOR is designed to maintain a global free trade regime and an open world economy (NDRRC, 2015), indicating that China as a WTO member complies with the WTO rules. This is also reflected in one of China's official documents (i.e., "Opinion on Several Issues concerning Accelerating the Implementation of the Free Trade Areas Strategy" issued on 17 December 2015) thereafter which requires to actively accelerate the construction of free trade areas along the OBOR (Xinhua, 2015a), again revealing China's compliance with the WTO rules. For the third, there still exist problems and challenges in the current international systems which need further reform, for this China joins with the international community for further reform and calls for more fair and reasonable international rules. On the other hand, due to the rising trend of anti-globalization and protectionism as well as the OBOR's openness and inclusiveness, China is fully aware of boundary and limitation of international law as a rule, which makes it possible and necessary for implementing the OBOR through soft law rules (Han, 2016; He, 2017b). In view of this, China advocates and encourages the use of soft law rules in the OBOR construction. These show that the OBOR implementation mechanisms surpass the rule-of-law based world trading system.

### 1. *By International Rule of Law*

As mentioned above, the rule of law is the fundamental way for the global governance (Zhao, 2014, p. 79). China respects and observes international law in the process of advancing the OBOR construction, which specifically embodies the following three aspects.

#### A. *There has established a relatively stable international order in the contemporary international community, to which the OBOR construction should be subject*

In the contemporary international community, there has established a relatively stable international order, which mainly includes the international

political and economic system with the United Nations and the world trading system with the World Trade Organization. For the former, the main organs of the United Nations such as the General Assembly, the Security Council, the Economic and Social Council and the specialized agencies of the United Nations such as the International Labour Organization, the International Monetary Fund, the World Health Organization have competence to take decisions or make conventions for certain substantive issues. For the latter, the World Trade Organization, as an international trade organization being independent of the United Nations, has competence to develop international trade rules and to manage global trade. These international political and economic systems and the world trading system have been built into a complex network of regulation. As of 2015, China was a party to almost all inter-governmental organizations and had acceded to over 400 international multilateral treaties. A growing number of Chinese nationals were working on important posts in international agencies. China has become a major player and supporter of the current international order and system (Wang, 2015b; Gu, 2015, p. 155). This is the current international order and the international regulation environment, to which the OBOR construction is subject. It requires the OBOR being implemented by international rule of law. In other words, the OBOR construction aims to promote economic and political exchanges within the established international order instead of challenge free, open, stable and democratic world order (Li and Li, 2015, p. 54). Of course, with China's rapid development, in the process of the OBOR construction, China would definitely encounter different obstructions from those who had a vested interest in this international order. However, it is believed that the continuous growth of China's international influence and improvement of its international status can be realized by observing and making full use of the existing principles in the current international order. China has no intention of challenging the current international order. China is a firm defender of the existing international order (Xi, 2016). China respects the purposes and principles of the UN Charter and international law (Fmprc, 2017).

*B. The OBOR is designed to maintain a global free trade regime, showing China's compliance with the WTO law*

The OBOR is designed to maintain a global free trade regime, showing China's compliance with the WTO law. As an important part of international law, the WTO law includes trade policy review mechanism and dispute

settlement mechanism. It deals with the rules of trade between nations and covers international trade in goods and in services, trade-related aspects of intellectual property, etc. As of 29 July 2016, there were 164 countries that were WTO members (WTO, 2018), all of which should abide by the WTO rules. As a WTO member, China carries out international cooperation with other WTO members along the OBOR in accordance with the WTO rules shows that China observes the WTO law. For the issue in question, the OBOR free trade agreements are of a particular concern.

First of all, under the WTO law, the free trade agreement (FTA) is regarded as a permitted exception to the “Most Favored Nation” (MFN) rule (Zhao, 2000, pp. 84-88),<sup>3</sup> it allows China and other WTO members involved in the OBOR to sign free trade agreements for different degrees of economic integration and for providing more favorable treatments by revoking the MFN standard. Its legal basis includes: Article XXIV of the General Agreement on Tariffs and Trade, and Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994; Article V of the General Agreement on Trade in Services (GATS); the 1979 Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries (Zeng, 2004). In nature, free trade agreement that has entered into force is legally binding international agreement between the WTO members, its fundamental role is to fix preferential trade arrangements between specific WTO members through trade rules, and to establish dispute settlement mechanisms to resolve trade and investment disputes that are likely to occur.

Secondly, China and other WTO members involved the OBOR should apply the MFN rule. On this basis, “to promote orderly and free flow of economic factors, highly efficient allocation of resources, and deep integration of markets” and “to maintain a global free trade regime” such as proposed by the OBOR (NDRC, 2015) objectively require China and these WTO members to improve market access and to increase the level of trade liberalization. To achieve this, free trade agreement mechanism is an effective way under the framework of current international law. In 2015, China proposed in its policy document (Xinhua, 2015a) to actively accelerate the construction of free trade areas along the OBOR and up to now has obtained positive achievements: 15 FTAs signed and implemented and 1 FTA signed but not yet entered into force (i.e., FTA with Maldives signed on 7 December 2017), these involving 24 countries and regions in Asia, Latin

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<sup>3</sup> According to the relevant provisions of the World Trade Organization, regional trade agreements include customs union, free trade agreement, and “interim agreement”.

America, Oceania, and Europe; 11 FTAs under negotiation; 11 FTAs under consideration (MOFCOM, 2017). These FTAs, either signed and implemented or under negotiation or consideration, show that China has made efforts or is making efforts to abide by the WTO rules, and to promote the OBOR international cooperation by using legally binding international agreements.

### *C. To Create new International Trade Rules under the OBOR*

China upholds the purposes and principles of the UN Charter as the core of the international order and system, puts them into practices related to its foreign policy and international relations, and promotes the OBOR construction according to the international rule of law. However, this does not mean that China does not attach importance to the existing shortcomings and problems in the current international order and system. On the contrary, China joins in the argument in the international community for making relevant reform on the current international order and system, proposes the OBOR with an aim to promote for a more fair and reasonable global governance system, and provides a platform for creating new international economic and trade rules. As regards creating new international trade rules under the OBOR, the establishment of the Asian Infrastructure Investment Bank (AIIB) has a symbolic significance, while the FTA mechanism also deserves special attention.

#### *a. Establishment of the Asian Infrastructure Investment Bank*

An institutional arrangement established in the process of the OBOR construction up to now is the establishment of the AIIB.<sup>4</sup> It is an international organization established by the AIIB Articles of Agreement, the Parties to which comprise the Membership of the Bank. Accordingly, the AIIB is both constituted, and governed, by public international law (AIIB, 2015). It includes new economic systems designed to promote the OBOR construction, and has inclusiveness and legitimacy, which gives more say to developing countries (Wang, 2015d, p. 86). For China, AIIB has the symbolic significance. It not only shows that China is willing to assume more international

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<sup>4</sup> On 29 June 2015, fifty Prospective Founding Members signed the Asian Infrastructure Investment Bank Articles of Agreement; on 25 December 2015, the Articles of Agreement entered into force and the Asian Infrastructure Investment Bank was formally established.

responsibility, but also indicates that China started to play a role of international rule-making (such as governance innovation, developing new financing mode, and providing a new way forward for internationalization of the Renminbi) instead of only participating international rule-making (Chen, 2015, p. 23). However, because the United States has always dominated the provision of international public goods in the field of global economy and finance governance, the establishment and operation of the World Bank, the International Monetary Fund, the Asian Development Bank and the World Trade Organization all embody the dominant idea of the United States. For the establishment and operation of the AIIB launched by China, the United States perceived differently and expressed concern, holding that the AIIB will have an impact on the US led international financial system (Huanqiu, 2015). As regards this, the then-Chinese Finance Minister Lou Jiwei in March 2015 pointed out that the AIIB and the existing multilateral development banks are different in their positioning and business focus. The relationship between them is complementary rather than competitive: the AIIB focuses on infrastructure construction; the multilateral development banks such as the World Bank, the Asian Development Bank consider poverty reduction as their main purpose (GOV, 2015). Jin Liqun, the President of the AIIB also clearly explained that the AIIB is a supplement to rather than a replacement of the World Bank and the Asian Development Bank, it is for improving and promoting the existing international financial order, rather than for subverting it (Jin, 2015). As a study shows that due to the rise of emerging markets, changes in the international pattern, the impact of 2008 global financial crisis, and the inadequate supply of international finance public goods, the growing contradictions between increasing demands for the finance public goods by the whole world especially by developing countries and the inadequate supply have become increasingly prominent. To address this issue, China launched the establishment of the AIIB to provide financing support for infrastructure. This is a beneficial supplement to the current international finance public goods as well as a strong support for the OBOR construction, which is the reality that China actively assumes its international responsibility (Ma, 2015, pp. 117-118). In this sense, the AIIB is a beneficial complement to the existing international economic system (Chen, 2015, p. 17; Gabusi, 2017, pp. 23-45).

#### *b. To Create New International Trade Rules through FTAs*

As far as the making of international trade rules is concerned, the FTA has a practical significance. Under the global governance demanding for

multiple and good governance, the FTA as a legal exception mechanism of the WTO law is both an important tool and an important place where to build a discourse system and to participate in international rule-making in international economic life. Many new international rules have been created through FTAs, such as the Maastricht Treaty and the North American Free Trade Agreement (Liu, 2004, pp. 5-7). Other examples include the Trans-Pacific Partnership Agreement (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), which to certain extent represent re-writing international economic and trade rules for the next generation and which imply that they take into account for consolidating or redistributing international political relations and international discourse. This is of great practical significance in making international trade rules in the process of the FTA construction along the OBOR. For instance, China's legal practices in the fields of electronic commerce and Internet finance may provide references for the legal development of other countries (Lu, 2017, pp. 23-36), which can be included into future FTAs after careful consideration. Thus, in international fields where rules need to be developed or in some emerging fields, WTO members involved in the OBOR in their process of international cooperation should make full use of the FTA mechanism in rewriting international trade rules so as to promote for a more fair and reasonable global governance system.

To sum up, either the establishment of the AIIB or the implementation of the FTAs under the OBOR framework includes the reasonable international systems (Wang, 2015d), which offers explanations and clarifications from an empirical perspective regarding the arguments or concerns by some foreign scholars (Kennedy and Parker, 2015).<sup>5</sup>In the process of the OBOR construction, China observes the current international rules and makes efforts for promoting for a more fair and reasonable global governance system. "China has a sense of belonging to the current international order, because China is not only one of its founders, but also a beneficiary and contributor, as well as a participant in reform" (Fu, 2016). However, it must be emphasized that new measures such as the establishment of AIIB are not trying to overturn the existing international economic mechanisms, instead they are new mechanisms that pay more attention to demands of develop-

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<sup>5</sup> For example, Scott Kennedy and David A. Parker at the Center for Strategic International Studies consider that the OBOR does not relate to free trade area nor binding agreement among countries, and that China tries to avoid formal treaty by improving flexibility through deducing formal arrangements; at the same time, the OBOR does not involve establishment of international institutions.

ing countries and infrastructure and that are more in line with the principle of multilateralism, where the current international economic mechanisms fail to operate or where have been neglected for a long time. Compared with the existing mechanisms, this type of new mechanism is also rule-based, open and multilateral mechanism, but pays more attention to the fields where have been neglected for a long time or where the current international economic mechanisms fail to operate; it tries to pursue the common interests through mutual beneficial cooperation rather than to divide the interests. It is in this sense that instead of challenging or even threatening the existing mechanisms, they fill in the gap not covered by the existing global economic governance mechanisms or not be intended to cover (Sun, 2016b, pp. 16 and 17).

## 2. *By Soft Law Rules*

In global governance, soft law is defined relative to international hard law and it has no binding force. Any written document that does not belong to the category of convention, treaty or protocol that has entered into force should be regarded as soft law, including but not limited to resolutions, practice guidelines, joint statements and declarations of the General Assembly of the United Nations (Armstrong *et al.* 2012, p. 27). Although soft law has no binding force and does not constitute a component of the current international law, it is an important means for exerting influence over state's behavior and for global governance, and it is crucial to the changing shape of the international order (Hillgenberg, 1999, pp. 499-515). The inner reason of soft law meets the needs of actors of the global society demanding for stable social order, normal transnational communication, transaction security, and behavior conforming to the public ethics, meanwhile it offers "best practice" model (Goldmann, 2012, p. 373) for them. These make international organizations, countries, and even multinational corporations willing to abide by these soft law rules that are regarded as the basis for justifying their behavior. Especially, the international soft law in the domain of economy not only tries to establish basic principles for states' behavior, but also strives to set up concrete behavior patterns and guidelines (Klabbers, 2013, p. 280). Under soft law rules, cost of transfer of sovereignty is low, sensitive political risk among countries is small, cooperation mechanism usually starts from function integration of industries or of enterprises, all these make it more easier to push forward international cooperation (Liu, 2017,

p. 103). Considering these factors, as well as the OBOR's openness and inclusiveness and limitations of international law, it is possible and necessary to carry out the OBOR international cooperation through soft law rules, such as the "16+1 cooperation" platform between China and the Central and Eastern European countries (CEE).<sup>6</sup>

In April 2012, Chinese leader met for the first time with his 16 counterparts from the CEE countries in Warsaw and formally launched the "16+1 cooperation" platform, which has played an important role in promoting relations between China and the CEE countries. First of all, China and the CEE countries jointly launched the "16+1 cooperation" platform. Under this platform, the cooperation projects follow internationally accepted rules, which help all parties to reap win-win outcomes (GOV, 2017). The platform is different from previous projects launched by external entities in the area (such as the enlargement of the European Union or the North Atlantic Treaty Organization) in that it is not based on the principles of political and economic reform based on Western norms and principles. Instead the "16+1 cooperation" platform is based on the concept of policy coordination and provides a basis for new ideas to promote cooperation and development (Vangeli, 2017, p. 110). As of 2017, the following institutions have been established between China and the 16 CEE countries (see Table 1). Secondly, the "16+1 cooperation" platform belongs to the category of soft law rules. Meanwhile, China and the 16 CEE countries in light of their respective laws and regulations and those CEE countries as the EU member states in light of EU laws may carry out specific cooperation. That is to say, China has already built two levels connectivity with the CEE countries (Zhang and Chen, 2015), which reflects a combination of soft law rules and international law under the "16+1 cooperation" platform. Thirdly, it should be especially noted that although these revelations concerning the "16+1 cooperation" platform is based on China and the CEE countries, it is an exploration of regional cooperation and can be referential to regional cooperation between China and other countries involved in the OBOR.

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<sup>6</sup> The 16 CEE countries include Poland, Czech, Slovakia, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Romania, Bulgaria, Albania, Macedonia, Estonia, Lithuania and Latvia.



TABLE 1. INSTITUTIONS UNDER THE “16+1 COOPERATION” PLATFORM AS OF EARLY 2017<sup>7</sup>

| <i>Name of institutions</i>                       | <i>Headquarters/management</i>     | <i>Status</i> |
|---|------------------------------------|---------------|
| 16+1 Agency for Tourism Promotion                 | Hungary                            | Active        |
| 16+1 Union of Colleges and Universities           | Managed jointly                    | Active        |
| 16+1 Contact Mechanism for Investment Promotion   | Poland                             | Active        |
| 16+1 Commercial Union                             | Poland and China                   | Active        |
| 16+1 Mayors Association                           | Czech Republic                     | Active        |
| 16+1 Association for the Promotion of Agriculture | Bulgaria                           | Active        |
| 16+1 Technology Transfer Center                   | Slovakia                           | Active        |
| 16+1 Think Tanks Network                          | Chinese Academy of Social Sciences | Active        |
| 16+1 Logistics Cooperation Union                  | Latvia                             | Active        |

In summary, in the process of the OBOR construction, international law and soft law rules can be applied differently with different OBOR countries, targeting different cooperation issues, as well as in different stages; they respectively play their own functions and jointly push forward the realization of the objectives of the OBOR construction. However, either by international rule of law or soft law rules, the OBOR will be built with no intention of replacing existing mechanisms or initiatives for regional cooperation, instead it is on current basis to help promote connectivity of the development strategies of the countries involved in the OBOR by leveraging their comparative strengths (Xinhua, 2015b).

## V. THE OBOR IMPLEMENTATION PRINCIPLES

Either by way of international law or by soft law rules, the OBOR implementation follows three main principles. In this regard, it should be noted that the principles of “openness and inclusiveness” and of “consultation, co-construction and sharing” are beyond the implementation principle of the world trading system.

<sup>7</sup> (Vangeli, 2017, p. 110).

1. *To uphold the purposes and principles of the charter of the United Nations as the core of the international order and system*

As a founding member of the United Nations, China consistently has adhered to and upheld the purposes and principles of the Charter of the United Nations and put them into China's foreign policy and international relations. The OBOR as an international cooperation initiative, either through international rule of law or by soft law rules, its implementation should be subject to these purposes and principles. Of course, the operation of the United Nations on the basis of the UN Charter often shows lack of capability and lack of power. For example, the cold war and confrontation between the two camps of the United States and the Soviet Union after the Second World War, the international financial crisis in 2008 and the intensifying trade protectionism thereafter, the United States withdrawal from the Paris Climate Agreement, all these have gained worldwide attention and raised questions regarding the role of the United Nations. In addition, the growing roles of emerging markets and changes in the world pattern have also aroused reflection on the international order and system under the framework of the UN Charter (Huang, 2017, p. 15). In this respect, Chinese President Xi Jinping pointed out that a variety of confrontations and injustice in today's world are not because that the purposes and principles of the UN Charter is out of date, instead it is precisely because that these purposes and principles have not been effectively carried out, as a result, the purposes and principles of the UN Charter as the core of the international order and system should be upheld (Xi, 2015a).

It should be emphasized that although China upholds the purposes and principles of the UN Charter as the core of the international order and system, China joins in the argument in international community for making relevant reforms on the current international order and system and is willing to promote for a more fair and reasonable global governance system (Wang, 2015b; Gu, 2015, p. 155). Both the OBOR implementation and the establishment of the AIIB are designed to improve the current international order rather to replace it.

2. *To adhere to the openness and inclusiveness of the OBOR*

An obvious distinction between the OBOR and the world trading system is its openness and inclusiveness, which mainly includes the following

aspects. First of all, the OBOR is open and inclusive; it abandons the cold war mentality and welcomes all countries around the world regardless of their systems, religions and civilizations (Jia, 2015). The “Vision and Actions” of 2015 does not define its coverage scope (NDRC, 2015), clearly showing that the OBOR is open to all countries, those countries and regions that are willing to participate in the OBOR can become participants, builders and beneficiaries. In May 2017, President Xi Jinping stressed again at the Belt and Road Forum for International Cooperation that “the OBOR is deeply rooted in the original Silk Road; it focuses on the Asian, European and African continents, but is also open to all other countries. All countries, either from Asia, Europe, Africa or the Americas, can be international cooperation partners of the OBOR” (Xi, 2017c). Secondly, the OBOR cooperation mechanisms are open. On the one hand, it refers to that the OBOR is open to existing bilateral and multilateral, regional and sub-regional cooperation mechanisms (NDRC, 2015), which implies that the OBOR will not set up institutional arrangement and mechanism that has exclusive feature. On the other hand, the OBOR implementation mechanisms include both international rule of law and soft law rules. Thirdly, the new mechanism established under the OBOR is open and inclusive; for example, the AIIB is open to all countries. As a result, this feature of openness and inclusiveness determines that the OBOR will not challenge the existing international order; rather it will take the initiative to build connectivity or integration with the existing international order (Cheng, 2015, p. 9; Andornino, 2017, pp. 4-22). As shown in the process of “16+1 cooperation” platform, the OBOR has already built two levels connectivity with the EU countries under the legal framework that the EU formulates a common policy and its member states carry out country-specific policy (Zhang and Chen, 2015), which is a typical example. As Chinese Foreign Minister Wang Yi said, “the OBOR is a public good China has provided to the world, it welcomes all countries, international organizations, transnational corporations, financial institutions and non-governmental organizations to participate in the specific cooperation (Wang, 2015c).

### 3. *To Adhere to the Principle of “Consultation, Co-construction and Sharing”*

The principle of “consultation, co-construction and sharing” is an important principle of the OBOR, it allows the cooperation parties to participate in the consultation, co-construction and sharing concerning the cooperation contents, implementation mechanisms, institutional arrangements

(Cheng, 2015, p. 9). In other words, although the OBOR was proposed and actively promoted by China, it essentially is an initiative for all countries. Its implementation is based on the principle of “consultation”, co-construction and sharing; it is not an aid program, nor as a so-called “China version of Marshall plan”. In March 2015, Chinese President Xi Jinping stressed at the Boao Forum for Asia Annual Conference that the OBOR will be carried out on a basis of “consultation, co-construction and sharing; it is not closed, but open and inclusive; it is not a only for China, but a chorus of all countries along the routes” (Xinhua, 2015b). The “Action and Plans” of 2015 reaffirmed the principle of “consultation, co-construction and sharing” and actively promoted the connectivity of development strategies of countries along the routes. In May 2017, President Xi Jinping again restated at the Belt and Road Forum for International Cooperation that the OBOR is based on extensive consultation and we all will share its benefits (Xi, 2017c).

First of all, this principle of “consultation, co-construction and sharing” respects the sovereign equality. In the process of the OBOR implementation, China does not require additional conditions in international cooperation, which shows it not only adheres to the principles of respect for sovereignty and of non-interference in internal affairs in international law, but also is conducive to the effective implementation of international cooperation and independent development of the countries concerned. Secondly, at the early period of the founding of the People’s Republic of China, China put forward the Five Principles of “mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence”. For the OBOR, Chinese President Xi Jinping pointed out “China will enhance friendship and cooperation with all countries involved in the OBOR on the basis of the Five Principles of Peaceful Coexistence. We are ready to share practices of development with other countries, but we have no intention to interfere in other countries’ internal affairs, nor to export our own social system and mode of development or impose our own will on others. In pursuing the OBOR, we will not resort to outdated geopolitical maneuvering. What we hope to achieve is a new model of win-win cooperation. We have no intention to form a small group detrimental to stability, what we hope to create is a big family of harmonious coexistence (Xi, 2017c)”. Thirdly, the OBOR advocates to develop a new concept of international relations oriented to harmony and win-win cooperation and to reject zero-sum game thinking in international economic relations dominated by great powers (He, 2017a). The OBOR emphasizes interests of developing coun-

tries and considers it an important part of the global governance, this is a conceptual contribution to achieving the win-win cooperation. Nowadays the win-win cooperation has become a generally accepted concept or principle in international community, which establishes its legitimacy. China adheres to the win-win cooperation principle in the process of the OBOR construction, winning for its own development opportunities as well as making reform to the existing international order.

## VI. CONCLUDING REMARKS

In summary, the main argument offered in this essay is that the OBOR surpasses the world trading system in three aspects. The OBOR implementation objectives not only aim to promote world economy development and prosperity, but also involve promotion for a more fair and reasonable global governance system and building a community of shared future for mankind. Its implementation mechanisms include both international rule of law and soft law rules. For its implementation principles, they not only uphold the purposes and principles of the UN Charter as the core of the international order and system, but also highlight the principles of “openness and inclusiveness” and of “consultation, co-construction and sharing”. Put it differently, compared with the world trading system in terms of its economic objective, international rule of law-based mechanism and zero-sum game thinking, the OBOR surpasses it and is China’s proposition for the global governance.

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## THE IMPORTANCE OF THE ONE BELT ONE ROAD CHINESE INITIATIVE AND ITS FEATURES

Sun JIE\*

*SUMMARY: I. Abstract. II. The background of the OBOR initiative against stagnation and de-globalization. III. The rise and fall of the ancient silk road in comparing the OBOR. IV. Scope of the OBOR. V. The Extension of the OBOR and its implication for the world and China. VI. Feasibility of the OBOR: based on gravity model. VII. Main Focus of OBOR. VIII. Mechanism of OBOR. IX. Principles of jointly building OBOR. X. Six major achievements of the OBOR building. XI. Progress of the OBOR. XII. Potential challenges of the OBOR.*

### I. ABSTRACT

According the general view of point, the world economy could be divided into several zones, such as North American, Europe, Asia and Africa. According to the basic idea of economic theory, trade which promoted by labor division, will increase productivity, and give incentive to growth and development. The OBOR initiative intend to strengthen cooperation among relevant countries by policy coordination, facilities connection, trade promotion, financial integration and people-to-people bonds. The OBOR initiative conveys the ideals of open, harmony and inclusive by market-oriented actions, calls for the understandings and cooperation among relevant countries. More important is OBOR is an initiative to relevant countries and the building of the OBOR should be jointly.

Chinese President Xi Jinping raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, hereinafter referred to as one Belt and one Road, or OBOR, during the period

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when he visited Central Asia and Southeast Asia in 2013. Almost at the same time, Chinese Premier Li Keqiang emphasized the need to build the Maritime Silk Road oriented toward ASEAN at the China-ASEAN Expo. The OBOR initiative soon have attracted close attention from all over the world, suggesting that accelerating the building of the OBOR may help economic prosperity of the countries along the Belt and Road, deepen regional economic cooperation, strengthen exchanges and mutual understanding among different civilizations, and promote world peace and development. Beyond doubt, it is a great undertaking that will benefit people around the world. As a result, more and more countries are interest in the initiative and want to join it.

## II. THE BACKGROUND OF THE OBOR INITIATIVE AGAINST STAGNATION AND DE-GLOBALIZATION

According the general view of point, the world economy could be divided into several zones, such as North American, Europe, Asia and Africa. According to the basic idea of economic theory, trade which promoting labor division, productivity, growth and development.

People of Eurasia explored several inland and maritime routes for trade and cultural exchanges that linked the major civilizations of Asia, Europe and Africa more than two millennia ago, collectively called the Silk Road later. The key Spirit of Silk Road, peace and cooperation, openness and inclusiveness, mutual understanding and mutual benefit, has been passed generations and generations, promoted the progress of human civilization, and contributed the prosperity and development of the countries along the Silk Road. The Silk Road is symbolizing the communication and cooperation between the East and the West and is a historic and cultural heritage shared by all countries around the world.

The theme of 21st century marked by peace and development, cooperation and mutual benefit, make the Silk Road Spirit more important for us, especially in facing of the weak recovery of the global economy, and complex international and regional situations.

The underlying impact of the international financial crisis in 2008 keeps emerging and profound changes are taking place in world economy like secular stagnation. Savings exceed investment and made the natural interest rate keep low to negative. To find investment opportunity is crucial and the jointly building of the OBOR might a solution. The world economy is recovering slowly, and global development is uneven after de-

cade of globalization; international trade and investment is facing the challenge of protectionism, rules for multilateral trade and investment are undergoing major adjustments. The initiative to jointly build the OBOR will embrace the trend toward a multipolar world and global inclusive development.

Cultural diversity, national heterogeneity on endowment and ITC application, is designed to uphold the global free trade and investment, countries' opening up as well as regional cooperation by trade and investment. International trade and investment aimed at promoting orderly and freely flows of economic factors, highly efficient allocating resources and deepening integration of markets; encouraging countries along the OBOR to achieve economic policy coordination, pushing a broader and more in-depth regional cooperation to a higher standard; and jointly creating an open, inclusive and balanced international setting for global economic cooperation framework and architecture that benefits every member.

In short, jointly building the OBOR, inclusively to world economy, is in the interests of the world community, reflecting the common ideals and pursuit of international societies. So, it is no wondering that the OBOR received widely response all over the world. It is a positive endeavor of establishing a new model of international cooperation and global governance and will contribute world peace and development.

### III. THE RISE AND FALL OF THE ANCIENT SILK ROAD IN COMPARING THE OBOR

The rise of the ancient Silk Road is promoted by the demand for silk and tea from the west, and hence is driven by the inter-industry trade. It is true that the geographic difficulties through the hot and dry inland desert made the trade only limited to some high value goods like silk and tea which are insensitive to high transportation cost, and only few people and goods could traveled. This is the limitation of the ancient Silk Road. Even though sea belt transportation was established later, the limitation is still there.

However, thanks to the technical progress, the road through the inland desert from Asia to Europe is no longer harsh for transportation neither for goods nor people, and the transportation cost is greatly decreased today. Not only the trade goods can be expended, but also the trade itself can also be shift from inter-industry trade to intra-industry trade against the background of the expansion of global value chains network around the world, especially between developed countries and developing countries.

The key reason of the fall of the ancient Silk Road is the industry revolution in Europe change the trade advantage among countries. The huge production capacity in Europe made the trade dominated by raw materials and final product between Europe and the rest of the world, saying inter-industry trade. The low cost of final products from Europe is competitive on world market and result in the imbalance of trade. However, thanks to the technical progress, the intra-industry trade in global value chains reshaped trade advantage among countries along the Silk Road and made it is possible of the re-flourishing of the ancient Silk Road.

The shift from inter-industry trade to intra-industry trade is an important feature of the OBOR and it can stabilize the trade relation in the long term. The ancient Silk Road was breakup several times in its history for the reason of war along the road, but now it is the time for peace and development, even though there may be some conflicts but will not lasted for long time.

It is more important and we has to mentioned here is the fact that the infrastructure for modern transportation along the Silk Road is less developed, so before the re-flourishing of trade, the first priority is the construction of infrastructures. It is for sure that the construction will benefit countries along the belt and road and lay foundation for further cooperation in the future.

#### IV. SCOPE OF THE OBOR

According to the Action plan on the China-proposed Belt and Road Initiative issued by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China, with State Council authorization on March, 2015, the Scope of the OBOR is described as followed:

The Belt and Road run through the continents of Asia, Europe and Africa, connecting the East Asia to the developed European economies, encompassing countries with huge potential of economic development. The Silk Road Economic Belt (Belt) focuses on bringing together China, Central Asia, Russia and Europe; linking with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st-Century Maritime Silk Road (Road) is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.

On land, the Initiative will focus on jointly building a new Eurasian Land Bridge and developing China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors by international transport, relying on core cities along the Belt as cooperation platforms.

At sea, the Initiative will focus on jointly building smooth, secure and efficient transport connecting major sea ports along the Road. The China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor are closely related to the OBOR Initiative, and therefore require closer cooperation and greater progress.

#### V. THE EXTENSION OF THE OBOR AND ITS IMPLICATION FOR THE WORLD AND CHINA

It is true that the original concept of the ancient silk road and even the OBOR is aiming at the connection of Europe and Asia, the two geographically connected main economic zone in the world, so called as Eurasia bridge, but against the background of the weak recovery of the world economy after the financial crisis in 2008, the concept of OBOR was gradually discussed worldwide.

For the reason of wide attentions by countries all over the world, different definitions, different understandings and different initiatives by different parties are emerging. I believe that the key idea of the OBOR should not be limited to the one belt and one road and could be regarded as routs that linking countries all over the world for trade and investment. One interesting fact is, at the beginning stage of the belt and road initiative, even though Chinese government did not made clear of the number of countries along the belt and road, some edition emerged like 64 countries or 68 countries and so on so forth. The official term, at the beginning stage, countries along the belt and road, also gradually changed as countries in relation to the belt and road. Another interesting fact is representatives from more than 130 countries participated in the Belt and Road Forum for International Cooperation, apparently exceeded the number of most potential countries along the belt and road. It indicates that the belt and road initiative is no longer limited to countries along the belt and road and received a worldwide response.

The reason for the worldwide response for the belt and road initiative lays in the background of the weak recovery of the world economy after the financial crisis in 2008. The unconventional monetary policy featured by



quantitative easing lasted for seven years and the interest rate increase also slow compare to the past practice in the United States, while Europe and Japan still in the process of quantitative easing. There are many theoretical assumptions or analysis frameworks addressing to the new phenomena like balance sheet crisis and secular stagnation. According to those frameworks, the weak and long recovery is a result of the need of pay back debt and the shrink of spending as balance sheet crisis hypothesis, or lack of investment as secular stagnation assumption. Either the decrease of spending or investment will result in economic stagnation. The building of infrastructure, as the first step of the OBOR scheme, will definitely promote investment and spending and stimulate growth, pulling the economy out of slow growth trap. This is the reason why OBOR received so many responses all over the world.

In fact, China will remain committed to open regionalism, and will refrain from closed blocs and arrangements targeted at the third party. We will seek to cooperate with other regional initiatives and mechanisms and would welcome countries outside the region to actively participate in appropriate ways.

## VI. FEASIBILITY OF THE OBOR: BASED ON GRAVITY MODEL

Intra-industry trade and building projects on infrastructure two basis of the OBOR initiative, however, possibility is one thing and feasibility is another thing. Here we need to analysis the potential of trade and investment, based on gravity model, at least among 60 countries along the belt and road.

Tinbergen (1962) set the initial gravity model, taking trade volume as Explained Variable, county's GDP and the distance between trade partner countries as explanatory variable, and then set the model as:

$$T_{ij} = \frac{\alpha G_i^\beta G_j^\gamma}{D_{ij}^\theta}$$

Here,  $T_{ij}$  is the Trade volume between county  $i$  and country  $j$ ,  $\alpha$  is the constant item,  $G_i$  is the GDP volume of country  $i$ ,  $G_j$  is the GDP volume of country  $j$ ,  $D_{ij}$  is the distance between country  $i$  and country  $j$ .

According to a research made by Miu Qixuan (2017), a model for determinants of the trade volume between China and country on the belt and road line was set up as follow:

$$\ln T_{cj} = \alpha + \beta \ln G_c G_{ij} G_j + \theta \ln D_{cj} + \delta FTA_s + \mu$$

Here,  $T_{cj}$  is the Trade volume between China and country  $j$  on the belt and road line,  $\alpha$  is the constant item,  $G_c$  is the GDP volume of China,  $G_j$  is the GDP volume of country  $j$ ,  $D_{cj}$  is the distance between China and country  $j$ . FTAs is a dummy variable, denote 1 if country  $j$  signed FTA with China and denote zero if not. It should be mentioned here that FTA could be regarded as a proxy variables of the cooperation within the belt and road initiative. Samples of countries on the belt and road line are 60, data of trade volume are collected from the database of UN comtrade, GDP data are collecting from the World Bank, distance data are collecting from the database of CEPII, FTA data are collected from China FTA Network.

The regression result is as follow:

| Variable       | Coefficient | Std. Error              | T        | P         |
|----------------|-------------|-------------------------|----------|-----------|
| C              | -12.45263   | 6.48432                 | -2.14647 | 0.0212**  |
| $\ln G_c D_j$  | 0.884622    | 0.06154                 | 12.45589 | 0.0000*** |
| $\ln D_{cj}$   | -1.647961   | 0.54562                 | -3.19863 | 0.0031*** |
| $FTA_s$        | 0.893514    | 0.39164                 | 2.31548  | 0.0427**  |
| R-squared      | 0.782518    | Mean dependent variable |          | 23.69124  |
| Adj. R-squared | 0.752824    | Hannan-Quinn criter.    |          | 2.944516  |
| F              | 59.64319    | Durbin-Watson stat      |          | 2.235738  |

NOTE: \*\* and \*\*\* represents significant level at 5% and 1%.

The result shows that the  $R^2$  and adjusted  $R^2$  are about 78% and 75% respectively, indicating an acceptable fitting effect, while GDP volume and FTAs are all positively correlated with trade, and distance is negatively correlated with trade.

Miu Qixuan (2017) further estimates the difference between potential trade and actual trade of China and countries along the belt and road. The paper found that there are 29 countries which actual trade volume with China are smaller than the potential trade volume with China, suggesting there existing room for expending cooperation. The average ratio of the actual trade volume to the potential trade volume is about 0.63. in the meantime, there are 29 countries which actual trade volume with China are smaller than the potential trade volume with China, the average ratio of the actual trade volume to the potential trade volume is as high as 2.23.

The asymmetry picture of trade relation means the foundation of the belt and road construction at one hand, and the need for the belt and road construction at the other hand. In fact, the Eurasia Bridge should be connected and the trade volume among countries along the belt and road should be reaching its potential.

## VII. MAIN FOCUS OF OBOR

Countries along the Belt and Road have their own endowment advantages and economic complementarity. Therefore, there is a great potential and space for trade and investment cooperation. Strengthening cooperation among them calls for policy coordination, facilities connection, trade promotion, financial integration and people-to-people bonds as the five major goals and preconditions of OBOR.

Enhancing policy coordination is an important guarantee for implementing the Initiative jointly, especially for countries with different culture and social regime. Promoting intergovernmental cooperation on policy exchange and communication mechanism, expand shared interests, enhance mutual political trust, and reach a better environmental for investment is crucial for investment disputes negotiation and risks management, and jointly provide policy support for the implementation of practical cooperation and large-scale projects.

Facilities connection is a priority for implementing the Initiative because connection is the key function of the OBOR. On the basis of respecting each other's sovereignty and security concerns, countries along the Belt and Road should coordinate for their infrastructure construction plans and technical standards, jointly push forward the construction of the Belt and Road step by step, even it may takes time. The OBOR can be not build up overnight but China, jointly with other countries can do something on construction project with its comparative advantages.

Investment and trade promotion are the major task of the Belt and Road. Improving investment and trade facilitation and removing investment and trade barriers for the creation of a preferable environment in all relevant countries might be a tough achievement. Countries along the Belt and Road may establish free trade zone and reach free trade agreement so as to unleash the potential for expanded cooperation.

Financial integration is an important fundamental for implementing the building of the Belt and Road Initiative because the construction can only be conducted by jointly efforts, and no country can fund the large scale

project alone. The scope and scale of bilateral currency swap and settlement should be expanded, and financial market, especially the bond market in countries along the Belt and Road should be developed to support the financial need of the OBOR construction. Firstly, the establishment of the Asian Infrastructure Investment Bank and BRICS New Development Bank, negotiation among relevant parties on establishing Shanghai Cooperation Organization (SCO) financing institution, and set up and put into operation the Silk Road Fund are results of practical jointly effort. Secondly, the China-ASEAN Interbank Association and SCO Interbank Association can facilitate multilateral financial cooperation in the form of syndicated loans and bank credit. Thirdly, credit-rating among relevant countries is also needed for the finance of OBOR projects.

People-to-people bond can guarantee the friendly cooperation of the OBOR by promoting extensive cultural and academic exchanges, personnel exchanges and tours, media cooperation, youth and women exchanges and volunteer services, so as to win public support for deepening bilateral and multilateral cooperation.

## VIII. MECHANISM OF OBOR

China takes full advantage of the existing bilateral and multilateral cooperation mechanisms to push forward the building of the Belt and Road and to promote the development of regional cooperation, encourage the signing of cooperation MOUs or plans, and develop a number of bilateral cooperation projects, enhance the role of multilateral cooperation mechanisms, such as the Shanghai Cooperation Organization (SCO), ASEAN Plus China (10+1), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM), Asia Cooperation Dialogue (ACD), Conference on Interaction and Confidence-Building Measures in Asia (CICA), China-Arab States Cooperation Forum (CASCF), China-Gulf Cooperation Council Strategic Dialogue, Greater Mekong Subregion (GMS) Economic Cooperation, and Central Asia Regional Economic Cooperation (CAREC) to strengthen communication with relevant countries, and attract more countries and regions to participate in the Belt and Road Initiative.

It is hopefully that with the progress of building the OBOR, more mechanisms will be establish or involved. A working group on OBOR building in Chinese government established in February 2015, and an official website already online in early 2017.

## IX. PRINCIPLES OF JOINTLY BUILDING OBOR

The Belt and Road Initiative is a way for win-win and inclusive cooperation that promotes common development and prosperity and a road toward peace and friendship by enhancing mutual understanding and trust. The four ideals advocated by Chinese government are peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit. More important is the principle suggested by Chinese government is market-oriented which means that enterprises are the main body of OBOR building. It works to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.

Within the framework of OBOR, countries are equal on plan discussion, project complementation and benefit sharing.

OBOR Initiative is an ambitious vision of opening-up of and cooperation among the countries along the Belt and Road. Countries are expected to work harmonized toward the objectives of mutual benefit and common security. To be specific, they need to improve the infrastructure within their territory, and make it secured and efficient on land and at sea, further enhance trade and investment facilitation, establish a network of free trade areas by high standards and deepen political trust; enhance cultural exchanges; encourage different civilizations to learn from each other and flourish together; and promote mutual understanding, peace and friendship among people of all countries.

*The following points are keys in the building OBOR*

First, sticking to the principle of mutual respect and trust, and reinforce the foundation for win-win cooperation. Mutual respect is the basis of mutual understanding, and mutual understanding is the premise of mutual trust. The world is diverse with countries differing from one another in terms of size, strength and development level. The rights of all countries to choose their own social systems and development paths should be fully respected. Cooperation for the building of OBOR should be set on a voluntary basis and on the principle of equality and mutual benefit.

Second, Openness and inclusiveness are the characteristics of the ancient Silk Road and the experiences of countries along the routes in pursuing development and prosperity, which is necessary to achieve greater success in the future. China's achievement is inseparable from the international community, and it's willing to make its contribution to global development.

The construction of the Belt and Road will form wider, deeper and higher-level regional cooperation and forge a framework for open, inclusive and balanced cooperation benefiting all parties.

Third, the foundation of the Belt and Road construction lies in inter-connectivity, and the driving force comes from down-to-earth work and innovation. Countries along the routes have different advantages in natural resources and human capital, providing huge potential for innovative and pragmatic cooperation.

Fourth, sticking to peace and development is the safeguard of the path toward win-win cooperation. The evolution of the ancient Silk Road proves that there's no development without peace and no prosperity without security. Solidarity and harmonious coexistence are the gene of the Chinese nation and is also the essence of the Eastern civilization. China persists in peaceful development.

## X. SIX MAJOR ACHIEVEMENTS OF THE OBOR BUILDING

By mid of 2017, the initiative has won support from more than 100 countries and international organization. It is obviously and interesting to mention that supporters are not limited by countries and organizations along the Belt and Road; more than 50 countries have signed cooperation agreements with China; China has carried out international cooperation in production capacity with more than 20 countries; China has built 56 economies and trade cooperation zones in more than 20 OBOR countries; the initiative has been recognized by international organizations including the United Nations and the Asia–Pacific Economic cooperation that will give impetus to the OBOR building, and finally, financial cooperation, represented by the Silk Road Fund and the Asian Infrastructure Investment Bank, has been increasingly deepened.

## XI. PROGRESS OF THE OBOR

Since the OBOR initiative was put forward, more than 100 countries and a lot of international organizations have supported and got involved in the process of jointly effort. Important resolutions passed by the UN General Assembly and Security Council contain reference to the BRI. The ideas of the Belt and Road Initiative are becoming construction project and bring rich fruits.

In terms of policy coordination, China is coordinate the BRI and national development scheme of countries along the belt and road. Achievements included the Eurasian Economic Union of Russia, the Master Plan on ASEAN Connectivity; the Bright Road initiative of Kazakhstan; the Middle Corridor initiative of Turkey; the Development Road initiative of Mongolia; the Two Corridors, One Economic Circle initiative of Viet Nam; the Northern Powerhouse initiative of the UK and the Amber Road initiative of Poland. China is also promoting complementarity between China's development plan and those of Laos, Cambodia, Myanmar, Hungary and other countries. China has signed cooperation agreements with over 40 countries and international organizations and carried out framework cooperation on production capacity with more than 30 countries.

In terms of infrastructure connectivity, China has accelerated the building of Jakarta-Bandung high-speed railway, China-Laos railway, Addis Ababa-Djibouti railway and Hungary-Serbia railway, and upgraded Gwadar and Piraeus ports in cooperation with relevant countries. A large number of connectivity projects are also in the pipeline. A multi-dimensional infrastructure network is shaped and underpinned by economic corridors such as China-Pakistan Economic Corridor, China-Mongolia-Russia Economic Corridor and the New Eurasian Continental Bridge, featuring land-sea-air transportation routes and information expressway and supported by major railway, port and pipeline projects.

In terms of investment and trade promotion, China has worked with other countries involved in the Belt and Road Initiative to promote trade and investment facilitation and improve business environment. It is reported that for Kazakhstan and other Central Asian countries alone, customs clearance time for agricultural produce exporting to China is cut by 90%. Total trade between China and other Belt and Road countries in 2014-2016 has exceeded US\$3 trillion, and China's investment in these countries has surpassed US\$50 billion. Chinese companies have set up 56 economic cooperation zones in over 20 countries, generating some US\$1.1 billion of tax revenue and 180,000 jobs for them.

In terms of financial integration, China has engaged in multiple forms of financial cooperation with countries and organizations in ration to the Belt and Road construction. The Asian Infrastructure Investment Bank has provided US\$1.7 billion of loans for 9 projects in Belt and Road participating countries. The Silk Road Fund has made US\$4 billion of investment, and the financial holding company between China and Central and Eastern European countries (16+1) has been inaugurated. With distinctive focus, these new financial mechanisms and traditional multilateral financial insti-

tutions such as the World Bank complement each other. A multi-tiered Belt and Road financial cooperation network has taken an initial shape.

In terms of People-to-people bond, Belt and Road Initiative participating countries have pulled their efforts to build the educational Silk Road and the health Silk Road, and carried out cooperation in science, education, culture, health and people-to-people exchange. Such cooperation has helped lay a solid popular and social foundation for pursuing the Belt and Road Initiative. The Chinese government provides 10,000 government scholarships to the relevant countries each year recently. China's local governments have also set up special Silk Road scholarships to encourage international cultural and educational exchanges. Projects of people-to-people cooperation such as Silk Road culture year, tourism year, art festival, film and TV project, seminar and think tank dialogue are flourishing. These interactions have brought our people increasingly closer.

Since the beginning of 2016, the cooperation under the framework of the Belt and Road Initiative (BRI) has been gradually deepened in the fields of policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, and a number of landmark cooperation projects have been started and smoothly advanced, which injected new impetus into the BRI construction. In May 2017, the Belt and Road Forum for International Cooperation was held successfully and national governments, local authorities and enterprises reached a number of concrete and practical results before and during the Forum, which promoted the BRI into a new stage of comprehensive expansion and better quality and efficiency. In the coming year, the key areas of the BRI will have new opportunities for development and face many new risks and challenges in the political, economic and security fields.

In short, a growing number of countries and international organizations have participated in the building of the Belt and Road. China has signed cooperative agreements with more than 30 countries and launched manufacturing and production capacity cooperation with more than 20 countries along the routes. The financial cooperation represented by the Asian Infrastructure Investment Bank and the Silk Road Fund is making steady headway. A number of landmark projects are being implemented. People-to-people interactions in the fields of culture, education, science and technology, tourism and commerce are increasing. We should note that outcomes, in terms of speed and scale of the Belt and Road Initiative, have been better than expected. The Belt and Road has mostly completed the planning stage and is taking steps of concrete implementation and sustainable development. There is a wider consensus of the international community that the initia-



tive answers the call of our times for peace and development and conforms to the aspiration of relevant countries to speed up development. It will help advance economic growth along the routes and boost global economic prosperity, helping to maintain regional stability and world peace. This has become the impetus for all parties to join in.

## XII. POTENTIAL CHALLENGES OF THE OBOR

We have talk more about the necessary and feasibility of the belt and road initiative, but can it be achieved smoothly? Many Chinese companies are seizing this opportunity, often underestimating the challenges and risks of venturing into the external markets. Outward investment crosses a set of countries that have a diverse range of cultures, economies, and legal, political and regulatory systems in various stages of development. Some of these regions lack political stability and effective governance. When Chinese enterprises expand into other countries, they need to actively research and forecast all types of cross-border operating risks and take steps to mitigate those risks.

In fact, OBOR construction might face highly complex and diverse risks including: major political/policy changes by the host nation; religious/nationalist wars and/or civil strife; government nationalization and expropriation; third-country intervention; government withdrawal of cooperative support; discrimination against market access, including trade barriers and invisible investment; breach of contract and/or delayed company payments; commercial trade fraud; and organized crime and terrorism-related risks to the safety of employees and facilities of Chinese companies.

It is thus an urgent priority for the Chinese government and companies to assess, forecast and control such potential risks. To some extent, controlling the risk depends directly on the implementation and survival of the Belt and Road initiative. The Chinese government has already realized its importance. The Ministry of Foreign Affairs has set up a global emergency call center for consular protection and services. The Ministry of Commerce has issued a series of normative documents including Overseas Risk Warning on Foreign Investment and Cooperation, An Early Warning and Information Release System and Guidelines for Safety Management of Overseas Chinese-funded Enterprises. Some policy-based institutions like the China Export & Credit Insurance Corporation enhanced their support for companies seeking to globalize. The China International Contractors Association has established an overseas security platform.

In short, the OBOR initiative conveys the ideals of open, harmony and inclusive by market-oriented actions, calls for the understandings and cooperation among relevant countries for growth and development. More important is that the OBOR is an initiative to relevant countries and the building of the OBOR should be jointly.

## IS CHINA RESHAPING ITS NEIGHBORING ENVIRONMENT THROUGH THE BELT AND ROAD INITIATIVE?

Lin MINWANG\*

*SUMMARY: I. Abstract. II. Introduction. III. The Belt and Road Initiative: reshaping the geoeconomic environment surrounding China. IV. Belt and Road Initiative: effects on the geopolitical rivalry that surrounds China. V. Conclusions. VI. References.*

### I. ABSTRACT

China's neighboring countries have actively responded to the Belt and Road Initiative since it was first unveiled by China in late 2013. On the one hand, the progresses achieved in the planning, implementation, and launching of various projects under the Belt and Road Initiative (BRI) have showcased China's capability to shape its neighboring environment. On the other hand, the proposal and development of the Belt and Road Initiative have intensified geopolitical rivalry among China's neighboring countries. Geopolitical and geoeconomic effects will gradually emerge with the further implementation of the Belt and Road Initiative. China will need to control adverse effects while actively contributing to the progress of the Belt and Road Initiative.

### II. INTRODUCTION

In 2013, President Xi Jinping first unveiled the Silk Road Economic Belt and the 21<sup>st</sup> century Maritime Silk Road, also referred to as the Belt and Road Initiative, in Kazakhstan and Indonesia. The Belt and Road Initiative has received active domestic and international response and has gradually devel-

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oped into a national strategy for the comprehensive deployment of China's domestic and foreign affairs. Notably, the Communist Party of China (CPC) Central Committee has set up a special high profile for the Leading Group of the Belt and the Road Initiative.

We have made considerable progress in the implementation of the Belt and Road Initiative three years after its initial unveiling. In June 2016, President Xi Jinping delivered an important speech entitled “Jointly Build a New Great Silk Road” at the Legislative Chamber of the Uzbek Supreme Assembly. In this speech, President Jinping summarized the overall progress of the Belt and the Road Initiative and emphasized that the Belt and Road Initiative has preliminarily completed project planning and layout and is entering the stages of successful launching, meticulous implementation, and sustainable development (Xinhuanet, Dec 19, 2016).

The planning and layout of the Belt and Road Initiative have focused on the development of a basic framework characterized by six corridors and six road networks that connect multiple countries and ports. Specifically, the phrase “six corridors” refers to the opening up of six major international economic cooperation corridors, including the New Eurasian Continental Bridge, the China–Mongolia–Russia Economic Corridor, the China–Central Asia–West Asia Economic Corridor, the China–Indochina Peninsula Economic Corridor, the China–Pakistan Economic Corridor, and the Bangladesh–China–India–Myanmar Economic Corridor. The phrase “six road networks” represents the connection of six major road networks to facilitate the interconnection of railways, highways, waterways, airlines, pipelines, and information highways. The phrase “multiple countries” refers to the nurturing of several pivotal countries in Central Asia, Southeast Asia, South Asia, West Asia, Europe, Africa, and other regions in the light of the need for pushing ahead with the building of the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road and the enthusiasm of countries along the Belt and Road. The phrase “multiple ports” means the building of a number of crucial sea ports. By focusing on the building of the 21<sup>st</sup> Century Maritime Silk Road, we intend to accelerate the construction of a number of pivotal ports with distinct locational advantages and prominent supportive function through multiple channels (The Work Committee of the Central Government Departments under the CPC Central Committee, March, 2016).

In terms of international production capacity cooperation, by June 2016, China had entered into production capacity cooperation agreements with 20 countries and had worked with 17 countries along the Belt and

Road to build 46 overseas economic and trade cooperation zones wherein Chinese enterprises had invested over 14 billion dollars and created 60,000 jobs for local people (Xinhuanet, Dec 19, 2016). China and Kazakhstan had jointly established a production capacity cooperation fund, and the Sino–Kazakhstan production capacity cooperation model continues to lead the implementation of the Belt and Road Initiative. In terms of financial support, the *Asian Infrastructure Investment Bank* has been officially launched, with 57 countries actively participating in its operation; furthermore, the Silk Road Fund and the China–Eurasian Economic Cooperation Fund have been successfully established (Xinhuanet, Dec 19, 2016).

We have accomplished considerable achievements in connectivity projects under the Belt and Road Initiative. Currently, construction on the Jakarta–Bandung railway commences, construction on the Sino–Laos and Sino–Thailand railways is about to begin, and the Trans-Asian Railway Network has been placed on agenda. The winning bid of Chinese enterprises on the *Kyaukpyu* deep-water port and industrial park projects provides a necessary condition for planning the China–Myanmar Economic Corridor. The official operation of the Gwadar Port adds to the vitality of the China–Pakistan Economic Corridor. The resumption of construction on the Colombo Port City project marks the formation of another node of the Maritime Silk Road. The longest Angren–Pap Railway Tunnel in Central Asia has been completed and is now open to traffic, further contributing to the connection of the China–Central Asia–West Asia Economic Corridor. China’s successful bidding on Greece’s Piraeus Port Authority Project calls for the acceleration of the construction of the China–Europe land–sea express. The conclusion of the commercial agreement on the Serbia–Hungary high-speed highway demonstrates that the Sino–European regular train transportation mechanism formed. The Addis Ababa–Djibouti Railway, which was manufactured with Chinese equipment in compliance with Chinese standards, is now open to traffic and provides a successful example for China–Africa production capacity cooperation (The Ministry of Foreign Affairs of the People’s Republic of China, December 3, 2016).

To summarize, in the past three years since the unveiling of the Belt and Road Initiative, we have achieved steady development and progressively expanded our influence. In this paper, we provide a comprehensive analysis of the development of the Belt and Road Initiative in the context of current trends. The geopolitical and geoeconomic effects of China’s continuing reshaping of its surrounding environment under the Belt and Road Initiative have progressively emerged.

### III. THE BELT AND ROAD INITIATIVE: RESHAPING THE GEOECONOMIC ENVIRONMENT SURROUNDING CHINA

The international community has attached great importance to the Belt and Road Initiative since it was first proposed by China. The Belt and Road Initiative has a broad official interpretation. However, to China's surrounding countries, this initiative mainly represents six major international economic cooperation corridors that are distributed in the east, west, south, and north of China. These corridors include the New Eurasian Continental Bridge, the China–Mongolia–Russia Economic Corridor, the China–Central Asia–West Asia Economic Corridor, the China–Indochina Peninsula Economic Corridor, the China–Pakistan Economic Corridor, and the Bangladesh–China–India–Myanmar Economic Corridor. The progressive implementation of these projects will closely link the development of China with that of its surrounding countries. Given the differences in geographic locations, resource reserves, developmental stages, and geopolitical backgrounds of these six economic corridors, we are bound to place different development priorities on the agenda and encounter different difficulties and challenges in different projects.

#### 1. *China–Pakistan Economic Corridor*

The China–Pakistan Economic Corridor is positioned as the flagship program under the Belt and Road Initiative with the aim to foster China–Pakistan cooperation in transportation, energy, and marine affairs; to forge an economic link that stretches from Kashgar in the north to Gwadar Port, Pakistan in the south; and to jointly accelerate the construction of the four-in-one Kashgar–Gwadar Port Corridor that consists of roads, railways, oil and gas pipelines, and optical cable lines.\*\* The Corridor is constructed to assist the efforts of Pakistan, China's comprehensive strategic partner, to achieve domestic stability through economic development and to ensure that Pakistan will continue to serve as a node for China's South Asia

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\*\* The reports compiled by the media from China and Pakistan stress on the construction of the “four-in-one” China-Pakistan Economic Corridor of road, railway, oil and gas pipeline and optical cable yet many researchers question the possibility of “four-in-one”, Mao Siwei: On three Misunderstandings of the China-Pakistan Economic Corridor, [http://pit.ifeng.com/a/20161210/50395969\\_0.shtml](http://pit.ifeng.com/a/20161210/50395969_0.shtml), last visited on December 19, 2016. In China's official statements and reports, “connectivity” is generally stressed without explicitly mentioning the railway construction of the China-Pakistan Economic Corridor.

policies. Meanwhile, through collaboration with Pakistan, China is cracking down on the “three evil forces” in Xinjiang to promote regional stability and development. The long-term strategic influence of this program may lie in the following aspects: the progressive expansion of China’s strategic influence on the Gulf Region and Arab States and the improvement of China’s ability to secure energy corridors and the combating of nontraditional security threats.

Currently, the China–Pakistan Economic Corridor is entering the comprehensive implementation stage. Among the Corridor’s three representative components, namely, the Initial Phase Area of the Gwadar Port Free Zone, the Karachi–Lahore Motorway (Sukkur–Multan Section), and Karakoram Highway Phase II concentratedly commenced, 17 out of the 30-odd signed-off projects are underway. We have created more than 10,000 jobs for the local people through the construction of the China–Pakistan Economic Corridor (Embassy of the People’s Republic of China in the Islamic Republic of Pakistan, December 2016).

On November 13, 2016, the initial pilot transportation of the joint trade convoy for the China–Pakistan Economic Corridor was grandly launched at the Gwadar Port in the Balochistan, Pakistan and marked the shift of the China–Pakistan Economic Corridor from the conceptual to the tangible.

Nevertheless, internal and external controversies surround the China–Pakistan Corridor (Li Xiguang, Sun Lizhou, December 2016). At present, we face the major challenge from Pakistan, which has failed to reach consensus on the planned route of the China–Pakistan Economic Corridor and on the potential beneficiaries of the large-scale industries that are emerging from the construction of the China–Pakistan Economic Corridor. China expects that the China–Pakistan Economic Corridor, as an exemplary flagship program, would bolster confidence over the short run in the overall construction of the Belt and Road Initiative. Therefore, it may select the route of the China–Pakistan Economic Corridor and cross densely populated regions with developed industries within Pakistani territories to ensure basic traffic volume in the short run and to achieve the self-maintenance and development of the China–Pakistan Economic Corridor. A report from the Financial Times stated that Sun Weidong, the Chinese ambassador to Pakistan, has attempted to ease tensions over the China–Pakistan Economic Corridor among different Pakistani provinces, remarking that “all roads lead to development and prosperity” (Ahmed Rashid, October 2016). Efforts to mitigate the internal friction in Pakistan are the key to ensuring the smooth progress of the China–Pakistan Economic Corridor.

## 2. *Bangladesh–China–India–Myanmar Economic Corridor*

This economic corridor is situated at the junction of the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road. It begins from Yunnan in Southwest China and extends via Northern Myanmar and Bangladesh to Kolkata, the capital of West Bengal, India. The Bangladesh–China–India–Myanmar Economic Corridor was initially proposed as Track Two Diplomacy at the Bangladesh–China–India–Myanmar Forum for Regional Cooperation and was officially adopted when Premier Li Keqiang visited India in May 2013. A joint statement between the People’s Republic of China and the Republic of India stipulated that both parties will negotiate with other parties (e.g. Bangladesh and Myanmar) by setting up the Joint Working Group to research connectivity in this region, to promote economic and trade cooperation and cultural exchange, and to call for the construction of the Bangladesh–China–India–Myanmar Economic Corridor (Xinhuanet, December 2016).

To date, the Joint Working Group has held two meetings. However, its activities have come to a halt in recent years. During December 18-19, 2013, representatives from governmental authorities, research institutions, and enterprises attended the first meeting held by the Joint Working Group. During this meeting, the group reached a consensus on four major cooperation domains: spatial connectivity (tangible and intangible connectivity), trade in goods, environmental sustainability, and nongovernmental exchanges. During December 17-18, 2014, the second meeting of the Joint Working Group was held in Bangladesh. During this meeting, a consensus was reached that the Joint Working Group of the Bangladesh–China–India–Myanmar Economic Corridor would prepare four national reports (Khin Maung Lynn, December 2016). A third meeting was planned to be held in India in the second half of 2015 with the aim to pass the joint research report prepared by the four countries and to begin negotiations on the establishment of a four-party governmental cooperation mechanism. Nevertheless, the meeting has not been held yet so far. India’s Modi Administration has suspended the construction of the Bangladesh–China–India–Myanmar Economic Corridor in Northeast India for security reasons. Recently, in its reply to an inquiry into the current progress of the Corridor by the Parliament of India, the Ministry of External Affairs of the Government of India stated that the Indian Government would continue to monitor the course of the program and its impact on the security of India and would take all necessary defensive measures (The Ministry of External Affairs of India, December 2016).



The Bangladesh–China–India–Myanmar Economic Corridor overlaps with the Sino–Myanmar oil and gas pipelines; connects Myanmar, India, and Bangladesh; strengthens China’s influence on the Region of the Bay of Bengal; and promotes the global exposure and economic integration of Southwest China with its surrounding areas. Nevertheless, India’s passive attitudes that have arisen from the issues of ethnic minorities and stability in Northwest India, as well as the highly complicated situation in Myanmar after its election, introduced difficulties in the future development of the Corridor. In October 2016, President Xi Jinping visited Bangladesh, and both parties undertook to continue their efforts to promote the construction of the Corridor. A joint statement between the People’s Republic of China and the People’s Republic of Bangladesh declared that both parties attach importance to the role of the Bangladesh–China–India–Myanmar Economic Corridor in promoting pragmatic cooperation among the four countries and overall regional development. Moreover, both countries stated their willingness to strengthen communication and coordination in the promotion of the Bangladesh–China–India–Myanmar Economic Corridor to facilitate consensus among all the parties over the four-country joint research report and to establish a four-country cooperative framework for the launching of the signed projects as soon as possible (Xinhuan: Joint Statement of the People’s Republic of China and the People’s Republic of Bangladesh, December 2016 ). We need to show additional patience in pushing forward the construction of the Corridor given that it is one of the earliest proposals under the Belt and Road Initiative.

### 3. *China–Mongolia–Russia Economic Corridor*

Russia and Mongolia have actively provided their support since China unveiled the Belt and Road Initiative. In September 2014, Russian and Mongolian leaders met for the first time, and China, Mongolia, and Russia decided to construct the expected economic corridor. Specifically, they decided to combine the Silk Road Economic Belt program with the proposal for Russia’s Trans-Eurasian Railway and the Mongolian Steppe Road to build the China–Mongolia–Russia Economic Corridor, to strengthen connectivity construction (e.g. railways and roads); to facilitate customs clearance and transportation; to promote transit transport cooperation; to investigate the construction of a tripartite cross border transmission network; and to cooperate in the issues of tourism, think tank, media, environmental protection and disaster relief in a pragmatic manner (The Ministry of

Commerce of the People's Republic of China, December 2016). Through highly coordinated strategies, Russia, Mongolia, and China have made great strides toward the building of the Corridor within two years. On July 9, 2015, they signed the Memorandum on the Outline of the Construction of the China–Mongolia–Russia Economic Corridor in Ufa. On June 23, 2016, they signed the Outline of the Construction of the China–Mongolia–Russia Economic Corridor in Tashkent, the capital of Uzbekistan. The signing of the Outline holds considerable importance because it marks the official implementation of the first multilateral economic corridor program under the Belt and Road Initiative. The Outline of the China–Mongolia–Russia Economic Corridor provides concrete content for the construction of the China–Mongolia–Russia Economic Corridor and fund sources and implementation mechanisms, as well as lists 32 key cooperative projects in the 10 key areas of infrastructure connectivity, industrial cooperation, port modernization, energy cooperation, customs and inspection and quarantine, eco-environmental protection, technology, science and education, cultural and educational exchanges, agricultural cooperation, and healthcare (The State Council Information Office of the People's Republic of China: The Overview of Building the China-Mongolia-Russia Economic Corridor (2016-09-14)).

The plan formulated by the National Development and Reform Commission states that the China–Mongolia–Russia Economic Corridor has two routes. The east route stretches from Dalian, Shenyang, Changchun, Harbin, and Manchuria to Chita, Russia. The west route extends from the Beijing–Tianjin–Hebei Region to Huhahaote. This route connects the border cities Erenhot and Ulaanbaatar in Mongolia and finally joins the Russia Far East Railway Network. The east and west routes share a common characteristic: They form a northern corridor that connects China's Bohai Economic Rim with the European Economic Area via the China–Mongolia–Russia Economic Corridor. In comparison with the Silk Road Economic Belt that begins in Northwest China and passes through the New Eurasian Continental Bridge, the China–Mongolia–Russia Economic Corridor connects three provinces in Northeast China, reaches the Vladivostok Estuary in the east, and joins the Eurasian Land Bridge at Chita in the west. As such, it has the advantages of low transport costs, short transport time, passage through few countries, and low customs clearance fees. Given these characteristics, it has considerable potential as an economic corridor. Through years of economic cooperation with the Northeast Asia Region, the east route has preliminarily taken shape, and the west route is currently under

construction. In the future, these two corridor sections will form a new open and developed economic belt through their interaction and mutual complementation (Youth.cn: Chinese Premier Reaps Fruits on Revisiting Mongolia after Six Years and the Launching of the China-Mongolia-Russia Economic Corridor Attracts Attention (2016-07-17)).

Despite the promising prospect of the China–Mongolia–Russia Economic Corridor, its development is under several political constraints. First, Mongolia is wary of China and Russia, the two global powers. Meanwhile, Russia is concerned that Mongolia favors China. Geopolitical factors exert pronounced effects on cooperation in some key fields and projects. Second, the policies formulated by Mongolia lack stability, and the Government of Mongolia frequently takes unexpected actions that retard the development of the Economic Corridor. For example, in November 2016, Mongolia allowed the Dalai Lama’s visit despite China’s repeated warnings and this action jeopardized China’s core interests. After the incident, China imposed extra charges on export products (e.g. copper) from Mongolia, set restrictions on export ports, and paused governmental cooperative negotiation. The Mongolian foreign minister explicitly expressed his attitude toward the Dalai Lama’s visit: “Mongolia resolutely supports the One China Policy and will never invite Dalai Lama to visit Mongolia again. During the tenure of this government, Dalai Lama would never be allowed to visit Mongolia” (The Ministry of Foreign Affairs of the People’s Republic of China, December 23, 2016).

#### 4. *New Eurasian Continental Bridge*

The New Eurasian Continental Bridge originally referred to the railway transport system that connects the oceans at the two ends of the Eurasian continent for land–sea multimodal transport. To distinguish this Bridge from the Siberian Landbridge, we usually refer to the land–sea multimodal transport system that stretches from the Port of Lianyungang to the Port of Rotterdam, Netherlands as the Second Eurasian Continental Bridge or as the New Eurasian Continental Bridge. The New Eurasian Continental Bridge has a total length of 10,900 kilometers. Its sphere of influence covers more than 30 countries, and it connects the Pacific Rim and the European Economic Area.

The New Eurasian Continental Bridge has been opened for the international container shipping business since the 1990s. Nevertheless, it has faced the issue of accessibility since it was first opened for traffic and has

failed to serve as the expected logistics channel because of issues in national politics, trade regimes, transportation technologies, and geopolitics. With the maturation of China's high-speed railway technologies, the enhanced export competitiveness and the preliminary establishment of domestic criss-crossed high-speed railway networks, the New Eurasian Continental Bridge has been incorporated into the Belt and Road Initiative and its development potential has increased (People's Tribune, December, 2016). Under the direct drive of the Belt and Road Initiative, the China Railway Express to Europe, which begins from the Port Lianyungang of Jiangsu, was officially opened to traffic in 2015 and was joined by trunk railways, such as the Chongqing–Xinjiang–Europe, Chengdu–Xinjiang–Europe, and Yiwu–Xinjiang–Europe Railways, that have opened in quick succession. Consequently, the construction of the New Eurasian Continental Bridge has progressively shown new development potential.

To progressively develop compatible and standard transport rules and to facilitate international transport, the construction of the New Eurasian Continental Bridge should match infrastructure construction plans with standard technological systems; establish a unified coordination mechanism for the whole transportation course; and promote the organic integration of international customs clearance, reloading, and multimodal transportation. Meanwhile, infrastructure networks that connect sub-regions in Asia, Europe, and Africa and unobstructed multimodal water transportation channels could be established through cooperation with countries along the New Eurasian Continental Bridge to jointly promote the construction of international trunk channels. Currently, regular trains that are open for traffic remain limited by the high transportation costs incurred by the customs transfer and rail exchange charges associated with passage through multiple countries. Insufficient cargoes and high transport prices are major challenges because they decrease cost-effectiveness and pose difficulties in market-oriented operation in the short term, causing operations to rely on massive government subsidies. Therefore, the convenient and efficient construction of the New Eurasian Continental Bridge encounters the major issue of the use of convenient railway transit systems to facilitate customs clearance, trade, and investment in countries along the railway route. Currently, China, Russia, and other countries agree on the integration of the Silk Road Economic Belt and the Plan for the Development of the Eurasian Economic Union. Such a move will dramatically promote the construction of the New Eurasian Continental Bridge.

### *5. China–Central Asia–West Asia Economic Corridor*

The China–Central Asia–West Asia Economic Corridor forms a new economic corridor that extends from Kazakhstan to Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan, Iran, Iraq, and Turkey by partially overlapping with the New Eurasian Continental Bridge and departing from the New Eurasian Continental Bridge outside China’s territory at Alataw Pass, Horgos. The Corridor traverses Europe, Asia, and Africa, with the Central Asia–China Gas Pipeline constituting its crucial segment. The groundbreaking ceremony of Line D of the Central Asia–China Gas Pipeline (the Tajikistan Section) was held at Dushanbe on September 13, 2014. Line D, another Central Asia natural gas transmission pipeline built after Lines A, B, and C of the Central Asia–China Gas Pipeline, has important economic significance for China and countries along the Corridor.

Meanwhile, China has successively entered into bilateral agreements with Kazakhstan, Kyrgyzstan, and Tajikistan on the joint construction of the Silk Road Economic Belt. The “Bright Road Initiative” unveiled by Kazakhstan, the three major national rejuvenation strategies “Energy, Transport, and Food” formulated by Tajikistan, and the “Heralding a Happy and Prosperous Era” strategy advocated by Turkmenistan all provide a foundation for China’s cooperation with these countries. The cooperation between China and Kazakhstan on production capacity has set an example for production capacity under the Belt and Road Initiative. The competent authorities of China and Kazakhstan signed the Outline Agreement of the Government of the People’s Republic of China and the Government of the Republic of Kazakhstan on Enhancing Production Capacity and Investment Cooperation on August 31, 2015 and had established a working regime by December 2015. Seven rounds of conversation have been carried out, with 52 projects signed at the initial stage. The contract price of those projects, which encompass the fields of metallurgy and minerals, energy, machinery manufacture, chemical and construction materials, infrastructure construction, transportation and logistics, medicine cooperation, industrial parks, and biotechnology, has reached 24.1 billion dollars (The Ministry of Foreign Affairs of the People’s Republic of China, December, 2016). Cooperation between China and West Asian countries has considerably progressed.

Nevertheless, the construction of this Corridor has been threatened by serious ethnic and religious conflicts and rampant terrorist forces in a large number of participating countries. Meanwhile, the internal situation of Afghanistan remains unstable and further hinders the development of the Corridor.

## 6. *China–Indochina Peninsula Economic Corridor*

This corridor begins from Nanning in Guangxi and Kunming in Yunnan; extends through Vietnam, Laos, Cambodia, Thailand, Myanmar, and Malaysia; and ends in Singapore. It is a continental bridge that connects China and the Indochina Peninsula and is a transnational economic corridor that facilitates cooperation between China and ASEAN countries.

This economic corridor has a certain factual basis. In particular, the establishment of the China–ASEAN Free Trade Area in 2010 has enabled close economic linkage between China and the countries on the Indochina Peninsula, as well as the gradual formation of the economic corridor that links the Pearl River Delta Economic Zone and countries on the Indochina Peninsula. The governments of Guangxi and Yunnan have been actively promoting cooperation among major cities along the Corridor and fostering the formation of economic channels through the development of industrial parks and infrastructure connectivity. The construction of international transport channels along the Corridor has tightened the linkage between China and ASEAN.

We have accomplished prominent achievements in the construction of the China–Indochina Peninsula Economic Corridor over the past three years. By May 2016, 12 nodes of the international roads from Guangxi to the Indochina Peninsula and 11 passenger and freight transport routes had been opened for traffic. The container shipment route to Singapore, Thailand, Vietnam, and Myanmar had been opened to traffic, and the China–ASEAN Information Harbor had been set up in Nanning. Four outbound roads, one from Kunming in Yunnan to Bangkok via Moci, one from Kunming to Hanoi via Hekou, one from Kunming to Kyaukpyu via Ruili, and one from Kunming to Kyaukpyu via the Qingshui River, had been completed. Moreover, the China–Vietnam International Railway had been successfully initiated into the international multimodal transport container business. Construction on the domestic section (Yuxi–Mohan) and the overseas section (Boten–Vientiane) of the China–Laos International Railway had commenced. Over 88% of the designed work on the domestic section of the two-way China–Myanmar and China–Myanmar–India International Railway (Guangtong–Dali) had been completed. Construction on the whole railway control work of the domestic section of the China–Myanmar International Railway (Dali–Lincang and Dali–Ruili) had commenced. Additionally, the government of Chongqing Municipality had played an active role in the construction of the China–Indochina Peninsula Economic

Corridor. In April 2016, the logistic channel of the Chongqing-ASEAN (Vietnam) International Railway was officially operated. Construction on the Tiegang Port of Chongqing-Guangxi Beibu Gulf Port of Singapore (Chongqing-Guangxi-Singapore) International Multimodal Transport Channel is also underway (The Construction Progress, Key Tasks and Promotion Strategies of the China-Indochina Peninsula Economic Corridor (2016-12-12)). Moreover, we had made progress in economic and trade cooperation and production capacity cooperation. A good number of Chinese enterprises had settled in the industrial parks in countries on the Indochina Peninsula. In terms of RMB internationalization, China had concluded bilateral currency swap agreements with Thailand, Malaysia, and Singapore, permitting the RMB's direct swap with MYR and VND. Furthermore, in November 2015, China worked with Mekong countries to jointly launch the Lancang Mekong Cooperation Mechanism, thereby providing a concrete institutional platform for the construction of the Corridor.

Nevertheless, the construction of the China-Indochina Peninsula Economic Corridor has been affected by the South China Sea issue and the policy of the balanced Asia Pacific formulated by the United States. In particular, the South China Sea issue has once seriously affected the relationship between China and Vietnam. This situation improved in 2016. At the 1<sup>st</sup> Plenary Session of the 12<sup>th</sup> Communist Party of Vietnam (CPV) held in January 2016, new leadership was elected. Nguyen Phu Trong was re-elected as the general secretary of the CPV, and former Prime Minister Nguyen Tan Dung was ousted from the CPV Central Committee and the Political Bureau. This change was reputed to be the victory secured by conservatives in Vietnamese political circles and facilitated the steady transition of the China-Vietnam relationship. During the Philippine election in late May, 2015, Duterte, who adopted an anti-American stance, was elected president. As a result, the diplomatic policies pursued by Benigno Aquino III have been abandoned. In October 2016, Duterte successfully visited China and promptly restored the China-Philippines relationships undermined by the South China Sea Arbitration. Following the election of Donald Trump, the future implementation of the Asia Pacific rebalancing strategy by the United States would directly affect not only the overall geopolitical environment in this region, but also the construction of the China-Indochina Peninsula Economic Corridor.

In summary, the development of the six economic corridors has achieved various degrees of progress, with the China-Pakistan and China-Mongolia-Russia Economic Corridors outperforming others. Nevertheless, some adverse effects have arisen during the development of the Corridors.

The coordinated development of the six economic corridors has the practical effect of reshaping China's surrounding environment and integrates the development of East China, West China, South China, and North China with that of the countries along the six corridors. Over the long term, closer economic links may be forged among China and its surrounding countries through policy coordination, facility connectivity, unimpeded trade, financial integration, and civilian bonds.

#### IV. BELT AND ROAD INITIATIVE: EFFECTS ON THE GEOPOLITICAL RIVALRY THAT SURROUNDS CHINA

Despite its focus on economic and trade cooperation, the Belt and Road Initiative is still viewed by China's surrounding countries as a plan to intensify geopolitical rivalry given its strategic position and progress.

##### 1. *Heightening concerns of surrounding countries over different connectivity programs*

For China, the Belt and Road Initiative is a comprehensive, multidimensional, and multitiered development strategy for overall deployment that can be used to maximize initiatives and provide comparative advantages to different regions within its territory, implement proactive strategies for global exposure, and promote all-around improvements in its open economy. To that end, the Vision and Proposed Actions Outlined on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road have designated different provinces and industries for the implementation of the Belt and Road Initiative. For example, Northeast China is slated for the China–Mongolia–Russia Economic Corridor; Xinjiang and Tibet are slated for the China–Pakistan Economic Corridor; Yunnan is slated for the Bangladesh–China–India–Myanmar Economic Corridor; and Guangxi and Yunnan are slated for the China–Indochina Peninsula Economic Corridor.

Meanwhile, we should strive for coordinated land–sea development. In the Vision and Proposed Actions Outlined in Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road, the pivotal routes of the 21<sup>st</sup> Maritime Silk Road are clearly defined to begin from China's coastal ports to the Indian Ocean, to traverse the South China Sea; and to reach Europe from China's coastal ports to the South Pacific via the South China



Sea. The construction of the 21<sup>st</sup> Century Maritime Silk Road stresses the roles of key ports as nodes and the joint construction of smooth, safe, and efficient transport channels with the focus on 15 coastal ports, including Shanghai, Tianjin, Ningbo–Zhoushan, Guangzhou, Shenzhen, Zhanjiang, Shantou, Qingdao, Yantai, Dalian, Fuzhou, Xiamen, Quanzhou, Haikou, and Sanya. The development of the 21<sup>st</sup> Century Maritime Silk Road should be coordinated with that of the Silk Road Economic Belt to achieve balanced development. For example, the development of the Gwader Port should be coordinated with that of the China–Pakistan Economic Corridor; the development of ports in Myanmar and Bangladesh should be coordinated with that of the Bangladesh–China–India–Myanmar Economic Corridor; the development of ports in Qinhuangdao, Tianjin, and Dalian should be coordinated with that of the China–Mongolia–Russia Economic Corridor; and the development of the Port of Lianyungang should be coordinated with that of the New Eurasian Continental Bridge.

As a grand blueprint, the Belt and Road Initiative will profoundly affect geopolitics in different regions. India has realized this situation. The eminent Indian strategist Raja Mohan believes that China’s Belt and Road Initiative poses a dilemma for New Delhi. On the one hand, India needs to cooperate with China in maritime affairs. On the other hand, it needs to contain China’s influence on the coastal waters of the Indian Ocean in the long run (C. Raja Mohan, 2015). Currently, Indian strategists have recognized that the 21<sup>st</sup> Century Maritime Silk Road may reinforce the strategy of the People’s Liberation Army (PLA) Navy to enter and gain a foothold on the Indian Ocean in support of its future military operations. In essence, the 21<sup>st</sup> Century Maritime Silk Road is a cover for the “string of pearls” strategy with the aim of eliminating China’s theoretical threat to the Indian Ocean and providing legitimate defense for China’s participation in the construction of maritime infrastructure (Vijay Sakhuja, 2015). If uncontained, China’s 21<sup>st</sup> Century Maritime Silk Road would form a regional framework characterized by hub and spokes in the Indian Ocean Region (Gurpreet S. Khurana, 2015), with China as the axis. India will be progressively marginalized in such a framework.

Indian authorities hold a similar point of view. In this regard, India’s Foreign Secretary S. Jaish delivered a speech at the Raisina Dialogue in 2016. In this speech, he stated that India has realized that connectivity would play a vital role in shaping the future of Asian countries and Asian people in the next decade while impregnating current geopolitics. Diplomats currently tend to participate in heated discussions about the potential construction of

roads, railways, oil pipelines, or maritime routes instead of national boundaries on the map. Efforts toward connectivity would change the prospect of connectivity in Asia. Therefore, India cannot disregard the act of other countries opting for connectivity as a means for affecting the future. Meanwhile, he seemed to be criticizing China on the grounds that China should negotiate with other Asian countries to establish connectivity, rather than making a unilateral decision that would result in unnecessary rivalry in the absence of a joint security framework in Asia. Generally speaking, connectivity should ease, not promote, rivalry among different countries (Speech by Foreign Secretary at Raisina Dialogue in New Delhi” (March 2, 2015). For Russia, the Belt and Road Initiative has no significance for geopolitics but strains geoeconomics. Russia has refused to accept the Belt and Road Initiative since its unveiling given the concern that construction under the Belt and Road Initiative would jeopardize the transformation and upgrading of the Trans-Siberian Railway, thereby adversely affecting Russia’s development of the Far East and Siberia. In July 2013, the Russian Government upgraded its local industrial infrastructure, promoted mineral resource exploitation, and consolidated the vital status of Russia’s Trans-Eurasia transportation system in an attempt to accommodate the economic development demand of Eastern Russia. In particular, it formulated a specialized modernization scheme for the Trans-Siberian Railway and the Baikal–Amur Main Line and planned to make massive investments into railway transformation. The Trans-Siberian Railway is the longest railway in the world and has a total length of 9,289 kilometers. It starts from Moscow, the capital of Russia, in the west and extends to Vladivostok in the east. The Baikal–Amur Main Line is a branch of the Trans-Siberian Railway and has the total length of 4,234 kilometers (Russia will Launch the Trans-Siberian Railway Transformation Project March 10, 2015).

The Russian government intends to increase transport capacity to develop the Fast East and Siberia through such a massive transformation project. Nevertheless, road infrastructure construction under the Belt and Road Initiative could curtail the cargo volume of the Trans-Siberian Railway. China may select a more rapid and convenient transit route that starts from Xinjiang to Europe via Kazakhstan. As such, the cargo volume of the Trans-Siberian Railway would drastically decrease. Should this happen the transformation program for the Trans-Siberian Railway would be profitless and may delay or inhibit the Russia’s grand goal of developing the Fast East and Siberia.

## *2. Intensifying complicated relationships among different countries in the region*

Given that China is the second-largest economy in the world, its economic cooperation proposal is bound to affect international relations among its surrounding countries. Surrounding powers are concerned that the programs under the Belt and Road Initiative may encroach on their jurisdiction. Russia is concerned that economic and trade cooperation between China and Asian countries under the Belt and Road Initiative would reduce reliance on Russia. China's provision of direct sea access to Kazakhstan and Mongolia has attracted attention from Russia. The Federation Council of Russia stated in a report that China's proactive activities have undermined Russia's influence on economic matters in Central Asia, making Russia lose its status as a major economic partner that is prioritized by Central Asian countries (Russian International Affairs Council, 2014). Russia has reason to fear that Central Asian countries may have the option of China's Belt and Road Initiative or the Eurasian Economic Union given that the former is an alternative to the latter. Nevertheless, Russia has chosen to actively participate in construction under the Belt and Road Initiative to guarantee its own strategic interest. Russia is working with China to jointly construct the China–Mongolia–Russia Economic Corridor and has also expressed willingness to participate in the China–Pakistan Economic Corridor.

By contrast, India has refused to participate in the Belt and Road Initiative and rejected offers to cooperate with China on projects in third countries. The Bangladesh–China–India–Myanmar Economic Corridor has been held hostage by India's indifferent attitude, and other cooperative proposals by China have also failed to gain response from India. In May 2015, during Prime Minister Modi's visit to China, President Jinping proposed that China and India might work together to aid post-disaster reconstruction in Nepal and discussed the possibility for constructing the Bangladesh–China–India–Myanmar Economic Corridor. Modi provided a positive response and proposed setting up a joint research group for the program. In addition, the External Affairs Minister Sushma Swaraj also maintained that India held an active attitude toward the proposal for the Bangladesh–China–India–Myanmar Economic Corridor and had agreed to discuss and push forward the process by setting up a joint working group (Wang Yi, 2016). Nevertheless, India changed its attitude and delayed coordination. During a meeting with Nepal's Prime Minister KP Sharma Oli on March 21, 2016, President Jinping remarked: "China expects Nepal to benefit from the development of China and India and that Nepal's stability and devel-

opment are in the best interest of China and India. Nepal could serve as a bridge between China and India. Thus, we are willing to further discuss the tripartite cooperation among China, Nepal, and India” (Xi Jinping Meets Nepal’s Prime Minister K P Sharma Oli, 2016). Similarly, China has expressed that India is welcome to participate in cooperative projects with Sri Lanka, only receiving the same response. India would still be highly alert to the implementation of China’s Belt and Road Initiative in South Asia.

Meanwhile, given that surrounding powers have proposed different programs for regional economic cooperation, small countries have to sustain a subtle balance between different programs. Such a situation is particularly pronounced in Central Asia and South Asia. Countries in Central Asia defer to Russia and could by no means escape Russia’s influence during their participation in the Belt and Road Initiative. For example, the construction of the China–Kyrgyzstan–Uzbekistan Railway has undergone twists and turns, and small countries in South Asia have also shown a prudent attitude toward India’s non-participation in the Belt and Road Initiative. The Foreign Minister of Bangladesh expressly stated that Bangladesh would submit the report on the China–Mongolia–Russia Economic Corridor under the condition that India submits the report. As a matter of fact, the construction of the China–Pakistan Economic Corridor has intensified the complicated relations among China, India, and Pakistan.

### *3. Enhancing the revival of geopolitics among powers*

After the unveiling of the Belt and Road Initiative, global powers were first reserved in their reaction and then adopted different attitudes with the development of international situations and China’s diplomatic efforts. Such a situation is consistent with the current developmental trends of relationships among nations. China’s Belt and Road Initiative has begun to be accepted by Russia and Indonesia because of China’s diplomatic efforts but is still rejected by other powers. In early 2014, China carried out talks with India on the Belt and Road Initiative at the 17<sup>th</sup> Meeting of Special Representatives on the Border Issue. Nevertheless, in May 2014, the new Modi Administration expressed reservations about the Belt and Road Initiative, proposed the similar Project Mausam, and remained highly alert to the Belt and Road Initiative. Japan took various anti-China measures and leveraged the Official Development Assistance program for political ends. In May 2015, the Japanese Prime Minister Shinzo Abe declared that Japan was to invest 110 billion dollars in the Asian Infrastructure Construction

Program in the coming five years. This declaration manifested Japan's intention to boycott the Belt and Road Initiative. Japan has also posed substantive challenges to Chinese projects in the global high-speed railway and port construction. The United States, which is also skeptical of China's Belt and Road Initiative, has encouraged Japan and India to play a bigger role in the Indo-Pacific System. The European Union is experiencing hope mingled with fear. It has realized that the Belt and Road Initiative is the "new game" played by the world's second largest economy. Thus, the Belt and Road Initiative presents opportunities and challenges that require proper caution. The different attitudes toward the Belt and Road Initiative adopted by the world's great powers reflect the current close-knit but still distant political relationships among countries and illustrate the current relationship pattern among powers.

On the other hand, maritime competition among the great powers has intensified with China's plan to expand its maritime interests by building the 21<sup>st</sup> Century Maritime Silk Road and with the maritime power strategy proposed by the newly elected Chinese leadership. For a long period in the past, the PLA Navy merely had inshore defense capacity without the power to break through the first island chain. In recent years, the PLA Navy has dramatically increased its strength, making breaking through first island chain possible. Meanwhile, the increasingly frequent and normalized existence of the PLA Navy has placed countries in the Indian Ocean under strategic pressure, which accounted for the strategic coordination conducted by India and the United States in the Indo-Pacific Region. During Modi's visit to the United States, India and the United States promulgated a joint statement declaring that their leaders have noticed the Act East policy and the strategy of rebalancing Asia Pacific and that they will work with Asian Pacific countries to enhance cooperation via dialogue, negotiations, and joint drill (Joint Statement during the visit of Prime Minister to USA, 2016). In January 2015, both countries issued the US and India Joint Strategic Vision for the Asia-Pacific Region and the Indian Ocean Region. This declaration indirectly suggests that India has accepted its role as the sole security provider in the Indo-Pacific Region defined by the United States under the strategy of rebalancing the Asia-Pacific Region. Meanwhile, India has strengthened its maritime security conversation with the United States, Japan, and other countries. On September 25, 2015, the US, Japan, and India held a trilateral ministerial dialogue for the first time. The first Japan-India-Australia Tripartite Leader Security Dialogue was held in June 2015. In 2015, Japan officially joined the US and India in their Yearly Malabar Naval Drill. In terms of security and defense policies, India and Japan also established

a Ministerial Level Foreign Minister and Defense Minister 2+2 Dialogue Mechanism. The above developments are all indirectly associated with the implementation of the Belt and Road Initiative.

## V. CONCLUSIONS

We have accomplished great achievements since the Belt and Road Initiative was first unveiled more than three years ago. The six economic corridors have achieved various degrees of development despite different difficulties and obstacles. The Belt and Road Initiative has promoted the integration of China with its surrounding countries and while intensifying geopolitical rivalry, alerting surrounding powers to the political consequences of regional connectivity, and complicating internal regional relationships. We should pay close attention to the implementation of the Belt and Road initiative to prevent possible adverse effects. The future development of the Belt and Road Initiative will result in close economic relationships between China and its neighboring countries, increased mutual cooperation, friendly political relations, and tightened cultural bounds.

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## CHAPTER II A VISION FROM ASIA

## CHINA'S BELT AND ROAD INITIATIVE (BRI): AN INDONESIAN PERSPECTIVE

Evi FITRIANI\*

SUMMARY: I. *Abstract*. II. *Introduction*. III. *The Evolving Concept of the OBOR/BRI*. IV. *Indonesian Responses*. V. *Conclusion*. VI. *References*.

### I. ABSTRACT

China's contemporary trans-regional initiative to establish the Belt and Road Initiative (BRI) —previously known as One Belt One Road (OBOR)— has attracted a lot of attention; not only because the initiative involves more than 60 countries across Asia, Africa and south Europe, but also because it represents a re-emerging China that is being considered a challenger to the post-second World War liberal world order led by the United States. The initiative has also been perceived as a Chinese strategy to enhance its influence beyond its traditional realm by taking advantage of its economic prowess. Indonesia was among the first countries introduced to the OBOR and whose territory is at the heart of the OBOR route. The country, however, has been prudent in the face of Chinese offers since it has perceived the initiative as both an opportunity and challenge in economic as well as strategic dimensions. In addition, the Chinese BRI grand initiative may create regional problems due to hotspots in the South China Sea and the inclination of some regional states to support China rather than strengthen the Association of the Southeast Asian Nations (ASEAN). Thus, while it is important to welcome the initiative, critical assessments of the project are indeed necessary in order to understand its impact on the geo-economy and geo-politics of involved regions and on future relations between the involved countries and China.

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## II. INTRODUCTION

The rise of China in the last three decades has changed the map of the global economy and politics. The most populous country in the world has not only become the engine of world growth but also an increasingly assertive military power that changes the economic and political balance regionally and globally (Keller & Rawski, 2007; White, 2013). This phenomenon has led to problematic relations between China and the United States (US) (Shambough, 2013; Gill, Goh & Huang, 2016; Fels, 2017) and left observers to debate future scenarios for the world.

In the last several years, China has introduced an international initiative, namely the One Belt One Road (OBOR), which was later changed to the Belt and Road Initiative (BRI). The initiative appears to be China's grand strategy to enhance its influence beyond its traditional realm by taking advantage of its economic prowess. Debatably, the OBOR/BRI may also become a strategy to create a new world order under Chinese leadership. As the closest neighbors with traditional economic linkages, Southeast Asian countries were offered the OBOR at an early stage when the concept of this initiative was not even clear to the Chinese themselves. As the biggest country in Southeast Asia—in terms of population and territory—Indonesia was among the first countries to be introduced to the initiative.

Indonesia's response to the Chinese initiative and how the OBOR/BRI affects the two countries' relations have not been studied thoroughly. Previous studies that have examined the Indonesia-China relationship have focused more on Indonesia's behaviors amid competitive relations between the US and China (Storey, 2000; Novotny, 2010; Hamilton-Hart & McRae, 2015) or on the Chinese diaspora in Indonesia and the diplomatic normalization of the two countries in 1990 (Suryadinata, 1990; Sukma, 2009; Tjhin, 2012). This chapter attempts to fill the knowledge gap by investigating Indonesian perspectives of the initiative. The chapter is organized into two sections before the conclusion is presented. The first phase focuses on the process through which the OBOR/BRI evolves and the initial responses from countries in Southeast Asia. The second phase identifies both Indonesian enthusiasm and concerns related to the OBOR/BRI, as the country perceives the Chinese initiative not only as an opportunity, but also as a challenge.

### III. THE EVOLVING CONCEPT OF THE OBOR/BRI

As an initiative, the OBOR/BRI has been perceived differently by different people, including those in China. Naturally, a new initiative by a re-emerging state evokes diverse responses from other countries based on their perceptions, concerns and hopes. Partly, the diversity of reactions stems from the fact that the initiative was not sufficiently explained when it was introduced by the Chinese top leader. There was not conceptually clear and robust explanation when President Xi Jinping mentioned the 21<sup>st</sup> Century Maritime Silk Road in his speech before the Indonesian Parliament in October 2013. When Indonesian diplomats and scholars asked for clarification, their Chinese counterparts were unable to answer adequately. Indeed, different people responded differently. Despite efforts by some Chinese officers and scholars to obtain positive responses to the new initiative, China did not publish any sufficient official explanation on the initiative. Consequently, this led to a lot of confusion, and suspicion.

Indonesia was one of the first countries to be introduced to the OBOR/BRI. When President Xi Jinping visited Jakarta for the first time in October 2013, he spoke before the Indonesian Parliament on the importance of the relationship between the two countries in which he mentioned the 21<sup>st</sup> Century Maritime Silk Road. This rather surprising initiative created confusion among Indonesians and other observers as the President did not explain the new initiative clearly. It created the perception that the concept of the 21<sup>st</sup> Century Maritime Silk Road had not been developed when it was first introduced.

From 2014 to 2016, Chinese officials and scholars ran several workshops and seminars on the 21<sup>st</sup> Century Maritime Silk Road in particular, and on OBOR in general to gather input and ideas from neighboring countries, including Indonesia. In these academic forums, Chinese scholars generally asked two big questions to their counterparts from other countries: what did they think about the initiative and what did they expect from the new initiative. In a bilateral dialogue forum in June 2014, when the Chinese counterparts were asked about the OBOR and the 21<sup>st</sup> Century Maritime Silk Road, including any relations between the concepts, a Chinese official responded by asking back what Indonesian perceptions and expectations were on the newly introduced initiatives. In another symposium between China and the Association of the Southeast Asian Nations (ASEAN), a Chinese scholar openly requested input from Southeast Asian counterparts in order to develop the concept of OBOR.

These Chinese reactions imply three possibilities regarding China's attitudes toward developing the initiative. Firstly, the Chinese had possibly not developed a clear concept and empirical meaning of OBOR and were therefore reluctant to be too open about the initiative. This might have resulted from the fact that OBOR was the first Chinese trans-regional grand strategy that would significantly affect China's image and position regionally and globally. They have a lack of experience in undertaking such an enormously important task.

Secondly, relevant decision makers, officers and scholars in China might have a broadly conceptual understanding of the initiative but they might still need constructive input from their counterparts from other countries to create a welcomed initiative. This second possibility represents China's willingness to hear and accommodate the interests, hopes and concerns of other countries and reflects China's "good neighbor policy", introduced in the 1990s by President Jiang Zemin, and "China's peaceful rise" approach of President Hu Jintao in the early 2000s.

The first and second possibilities imply the continuity of Jiang's pragmatic approach "to learn from global actors as well as the overall international system" (Lanteigne, 2009, p. 20). The two circumstances also show that the Chinese accept the fact that China needs cooperation with other countries in order to develop a well-received initiative.

Thirdly, China might have sufficient ideas about their new initiative, but they might not be sure—or confident—of the reactions of other countries so they need to test and synchronize the initiative with other countries' expectations. In this third possibility, one may observe China's accommodative foreign policy in order for the successful implementation of a rising power's initiative.

The accommodative attitude of China's foreign policy appears to have led to China changing the name of the initiative in 2016 from the OBOR to the BRI—as China acknowledged that their initiative might encompass more than one belt and one road—and China's hosting of the OBOR Summit in May 2017, at which China's leaders more clearly explained and promoted the initiative. One needs more insights and information to determine which one of the aforementioned three possibilities likely happened in reality. This discussion on China's behavior in the earlier stages of OBOR's conceptualization is important due to some indications that China has shown a more assertive and upper-handed attitude recently.

Eventually, the Government of China released an official article, *Vision and Actions on Building the "Silk Road Economic Belt"* and the *"21<sup>st</sup> Century Maritime Silk Road"*, which is now known as OBOR, in March 2015. The

their first official document, the Government of China did not mention the purpose of the OBOR. However, in the document it has been written that

...accelerating the building of the Belt and Road can help promote the economic prosperity of the countries along the Belt and Road and regional economic cooperation, strengthen exchanges and mutual learning between different civilizations, and promote world peace and development. It is a great undertaking that will benefit people around the world (The Government of the PRC, 2015).

Another source cites that the OBOR initiative aims for “win-win cooperation that promotes common development and prosperity, and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchange...” (Maritime Insights, 2015). In 2016, China started to address the OBOR as the BRI but as the former is more popular than the latter, the two names have been used interchangeably.

The OBOR/BRI seems to be a grand international project under the Xi Presidency. In terms of physical scale, the OBOR/BRI is a giant project that links China and Europe through two routes: the land route —the Road— and the sea passage —the Belt—. The Road follows the ancient Silk Road from China’s city of Xian —across Central Asia and Eurasia— to European cities such as Moscow, Duisburg and Rotterdam, and will create a network of railways, roads, gas and oil pipelines, and a wide range of infrastructure projects (Maritime Insights, 2015). The Belt is called ‘the 21<sup>st</sup> Century Maritime Silk Route’ and starts from China’s harbor city of Fuzhou and goes through the South China Sea, the Strait of Malacca, the Indian Ocean, the Arabian Sea, the Gulf of Aden, the Red Sea, the Mediterranean Arab Sea and up to the cities in southern Europe such as Athens and Venice (Maritime Insights, 2015). This maritime passage is claimed to follow the legendary sea journey of the 16<sup>th</sup> Century Ming dynasty fleet under the leadership of Cheng Ho. The route includes more than 60 countries in Asia, Africa and South Europe. The vast coverage area of the OBOR/BRI indicates China’s global ambition to spread its leadership and influence across three continents.

The Government of China appears to invest enormously —economically and politically— in the OBOR/BRI. In term of economic magnitude, the Chinese Government has invested hundreds of billions of US dollars and established the Asian Infrastructure Investment Bank (AIIB) in 2015. The new bank, which aims to support economic developments by investing

in infrastructure projects, has been so attractive amid the scarcity of development capital in many countries that even some members of the European Union were willing to join. The OBOR/BRI is said to promote welfare for people along the route through the development of infrastructure and the revitalization of international trade. (the Government of PRC, 2015) For the OBOR/BRI, China could invest as much as US\$313 to US\$501; since its launch in 2013, it has invested around US\$62 billion in Pakistan and US\$32 billion in Malaysia (Sundaryani, May 12, 2017).

In terms of politics, the Chinese top leader President Xi Jinping showed his strong political will when he announced the initiative in 2013, hosted the high-level meeting of country leaders on OBOR in 14 and 15 May 2017, and included the OBOR in the country's legal document. The OBOR Summit was attended by 29 heads of state involved in the initiative, including 12 European and six ASEAN leaders; among them President Joko Widodo of the Republic of Indonesia. In addition, President Xi managed to include the OBOR/BRI in the Constitution of China's Communist Party at the 19<sup>th</sup> Party Congress held previously in Beijing. With this highly official "position", the initiative seems to have increased in seriousness. Moreover, the OBOR/BRI has appears to become the central theme of China foreign policy and diplomacy in the last three years. Furthermore, the Government of China seems to mobilize the support of scholars through the huge amount of funding for academic engagements in which Chinese academics promote the initiatives to their counterparts from countries along the routes in a number of forums, symposiums or conferences and writings.<sup>1</sup> Determinedly, they promote the novel aims of the OBOR/BRI and have tried to convince their counterparts —especially in Asia— that the initiative would bring peace and prosperity along the way. Indeed, a Chinese undergraduate student, when participating in an exchange program at an Indonesian university, tried to assure the class that the infrastructure projects offered or undertaken by the Chinese was a brilliant program that was needed by many states and that they would bring prosperity to those countries. This reflects a serious national systemic approach to undertaking the OBOR/BRI mobilized by the Government of China's economic resources and socio-political capital to support the promotion and implementation of the initiative.

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<sup>1</sup> See for example articles by Chinese scholar individually or with colleague that have been circulates among his international peer group in Southeast Asia. "Belt and Road Is Coming to South Asia, But Not Everyone Is Enthusiastic" by Li, Xue & Zheng, Haiqi (2017), retrieved from <https://www.chinausfocus.com/foreign-policy/the-belt-and-road-is-coming-to-south-asia-but-not-everyone-is-enthusiastic/>; or "Chinese Economic Diplomacy: New Initiatives" by Zha Daojiang (2015), *Policy Report*, published by the RSIS, NTU, Singapore.



Placing it in a regional context, the OBOR/BRI seems to be one of the pillars to achieve what has been envisioned by President Xi as the “Chinese dream”. The initiative has been perceived as a Chinese strategy to maintain the momentum of its economic development. The slow-down of its trade with the US and Europe due to financial crises in the two regions means that China has to generate economic activities with smaller and less-developed countries and re-channel its industrial surpluses and foreign reserves outside its traditional markets in the US and Europe. By focusing on infrastructure developments, China aims for the direct involvement of economic development in the countries along the routes. Given the fact that the availability of global finance to build infrastructure has been limited in the last decades due to financial crises in many countries that used to supply investment, loans and grants, China’s strategy to offer financial investments through the newly established AIIB seems to meet the expectations of many developing countries in the three continents. Some regional countries immediately embraced China’s OBOR invitation and launched infrastructure projects with China’s investments. In Southeast Asia, Cambodia, Malaysia, and Laos were among the first to seize the economic opportunities offered by the OBOR/BRI. Similarly, Sri Lanka, Pakistan and Bangladesh saw the Chinese offers as rare opportunities not to be missed, whereas India has perceived the initiative negatively and opposed it (Xi & Zheng, 2017). Nevertheless, after the inclusion of the OBOR into the CCP’s Constitution last October, an editorial of an established English newspaper in Jakarta wrote that, “With Xi calling on party members to clinch a final victory in building a society of moderate prosperity, the BRI has become a mechanism with which to share China’s prosperity with its neighbors...” (*Editorial*, 26 October, 2017).

This means China uses its economic prowess to participate directly in the economic development of more than 60 countries across three continents to create not only “win-win economic cooperation” but also economic—and politico-strategic—leverage. In the 1990s and early 2000s, China also approached the ASEAN countries through economic instruments. In addition to the vast trading networks built in the 20<sup>th</sup> century by the Chinese diaspora (*huaqiao*) in Southeast Asia, China established the China-ASEAN Free Trade Agreement (CAFTA) in 2003 which sped up the linkage of regional economies to China’s global expansion. By 2013 China was the top trading partner of almost all ASEAN countries. With its economic domination in the neighboring region, China seems to be more confident to expand its economic network to other countries in South and Central Asia, Northeast Africa, and east and south Europe through the Road and the

Belt. Many countries along the Road and Belt have been developing or less-developed countries that were unable to obtain prosperity under the liberal world order led by the US after the Second World War. Consequently, the OBOR/BRI provides an alternative to these countries not only because of its loans for infrastructure development, but also because of China's principle of not combining economic engagements with political preconditions commonly applied by existing financial institutions such as the World Bank and the Asian Development Bank. In short, through the OBOR/BRI, the Asian giant appears to have expanded its wings beyond Asia to incorporate the three continents by taking advantage of its economic strength, the needs of other countries along the routes, and the absence of competitors.

The meaning of the OBOR/BRI can also be associated with China's global position: through the initiative, China is emerging as a new world power, establishing a new global order under China's leadership. This means the OBOR/BRI is not only about economics, it is also about politics and strategy. By being a dominant economic partner of countries along the routes, China is establishing its political influence and strategic leverage. Several Southeast Asian countries that embraced the OBOR/BRI immediately after its launch, such as Cambodia and Laos, have been seen to fall under Beijing's influence in recent years, which have been detrimental to the development of the ASEAN Community. Other countries like Singapore and Indonesia are more cautious. Countries that have had problems with China in the Paracel Islands, Spratly Islands and Scarborough Shoal, such as the Philippines and Vietnam, seem to be in limbo as they calculate the economic imperatives with strategic costs as —according to analysts— China kept building artificial islands in the conflict areas of the South China Sea and claimed the Exclusive Economic Zone (EEZ) (Chapman, 2016; O'Rourke, 2017). One of China's strategic aims in Southeast Asia is not to be encircled by other powers (Goh, 2015). To some extent, this strategic goal seems to have been achieved as, taking into consideration OBOR's/BRI's geographical coverage, strategically, the OBOR has broken up the encircling maneuver of the US and its allies in Asia and the Pacific. Indeed, in order to build an alternative energy passage and to open the isolation of its inland provinces, China appears to have established its own alliance strategy in South Asia by pouring in infrastructure investment under the China-Pakistan Economic Corridor (CPSC) that goes through the disputed area of Kashmir. For India, the CPSC is more than just an economic partnership between China and its regional competitor; it irritates India (Anonymous, 2017) and affects the strategic balance in the region. Similar reasons have led India to oppose China's proposals of Bangladesh-China-

India-Myanmar Economic Corridor and Sino-Nepal-India Economic Corridor (Xi & Zheng, 2017). The OBOR/BRI may be welcomed by some countries but it has also been a concern for some others.

Over the last four years, the OBOR/BRI has moved from an unclear initiative to a bold and assertive scheme that exhibits China's capability to advance its economic and political prowess across regions. The OBOR/BRI has been promoted to facilitate cooperation and boost prosperity along the routes, however, it is generally known that the Chinese initiative has not only an economic dimension but also politico-strategic ones. While the initiative offers rare economic opportunities, its politico-strategic implications for other countries' relations with the Asian giant are not to be overlooked.

#### IV. INDONESIAN RESPONSES

As the largest country in Southeast Asia and one of the key states in the Asia-Pacific, Indonesia has been approached by China and offered the OBOR/BRI since the beginning. President Xi's speech on the OBOR before the Indonesian Parliament in October 2013 was one of the first official statements of the initiative by the Government of China. This implies that China's top leader perceived Indonesia to be among the most important countries that China has to deal with in order to implement the OBOR/BRI. The Chinese seem to understand that the largest country in Southeast Asia is not to be undermined. Indonesia ranks as the world's fourth most populous country, is home to more than 200 ethnic groups who have lived together since its independence in 1945 in a relatively peaceful and united state despite the country's archipelagic nature, which is difficult to guard and defend. In addition, Indonesia has the largest Muslim population in the world, but has a pluralistic society, promotes moderate Islam<sup>2</sup> and is a relatively successful democracy. These characteristics —plus its free and active foreign policy— allow Indonesia to play an active role in bridging relations between Islamic states and Western countries. Moreover, this country has been relatively successful in maintaining a united single country<sup>3</sup> amidst complex political and economic

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<sup>2</sup> There have been several social incidents in the last several years, but they were not simply religious animosities between groups with different religions. Rather, they were identity politics that have been used by politicians and community leaders to achieve their political goals. This phenomenon is a serious and detrimental impediment to the development of Indonesian democracy.

<sup>3</sup> Except for the separation of Timor Leste which, in this case, has been seen as a positive development rather than a negative one.

transformations for the last two decades. Its process of democratization, although very difficult and costly, has managed peaceful changes of government since 1999. Less than fifteen years after the end of 32 years of authoritarianism, Indonesia has been able to undertake political developments and emerge as one of the largest democracies in the world. Furthermore, the transformation process was undertaken under scarce development capital after being hit by the Asian Financial Crisis at the end of the 1990s. Indeed, its economic development after the downfall during the crisis has created a more prudent and stronger economy among developing countries. This political and economic stability has encouraged current Indonesian leaders to resume an active role in international relations and global politics in the last decade. Regional countries also expect Indonesia to take an active role given the fact that this country has become the “natural leader” of ASEAN since its inception in 1967. Thus, China’s strategy to include Indonesia in its OBOR/BRI is understandable.

Consequently, Chinese bureaucrats and diplomats have eagerly promoted the initiatives among their counterparts in Indonesia and became anxious when the Indonesians seemed restrained. They have not only approached Indonesian officials but also the business community and academics. As the result, when President Widodo attended the OBOR Summit in May 2017, he and President Xi three documents<sup>4</sup> important to Sino-Indonesia economic relations and indicate Indonesian involvement in the OBOR. In media interview, however, Indonesian official stated that his country would only open two to three of 34 the state’s provinces for Chinese investments on infrastructure projects mainly focus on focus on maritime projects encompassing transportation, telecommunications, tourism, industrial estates, energy and power (Sundaryani, 2017). All there show that, unlike several countries, Indonesia has rather restrained in openly jumping into the OBOR/BRI despite the fact that the country dearly needs foreign capital to finance the development of infrastructure.

Indonesians have responded prudently to Chinese offers and there are several reasons for such attitudes. Firstly, the concept of the OBOR/BRI was not clear until very recently. The Chinese failure to provide satisfactory explanations of the initiative provoked confusion and suspicion among decision makers in Indonesia. One particular concern is the format of the

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<sup>4</sup> The three documents are The Action Plan of 2017 to 2022 on the Implementation of the Comprehensive Strategic Partnership, An agreement on a grant to finance a site study on Infrastructure development worth of US\$11.25 million (Rp. 150 billion), and the financing agreement of the Jakarta-Bandung high speed railway project (Negara, 2017)

OBOR/BRI as an international cooperation scheme. By dealing individually with each of the involved countries along the Road and the Belt, the Chinese seem to want to create “a China-centered institution” that is similar to the ancient tributary system in which China became the Middle Kingdom and the center of surrounding nations. This means that the OBOR/BRI cooperative format does not treat all involved countries on an equal level neither among them nor between them and China. For Indonesia, multilateralism is the best institutional design for international cooperation as it provides equal opportunities for interaction for all involved parties and prevents any unilateral actions and decision making by dominant member(s).

Secondly, having been bitterly exploited under Western countries' colonialization, Indonesia does not expect to be subjugated to any foreign power. The country has pursued a free and active foreign policy since its independence. The domination of China in the region's economy —and beyond— has generated concern for the future dependence of individual countries. From an Indonesian perspective, no single country should be allowed to dominate the region and Indonesia should not take sides in great power competitions that could endanger the country's national interests. The hedging strategy that Indonesia has undertaken regarding Sino-US competition seems to be the best strategy to maintain the country's freedom and to serve the country's interests.

Third, at the same time, Indonesia has some —but critically important— uneasy economic interactions with China. The most well-known among Indonesian people is the influx of Chinese goods and trading commodities that did not only create a trade deficit for Indonesia (Hadi, 2012) but also endangered small and medium enterprises in Indonesia due to product similarity between the economies of the two countries. In addition, negative sentiments toward Chinese products and Chinese workers have developed in Indonesia. In recent years, national mass media has reported frequently that the police had caught illegal Chinese migrant workers from Chinese companies in Indonesia (Endi, 2017; Harahap, 2017; Surdaryani, 2017; *Tempo*, 2017). It seems that China has not only exported its capital but also its excess products and workers. These facts are dangerous to Indonesia, which has a lot of uncompetitive products and a relatively high unemployment rate.

Fourth, Indonesia has questioned the quality of Chinese investment. While acknowledging that the country desperately needs foreign investments to help build ruined infrastructure such as toll roads, seaports, airports and power plants, Indonesia must be careful not to be trapped under

excessive debt and failed projects. The failure of the airport project of Sri Lanka —built with the help of OBOR/BRI investment— and its own experiences with Chinese investment have been important lessons for Indonesia. Previously, there was an example of a failed infrastructure project that was funded by Chinese loans and built by Chinese companies, namely the Fast Track Project of 10.000 MW power plants in Java and Bali (*Tempo*, 2009). The high-speed railway between Jakarta and Bandung has not progressed significantly either (*Bisnis Indonesia*, 2015; Sukmana, 2017). This phenomenon has created concern in Indonesia regarding the delivery of China's investment.

Fifth, in Indonesia, China and the Chinese have been used for political purposes. During Suharto's regime, China's support for the Indonesian Communist Party (ICP) was used to demonize the PRC, the ICP and the Indonesian Chinese. Anti-Chinese sentiments developed in Indonesia in the 1990s because several Indonesian Chinese conglomerates became Suharto's cronies, and in the early 2000s due to the unnationalistic attitudes of several rich Indonesian Chinese who flew their capital out of the country during the Asian Financial Crisis. Previously, anti-China sentiments escalated due to political contestation over the position of Jakarta governor. Any indication of Presiden Widodo's "tolerance" to China will be used as political weapons to bring him down. Such news can be very provocative such as the invasion of illegal workers from China (Aninymous, 2016) or Chinese economic colonialization (Askar, 2017). Thus, President Widodo has to be very careful not to align himself too closely with China and Chinese capital as they can be used by his opponents to attack him. This political risk has to be managed so that the OBOR-related projects are not perceived as the President's liabilities in domestic politics.

Sixth, it cannot be denied that there have been skepticism and curiosity among several member countries of ASEAN regarding China's real intentions. These countries observe that the OBOR was launched almost at the same time as increasing concerns regarding China's economic domination and political assertiveness in the region. One of the most crucial problems is China's recent development in the South China Sea that has provoked not only increasing tension with several regional countries but also invited power contests with other extra-regional great powers. As the 21<sup>st</sup> Century Maritime Silk Road includes a sea-line going through the South China Sea and the Strait of Malacca, Indonesia and other ASEAN countries do not wish to complicate the flashpoints by rushing to accept the OBOR Initiative. In these circumstances, Indonesia is aware of the necessity to push

harder in managing conflicts by convincing China to be more cooperative in establishing and following the ASEAN Code of Conduct (CoC). As the problems in the South China Sea reflect a lack of trust between China and ASEAN, it is important that the two parties manage the territorial disputes before the OBOR/BRI is used to justify China's claim on disputed areas.

Finally, recent Chinese assertive behaviors have also been problematic. Since 2009, China has become assertive in its territorial claims in the South China Sea that have led to some incidents with its neighbors. In recent years, China has been more assertive in claiming the EEZ of its "nine-dash line" and has included the water adjacent to Indonesia's islands of Natuna in its claim. This led to several incidents between Indonesian officers and Chinese fishermen and coast guards in the Natuna Sea (Supriyanto, 2016). The incidents were reported widely in the Indonesian media and sparked anti-Chinese sentiment among some parts of society.

Some over-confident behaviors of Chinese scholars have also become impediments among Indonesians to nurture positive perceptions of the OBOR. In one forum on OBOR, a "Chinese scholar arrogantly stated that China's patience might run out when waiting for a positive response from its neighbors". The scholar implied that if China's neighboring states were not graceful after being treated so nicely by China's offer of help for their development, China may lose patience. Another shocking incident happened recently in a symposium on the OBOR in which several Chinese scholars urged other countries —especially those in Southeast Asia— to adjust themselves to (the interests of) China as the latter was reemerging as a global leader. These kinds of over-confident attitudes are counter-productive to trust-building between China and its partners, including Indonesia.

Consequently, Indonesia has been restrained in responding to the economic opportunities the OBOR/BRI presents. While its neighboring countries have enthusiastically absorbed Chinese loans, so far, Indonesia has only accepted \$5 to 6 billion US dollars of Chinese investment for its infrastructure projects (Sundaryani, 2017). Before the OBOR Summit last May, the Head the Investment Board told the media that Indonesia would only open two to three of its provinces to OBOR/BRI infrastructure projects (Sundaryani, 2017). In the Summit, President Joko Widodo insisted that he needs to see concrete projects under the OBOR/BRI (Josephine, 2017) even though he did not directly mention that he wanted China to immediately start building the high-speed railway whose contract was granted controversially last year to China investors. However, apart from infrastructure projects, the President has pushed hard to attract Chinese investment in Indonesia, especially to compensate for Indonesia's trade deficit with China and enormous

amounts of out-flown capital that had been invested by Indonesian Chinese businessmen in their home towns in China. Until several years ago, China's investment in Indonesia was low (Gammeltof & Tarmidi) and only recently it increases (Setiawan, 2017). After political efforts made by the top leaders of both countries, China has become the third biggest investor in Indonesia in recent years. Despite its small amount, the investment of the OBOR infrastructure projects is part of China's increasing investment in Indonesia. Currently, China has listed as the third source of foreign direct investment (FDI) in Indonesia.

## V. CONCLUSION

The OBOR/BRI has provided opportunities and challenges to Indonesia and other countries in Southeast Asia. Previously, countries in the region had to face a strategic dilemma: in terms of economy they depend on China whereas with regard to security they have to rely on the US. With the OBOR/BRI high on the agenda, other countries have seen how serious China is in promoting and implementing the initiative.

China has been the center of gravity of geo-politics and geo-economy in the Asia-Pacific. This country not only leads regional economic growth but has also become a potential challenger to the US liberal world order. By launching the OBOR/BRI in 2013, China seems to work to manifest its potency by taking advantage of its economic prowess to build its political and strategic leverage over more than 60 countries across southeast, south, and central Asia, northern Africa and south Europe.

However, Indonesia has to respond carefully to the Chinese initiative because of its previous negative experiences with Chinese investments and trade relations, its free and active foreign policy, the political cost of the OBOR, the regional consequences of the initiatives, and China's assertive behaviors.

In the meantime, it would be better for China not to push Indonesia and other ASEAN countries to embrace the initiative, but rather to address uncertainties and concerns created from the hot spots in the South China Sea and improve the quality of its investments in order to show China's good intentions and commitment to win-win solutions. China has to prove that the OBOR provides development and prosperity along the routes. Only by doing so can the Asian giant convince other countries that it does not follow exploitative behaviors commonly attached to great powers.



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## BELT AND ROAD INITIATIVE AND ITS IMPACT ON CENTRAL ASIA\*

Kemel TOKTOMUSHEV\*\*

Exemplifying the old Chinese proverb “A near neighbour is better than a distant cousin”, China is switching its main foreign policy orientation from great power relations to neighbourhood diplomacy. Belt and Road Initiative (BRI) demonstrates that official Beijing is willing to advance its own vision of regional integration via its Silk Road Economic Belt and Maritime Silk Road projects, which may have significant implications on Chinese neighbours, and Central Asia will be amongst the first states to experience the ramifications of BRI.

China has long been using the Silk Road discourse in the context of Central Asia, but only recently this discourse crystallised into an official Chinese policy. In 2013, President of China Xi Jinping presented the Chinese vision of the Silk Road Economic Belt in Kazakhstan. The seriousness of China’s intentions to advance its economic vision in Central Asia has been underpinned by a series of visits by Xi Jinping to each Central Asian country, where Xi Jinping restated his commitment to invest approximately \$40 billion into the Central Asian infrastructure. The unveiling of China-backed \$50 billion Asian Infrastructure Investment Bank (AIIB) further confirmed the determination of China to expand its influence in Asia.

Nevertheless, even prior to these developments, China emerged as the major economic player in Central Asia. If in the early 2000s the International Monetary Fund estimated the Chinese-Central Asian trade to hit the threshold of \$1 billion, these numbers reached nearly \$50 billion in 2014. China also surpassed Russia as the region’s leading trading partner. For instance, in addition to breaking Gazprom’s gas monopoly across the region, China National Petroleum Corporation (CNPC) is currently well situated to

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act as a mediator in Central Asia—the China-Central Asia pipeline consists of three separate enterprises with 50% ownership between China and Kazakhstan, China and Uzbekistan and China and Turkmenistan. Moreover, China is continuing to invest significantly into transport and energy infrastructure in Central Asia such as Atyrau-Alashankou crude oil pipeline and Turkmenistan-China gas pipeline.

Being a key trading partner aside, China also became the Central Asia's largest lender and source of development finance. Since independence, Kyrgyzstan received nearly 1.6 billion USD from China (Ministry of Finance of the Kyrgyz Republic, 2017) in the form of loans and grants, which stands for almost half of Kyrgyzstan's total external debt. In a similar vein, the government-sponsored Export-Import Bank of China remains the Tajikistan's largest single creditor holding nearly 40% of Tajikistan's external debt (World Bank Group, 2015).

Accordingly, BRI appears to be a logical step for Beijing to implement in Central Asia. Based on implementation guidelines released by China's National Development and Reform Commission, BRI will promote policy coordination, facilities connectivity, unimpeded trade, financial integration, and "people to people bonds" (National Development and Reform Commission of the People's Republic of China, 2015) Credit rating agency Moody's has already issued a vote of confidence in BRI. Moody's reported that the Chinese initiative to enhance economic integration with the countries across Asia, Europe, and the Middle East is "credit positive" for the emerging market sovereigns involved (Moody's, 2015). In other words, the expectations are that the Central Asian states will be amongst the greatest beneficiaries of BRI interventions, as BRI will predominantly benefit smaller states with relatively low per capita incomes, low investment rates, and financing constraints on their current account positions.

Nonetheless, economic perspectives notwithstanding, the general perception of both the leadership and population of Central Asia towards China and its policies in the region remains more of a caution and a fear. Incomprehension of the Chinese foreign policy goals in Central Asia by local elites, in addition to a historic legacy of confrontation and antagonisms between the Chinese empire and Central Asian nomadic tribes, serves as a fertile ground for the popularisation of speculative knowledge.

As a result, Chinese initiatives in the region are clouded by rumours and conspiracies. Some people believe that Beijing seeks to subdue Central Asia economically in order to turn the region into its Western province. Others think that in reality Beijing seeks to capture the natural resources of Central Asia through the cover-up infrastructure projects. There are also those who

fear that China eyes the Central Asian lands as a solution to the Chinese problem of overpopulation.

In other words, sinophobia may emerge as one of the greatest obstacles for the Beijing-led regional integration. For instance, the land deals between China and Kyrgyzstan, China and Kazakhstan, and China and Tajikistan have already sparked public outcry in Central Asia and were used by local opposition leaders to rally against the ruling authorities. Although Beijing's longer-term goals are linked to the development and stabilisation of restive Xinjiang region, Central Asian elites perceive the Beijing-led regional architecture as one more tool of China to assert its regional hegemony.

In fact, it is not surprising that such sinophobic views prevail in the region. Central Asian states are yet to fully experience the benefits of evidence-based decision-making. The commitment of both Central Asian scholars and policymakers to opinion-based rationales can be attributed to the dominance of geopolitical mindset in the region as the legacy of the Cold War. Ruling elites in Central Asia have been raised on the Communist dogmas of class struggle. Thus, institutional knowledge inherited from the Soviet past explains the prevalence of opinion-based policymaking in the region, which relies on selective or untested evidence often inspired by geopolitical deliberations, ideological views, or simply speculative assumptions.

No wonder increasing Chinese engagement in the region is subject to conspirological theorising. Conspiracy theories are the discourses, which explain a significant event as secretly planned and executed by an agent or a group of agents (Heathershaw, J, 2012, pp. 610-629). The conspiracy theories about a "deep state" and "foreign threats" are amongst the most widespread conspirological narratives across the post-Soviet landscape, including Central Asia. The concept of a "deep state" attributes conspirological narratives to the internal affairs of the state such as the inner-workings of ruling clans, security services or powerful presidential families, while the concept of a "foreign threat" suspects the role of external actors interfering in domestic affairs. Being often the ideological artifacts of the Cold War, Central Asian conspiracy theories tend to legitimise the predominant order and reproduce elitism, patriarchy, and patronage as modes of governance in the region (Heathershaw, J, 2012, pp. 610-629). In other words, conspiracy theories emerge as convenient tools for ruling elites to justify certain actions or inactions. Most likely, the reinforcement of conspirological narratives on the political level is done quite often inadvertently and due to the incomprehension of the Chinese foreign policy goals in the region by Central Asian elites.

In any case, as recent land protests in Kazakhstan exposed, the anti-Chinese sentiments are still deeply rooted in the region. Fears that Beijing's grander plan is to co-opt the Central Asian states and turn them into clientelist states prevail in public and political discourses. In fact, those views dominate neighbouring Russia as well. The new role of Beijing as the main economic and development player in Central Asia is being unrecognised in public discourses due to the sensitivity of Moscow to such processes. The Kremlin reacted sensitively to most developments in Central Asia related to the engagement of other players. This attitude, for instance, explains why Russia resisted the Chinese efforts to evolve the Shanghai Cooperation Organization (SCO) in a more economic and development direction.

Furthermore, there are other factors that can jeopardize the successful implementation of BRI projects in Central Asia. For instance, powerful elites and special-interest groups in Central Asia are infamously experienced at capturing the state through corrupt and nefarious practices. As such, BRI runs the risk of becoming a new source of rent for Central Asia's kleptocratic elites (Toktomushev, K., 2018). Central Asia is an infamous case, in which to examine the dynamics of rent-seeking and its transnational outreach, and there are alarming signs of how privileged groups extract rent and enrich themselves in weak and underdeveloped states of the region.

Chinese companies themselves do not often abide by the normative expectations of responsible development, aggravating the issues of political accountability and economic governance in Central Asia (Toktomushev, K., 2018). For instance, in April 2016, Temir Sariyev, the then-Prime Minister of Kyrgyzstan, had to resign amidst the corruption allegations involving a \$100 million road construction project that has been carried out by Chinese construction company Longhai. As a result, one of the most urging questions to explore is how China's non-transparent modes of foreign investment will develop in the graft-prone region of Central Asia.

There are also potential points of friction between Russia and China that need to be taken into account (Toktomushev, K., 2015 pp. 33-35). It is yet to be observed the impact of the Eurasian Economic Union and its tariffs on the level of trade and investment in the region, since China remains one of the principal economic partners of the Central Asian states and their main source of development finance. But there is a widely accepted belief in Russia that the country is emerging as the world's greatest power, and thus it should be treated as an equal partner on international arena.

At the moment, Beijing appears to understand Moscow's vision of the China's role in the Russian geopolitical system of axes, and for now China is willing to accept these popular discourses and play an informal leader-

ship, or rather co-leadership role in Central Asia. As a result of such an approach, China is emerging as a much stronger and greater player in the Central Asian region, and perhaps beyond. Beijing acquired not only exclusive access to the Russian resources, but also Kremlin's political support to be more proactive in the Russian "near abroad". The Silk Road Economic Belt and the Asian Infrastructure Investment Bank are some of those exemplary initiatives spearheaded by China and endorsed by Russia. Nonetheless, again, it remains unclear to what extent Russia will tolerate the engagement of the Central Asian states in the Chinese-led activities such as the BRI projects (Toktomushev, K., 2015 pp. 33-35).

That said, the Central Asian states may exploit the potential Sino-Russian rapprochement for their own benefit. Both Russia and China emerge as the convenient partners for the Central Asian leaders to cooperate with, since both Russia and China may act the guarantors of security from external threats and serve as the sources of funding for the Central Asian states. Yet, most importantly, neither Moscow nor Beijing is demanding democratic transformations from the Central Asian governments as the prerequisite for such support.

In addition, it appears that both Russia and China are interested in the stability of Afghanistan, especially after the withdrawal of American troops. Beijing fears that Central Asia can be used as a fertile ground to breed instability in neighbouring Xinjiang. Xinjiang or officially the Xinjiang Uyghur Autonomous Region is the largest administrative division of China that borders eight countries including Afghanistan, Kazakhstan, Kyrgyzstan and Tajikistan. Xinjiang is home to approximately ten million Uighurs. In the 1990s, following the collapse of the USSR, Xinjiang experienced a surge in national sentiments amongst the Uighurs, which were suppressed by official Beijing. Hereafter, the restive region of Xinjiang has emerged as an infamous news headliner. The region became subjected to a number of brutal attacks carried out by Islamic militants, whilst official Beijing also continued a hard-line security policy to suppress such extremist movements.

In a similar vein, Afghanistan is also often portrayed in the Central Asian political discourses as one of the greatest sources of regional instability. These views are bolstered by the alleged assumptions that there is a trend of Muslim radicalisation in Central Asia. Moreover, according to the United Nations Office on Drugs and Crime, nearly a quarter of the heroine produced in Afghanistan is trafficked north to Russia through Central Asia. The existence and durability of such drug trafficking routes further contributes to Afghanistan's negative image of an exporter of instability.



Accordingly, such discourses may explain why China is willing to play a more visible role in Afghanistan. It seems that China wants to undertake the role of a mediator in Afghanistan and accelerate regional efforts to bring all engaged parties to the negotiating table. In fact, it has been long assumed that China established and maintained direct links to the Taliban prior to the Operation Enduring Freedom. There were even some contested reports that China has signed a memorandum of understanding on economic and technical cooperation with the Taliban leadership in Kabul in 2001, whilst the delegations of Chinese and Afghan businessmen paid reciprocal visits to Afghanistan and China respectively. Of course, these developments were voided after the events of 9/11, and Beijing preferred to distance itself from Afghanistan.

Nonetheless, it appears at the moment that the Chinese leadership is genuinely interested in regional peace and de-escalation of conflict in Afghanistan, particularly taking into account the Chinese commitment to invest nearly \$40 billion into the Central Asian infrastructure through its BRI programme. It is yet unclear how far Beijing is willing to go in brokering peace in Afghanistan, as it is unclear what role Afghanistan will play as part of the BRI initiative. It is certain, however, that the Chinese engagement in Afghanistan and Central Asia will only grow, although less assertively than Russia's involvement in Central Asia.

In general, it is evident that China wants Central Asian states to synchronise their individual economic development goals with the larger Silk Road vision, since economic ties between China and Central Asian states are stronger than political discourses prevailing in the region. Xi Jinping's signature project, BRI, advances a particular vision of Chinese development. China plans to revive the classic Silk Road trade routes and construct new economic corridors—all under the discourse of building “a community of common destiny”. The question that remains open is whether China will be able to foster such a sense of the community of common destiny across Central Asia, as fault lines in the region run very deep. The ruling regimes in Central Asia tend to prioritise their own security and shape foreign policies of their countries in accordance to their perceptions and home-generated threats. As a result, whilst the Central Asian elites may demonstrate commitment to regional integration initiatives, in reality they are still unwilling to be bound by new “big brother” ties.

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## CHINA'S 'ONE BELT, ONE ROAD' IN SOUTH ASIA: ECONOMIC CONSIDERATIONS FROM INDIA AND PAKISTAN

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*SUMMARY: I. Abstract. II. Indian opposition to OBOR. III. OBOR from the economic perspective in India. IV. The China-Pakistan Economic Corridor and its economic foundations. V. Conclusion. VI. References.*

### I. ABSTRACT

Given the reality of China's power, influence and ambitions, and the importance it accords to the "one belt, one road" initiative (OBOR), as well as the impact it has on India's strategic environment, New Delhi will have to find ways and means to deal with OBOR and to try and make the most out of the situation. This paper starts with a brief introduction outlining the nature of the relationship between India and China and the causes for Indian opposition to OBOR. The next two sections look specifically at the economic aspects of OBOR based on currently available information from both the Indian and Pakistani perspectives before the essay finishes with a brief conclusion.

### II. INDIAN OPPOSITION TO OBOR

Since the end of World War II, relations between India and China have probably seen some of the greatest swings of any between two large powers. Both began similarly at the end of the 1940s, recovering from centuries of colonialism in the case of India and from civil war and some significant Western and Japanese imperial depredations in the case of China, and to-

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day the two countries appear also to have regained considerably their economic significance to the global economy even if they are still a distance away from the ranks of the truly developed nations of the world. However, their own bilateral relations seem to have been marked very sharply by the effects of colonialism and imperialism with both India and China possessing a strong sense of sovereignty and all its accouterments. Their obsession with fixed state boundaries and great unease over their apparent lack of full political control over their peripheries and their border communities, have also affected India-China bilateral relations. The unfinished task of state-building as perceived by New Delhi and Beijing has complicated bilateral ties and appears set to affect the trajectory of their future relations as well despite the happy beginnings of the early years of post-World War II when there was talk of “Hindi-Chini bhai bhai” (Indians and Chinese are brothers) and the promotion of the Panchsheel or the five principles of peaceful coexistence that included among others non-interference in each other’s internal affairs.

And yet, China’s OBOR or ‘belt and road’ initiative as it is now officially referred to in China is the latest form of how the Chinese have gone about both setting aside any notions of brotherhood with the Indians or of non-interference in India’s internal affairs.

For one, OBOR is Communist Party of China (CPC) General Secretary and Chinese President, Xi Jinping’s vision and plan to promote China as a global leader based on his country’s current economic power and influence. As evident from Xi’s political report at the opening session of the 19<sup>th</sup> Congress of the CPC (Xi 2017), China is now ready to take on the mantle of global leadership and it will brook no challenge from any quarter. Whether or not China is actually ready or capable of assuming leadership is, of course, another matter but the intention is clearly visible and there is little appetite in the Chinese leadership for any real brotherhood with the nations. This is true with respect to India as well, which the Chinese leadership, elite and such ordinary people as know something about or think of India, dismiss as a chaotic democracy whose political model they consider as entirely unsuitable for China. Despite India’s own rapid economic growth, this still trails significantly behind the Chinese growth and there is a very real difference in capabilities that this creates. Thus despite the Chinese rhetoric of both India and China being ancient civilizations and the fact that the two countries partner on various multilateral forums and organizations, there is often thinly-veiled condescension from Chinese leaders and diplomats when it comes to India’s own status as an emerging power and a lack of respect for New Delhi’s interests on coun-

ter-terrorism (*The Wire* 2017) or entry into the Nuclear Suppliers Group (*The Telegraph* 2017).

For another, the OBOR's "flagship" project is the China-Pakistan Economic Corridor (CPEC) which passes through the Pakistani-occupied Indian territory of Gilgit-Baltistan, part of Jammu and Kashmir state. This has been viewed in India as a hostile act by China and as a case of China taking sides against India on the Kashmir dispute. Several protestations to the contrary by the Chinese have not convinced the Indian side given also the deep relationship between Pakistan and China which has included the transfer of nuclear weapons and technology from the latter to the former resulting in Pakistan undercutting India's superiority in conventional military forces and carrying on a campaign of state-sponsored terrorism against India without fear of military repercussions.

The Chinese also subsumed the older connectivity project of the Bangladesh-China-India-Myanmar-Economic Corridor (BCIM-EC) under the rubric of the OBOR without so much as a consultation with the Indian side. This has been seen as showing a lack of respect for India especially given the size of the OBOR initiative and another sign that China does not acknowledge India as a regional power in the Asian neighbourhood and a significant global player in its own right.

Meanwhile, officially, India's opposition to OBOR is articulated most clearly in official pronouncements from its Ministry of External Affairs which hint in no uncertain terms at Chinese attempts at hegemony through connectivity projects as well as raise doubts about the economic feasibility and transparency of these projects among other things (Ministry of External Affairs, Government of India 2016, 2017).

### III. OBOR FROM THE ECONOMIC PERSPECTIVE IN INDIA

Chinese interlocutors have tried to sell OBOR to India as source of stimulus for South Asian regional connectivity and call for "omplementary projects" and "joint projects" between India and China in other South Asian countries. It is indeed the case that the Chinese OBOR has pushed India to think of different ways of promoting regional connectivity within South Asia albeit within a framework of competition with China rather than cooperation. An example is the Bangladesh-Bhutan-India-Nepal (BBIN) connectivity project announced by Indian government (Ministry of External Affairs, Government of India 2015). The Indian side clearly realizes that the South Asian Association for Regional Cooperation (SAARC) is not working either as a

trade facilitator or a connectivity endeavour but the BBIN has yet to show some results and in fact has already run into opposition with one of its key prongs having been stymied by the Bhutanese parliament.

To return to the Chinese suggestion, however, that the OBOR will promote South Asian regional connectivity, this then actually undermines both the SAARC system and India's central role in South Asia and makes China the arbitrator certainly between India and Pakistan and possibly also for other smaller countries in South Asia in their ties with India. Chinese analysts meanwhile, are quick to accuse India of carrying on with an "old mindset" in this situation but the question they simultaneously refuse to answer is if Pakistan's continuing opposition to India's initiatives in SAARC, including for example, to allowing Indian goods to travel to Afghanistan via Pakistan is also not a case of "old mindsets" in Pakistan. This opposition to India is particularly striking given Pakistan's great enthusiasm for whatever Chinese connectivity projects there are including CPEC. In this context, to bring the OBOR as a so-called "stimulus" or an alternative to indigenous South Asian efforts at cooperation including regional connectivity is actually once again, a case of China taking sides against India.

Chinese analysts have also taken another tack with India trying to create incentives for India to join OBOR. This is by suggesting that the OBOR complements Indian Prime Minister Narendra Modi's ambitious "Make in India" initiative to increasing manufacturing in the country, that OBOR and "Make in India" could be the foundation for both countries' economic engagement. There is no doubt that the growth of manufacturing in India will need Chinese investments in India's physical infrastructure as well as in the manufacturing sector itself. However, the record of Chinese investments so far in India has been quite poor. Compared to Xi's own announcement of US\$20 billion Chinese investments in India over a period of five years made in September 2014 (Indian Council of World Affairs 2014), data reveals that in 2015 and 2016 only some US\$2.4 billion of Chinese investments flowed into India, even if this is a positive trend—at the end of 2014 the total Chinese investment in India added up to only US\$2.4 billion, meaning that investment flows had doubled in the space of two years (Zhang 2017). What is happening certainly is greater Chinese private equities showing interest and activity in India, but this is largely in the services sector which does not generate as much employment as India requires.

Meanwhile, the big money from Chinese state-owned enterprises (SOEs) remains limited, perhaps due to India's stricter regulations as well as difficulties in land acquisition for planned Chinese industrial clusters. Unlike China, land in India is not controlled by the central government but by

the state (provincial) governments and seldom available for free because it is privately owned and the subject of negotiations with individual buyers.

This reality has led to many complaints from the Chinese side. India's security agencies that have raised concerns about Chinese presence, technology or its acquisitions are often conservative in their approach to Chinese companies and enterprises in India. But as events in the US, Europe and elsewhere are increasingly showing, there seem to be increasingly good grounds for such caution (Stewart 2017; Roumeliotis and Bartz 2017; Bien 2017; Mazumdaru 2017; Manukov 2017).

It is also true that India's systems dealing with foreign investment are slow, complicated and confusing in sharp contrast to what obtains in China. Other problems pointed out by Chinese visitors and observers include those of differing cultures, including work and enterprise cultures, of different management systems and styles, workforce efficiency, and poor logistics and infrastructure. However, to be fair, these are not problems unique to the Chinese and affect other foreign enterprises in India, too.

Nevertheless, there is a particular Chinese way of describing these problems that suggests that economic issues are also seen and used as a political tool. One case is of Chinese complaints of differing cultures and management systems in India. The fact is other East Asians—the Japanese and the South Koreans—are prominently involved in economic activity in India and have been extremely successful too, under the same conditions that Chinese companies or their government complain of. Further, these complaints in India are in sharp contrast to the Chinese government's enthusiastic involvement in Pakistan through CPEC where cultural issues are similar to those in North India, and problems like corruption are much worse. If anything, the Chinese seem to deliberately ignoring Indian strengths—and also especially vis-à-vis Pakistan and many other developing countries that OBOR is involved in—in terms of India's strong legal and regulatory frameworks that do not discriminate against foreign companies, as is the case in many countries, including China where local companies are almost always favoured by the state and the courts against foreign players.

The Indian government also has major concerns over the nature and ownership of Chinese ownership. Often the details are not available, clear or complete and this leads to difficulties in the operation of Chinese SOEs, and sometimes even private companies, especially in India. As stated above, this has been a problem also for Chinese companies in many advanced economies as well. Chinese companies and Beijing need to understand that they cannot operate in other political jurisdictions in the same way they operate in China.

Another subset the ownership problem that Chinese companies run into is of host governments worrying about losing control of their SOEs and private enterprises to Chinese ownership. One argument that Chinese visitors to India have made pointing to China's own experience of how it concentrated on ensuring employment and technology transfer from foreign companies rather than worry about the stakes held by the foreign company held in a Chinese company or insist on joint ventures between Chinese and foreign companies.<sup>1</sup> This argument, however, obscures some realities. For one, joint ventures were and continue to be an important means of China ensuring technology transfer. Further, because of the nature of its legal system, the Chinese government has never been in danger of losing control over enterprises whether Chinese or foreign based on its territory. Several countries involved in joint projects such as industrial parks and so on in China and foreign private investors have discovered to their cost, terms of the contract changed or ignored over time by their Chinese partners—often local city and provincial governments which control political and legal systems as well as hold economic power. In India, given the separation of powers between the executive and judiciary, the Indian government or private enterprises cannot discriminate or ignore the terms of contract without attracting penalty from Indian courts. In other words, a Chinese company and an Indian company would be treated equally before the law in an Indian court, which simply does not happen in a Chinese court.

Where land acquisition in Indian states is concerned, there is a solution to the problem if Chinese companies were more aware that like China, India too, is a country of several large states (provinces), which compete with each other for FDI. Chinese companies could choose those states for investments, which offer them the best terms. Chinese companies and analysts appear to be used to getting their way in poorer countries around the world to feel the need to work at following the law and proper procedures in India and seem to think their complaints will suffice to get the Indian government to do things their way.

#### IV. THE CHINA-PAKISTAN ECONOMIC CORRIDOR AND ITS ECONOMIC FOUNDATIONS

In contrast to India, the CPEC has received great welcome from the Pakistani political establishment and is cause for much hope and enthusiasm in

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<sup>1</sup> Conversation with Chinese scholars in India, November 2016.



Pakistan in general. However, of late this enthusiasm too seems to have come under a cloud as both politicians and intellectuals have come to understand better the details of the Chinese project such as are available. In addition to the political or military grounds that are grounds for Indian opposition or concerns vis-à-vis OBOR, is now added some Pakistani concerns as well about the economic feasibility of the CPEC.

A variety of sources indicate that Pakistan finds itself in dire economic straits (Tirmizi 2015) and credit is certainly due to the Chinese for identifying and targeting these areas as critical to ensuring Pakistan's political stability. A "1+4" Sino-Pak cooperation structure has been envisaged with the CPEC at the center and the Gwadar Port, transport infrastructure, and energy and industrial cooperation being the four key areas (*Xinhua* 2015a, b).

However, while many details of the CPEC, including layout, alignment of routes, figures for investment are now available widely in the public domain,<sup>2</sup> these data do not always match and information is not available in one place or even not at all (for instance, Ranjan 2015), the economics of the CPEC remains murky. Even Chinese and Pakistani scholars admit in private that there are many aspects that are unclear to them.<sup>3</sup> Indeed, questions of the progress and viability of CPEC projects must inevitably depend on a range of factors including China's own economic growth and conditions and the state of play of politics in Pakistan itself. While the Chinese have some experience working in Pakistan and dealing with Pakistani conditions both the scale of the CPEC and of Pakistan's economic underdevelopment, political and social conditions demand an altogether different sort of commitment and patience in order to ensure that these investments and projects fructify. The following sub-sections will examine two aspects related to the CPEC namely, employment generated and issues about costs and fairness of the Chinese projects in Pakistan.

### 1. *Employment*

A central aspect of the CPEC is the level and kind of employment it will generate for Pakistanis. There are high expectations in Pakistan but the

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<sup>2</sup> Much information is available for instance on the official website of the CPEC, available from: <http://cpec.gov.pk/#>. On Twitter, there is the official Twitter handle for the CPEC managed by Pakistan's Ministry of Planning, Development and Reform (@CPEC\_gov\_pk) and the Chinese Embassy in Pakistan's Twitter handle, @CathayPak. Other prominent semi-official and private handles include Pakistan-China Institute (@pcipakchina), CPEC Official (@CPEC\_Official), CPEC Bulletin (@CPECBulletin), CPEC Logistics (@CPECLogistics).

<sup>3</sup> Conversations with Chinese and Pakistani scholars at conferences in China, 2016.

figures for employment to be generated for civilian Pakistanis by the actual projects of the CPEC, has been far from clear.

One Pakistani minister speaking specifically in the context of the CPEC noted that Pakistan needed to grow at 7-8% annually in order to create one million jobs annually (*The News International* 2015). The then Chinese ambassador to Pakistan, Sun Weidong declared in June 2016 that “[a]s of March [2016], ongoing CPEC projects have employed more than 6,000 Pakistanis” (*Xinhua* 2016). In April 2017, Liu Jinsong, then Deputy Chief of Mission in the Chinese Embassy in India stated a figure of 13,000 jobs having been created locally in Pakistan (Liu 2017). Another figure from a Pakistani source is of 2.32 million jobs expected to be created over two years from 2017 and reducing Pakistan’s unemployment rate to 3.3% from its current 5.9% (Luqman 2017). This last statistic is no doubt a significant reduction in unemployment and it might also be noted that industrial employment also has multiplier effects in terms of ancillary or supporting activities and industries and additional jobs created here as well. Still, for the US\$60 billion that the CPEC involves at latest reckoning<sup>4</sup> these job figures still seem to be rather low relative to Pakistan’s overall population, certainly and to its working age population specifically.<sup>5</sup> In any case, the job figures continue to vary widely including between Pakistani and Chinese sources with the latest figure from a Pakistani source stating there would be “800,000 new job opportunities”. The source however, fails to mention in what timeframe the jobs would be created (*The News International* 2017).

What is more, in the specific instance of the Gwadar port, which is one of the big-ticket investment items under CPEC, there are doubts about the employability of local labour. Dostain Khan Jamaldini, Chairman, Gwadar Port Authority answering a direct question about whether employment would be generated locally answered in the negative asking in turn whether locals had the requisite skills (*CPEC Info* 2017).

It also needs to be remembered that Pakistani reports on the impact of the China-Pakistan FTA signed in 2007 highlight the stress that it has placed on Pakistan’s domestic industries (The Pakistan Business Council 2015). One news report cites a figure of 20,000 jobs in the shoe-manufacturing

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<sup>4</sup> The figures involved in CPEC have varied widely. The original US\$46 billion figure had always been disputed by Chinese analysts who pegged it at closer to US\$35 billion. Subsequently the figure increased to US\$54.5 billion before increasing still further to the latest sum (Siddiqui 2017a).

<sup>5</sup> Pakistan’s population is approximately 201 million with a low median age of 22.7 years meaning that half the population is under this age which in turn implies a large working age population over the next few decades (*Worldometers* 2017).

sector alone, having moved from Pakistan to China (Jamal 2016). Thus, not only will the CPEC have to generate fresh jobs, it will also have to replace jobs lost to China since 2007. There are similar fears about the CPEC that it might lead to a loss of jobs because of the influx of cheaper Chinese goods that would drive Pakistani products out of the market (Mangi 2017).

The most frequently cited figures for Pakistani employment, in fact, come in the security domain. These figures range from a force of 15,000 personnel (Rana 2016) to 18,000 personnel (Krishnan 2016), all raised to protect Chinese investment and citizens. This then reinforces the notion that a large number of Chinese will simultaneously be employed and also that local employment on the projects themselves—at least in certain areas like Balochistan—are likely to be limited or constrained by factors such as security. In fact, instead of generating local employment Chinese security measures such as building fencing around the Gwadar project area in Balochistan province (Shah 2016) will likely limit local involvement and jobs.

## 2. *At What Price?*

In general, OBOR projects are marked by a combination of equity investments and loans and the idea is that these will be supported by a combination of government and private investors, as well as both existing and new international organizations. However, a viable balance of equity and loans over the long terms is difficult to achieve in the best of situations and so the question then is how do the Chinese see profit or sense in what they are doing through CPEC—the major component of which comprises energy infrastructure projects? This is where issues of pricing and the terms of the contract as well as the larger objective of the Sino-Pak relationship as represented by the CPEC emerge into sharper focus. And there are concerns in Pakistan about the cost of Chinese-generated power.

The terms of the CPEC contracts are not available in the public domain. It is to be noted that the Chinese have not provided grants or aid for CPEC projects but concessional loans. However, even these concessional loans are believed to cover only some US\$10 billion of infrastructure projects, according to one report (Hourelid 2015) with export credit and non-reimbursable assistance by Chinese policy and commercial banks backing the rest (Ranjan 2015).

A member of the Infrastructure and Regional Connectivity of Pakistan's Planning Commission revealed in September 2015 that China would extend assistance to Pakistan at 1.6% interest for CPEC infrastructure proj-

ects—these are worth some US\$11.8 billion. He also said that Pakistan actually wanted the Chinese to reduce the rate further from 1.6% to 1% and that efforts were still on. Such bargaining goes to the heart of new emerging tensions in the Sino-Pak relationship. Meanwhile, China had reportedly also agreed to convert PkRs.23 billion worth of loans for Gwadar International Airport into a grant and extended an interest-free loan of PkRs.13.5 billion for the construction of Gwadar East Bay Expressway (Butt 2015). China’s Eximbank has also agreed to support a cross-border optic fiber project with a concessional loan at an interest rate of 2% per annum (Butt 2015). The LNG pipeline in Gwadar being laid by the China Petroleum Pipeline Bureau is being carried out under a loan from the Chinese government which covers 85% of the project cost with the Pakistani government putting in the rest (Bhutta 2015).

And yet, as late as March 2017, the Pakistan Parliament’s Public Accounts Committee was asking questions of the government about the rate of interest for Chinese loans and the comparison with the interest rates of the World Bank and Asian Development Bank that are also involved in projects in Pakistan. While officials of Pakistan’s Ministry of Planning and Development told the committee that all CPEC projects were being funded through investments and that Pakistan had not taken any loans for these projects worth US\$35 billion (Yasin 2017), a hearing of the Pakistani Senate’s planning and development committee the same month found that China was providing loans and grants for only 3%-4% of the CPEC sums reported. What is more its comparisons also found that the terms of financing including interest rates were higher than what China was offering other countries like Myanmar and that Chinese banks were in fact, charging Pakistan higher rates of interest than any other international banks (Rafi 2017).<sup>6</sup>

According to one Pakistani report, the country will be paying China US\$90b against CPEC-related projects over a 30-year period against loans and investments worth US\$50 billion with average repayments of expected to be in the range of US\$3billion to US\$4 billion per year after 2020. While exports were expected to grow by 4.5% a year till fiscal year 2025 —higher than the previous decade’s 3% average— for the present, figures available for 2016-17 showed that exports had declined by 1.3% while imports increased by 9% leading to a current account deficit 88% higher than the previous year (Siddiqui 2017b). A former top government banking official has, however, pointed out that Pakistan’s exports had to grow at least 15%

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<sup>6</sup> For issues related to payment of these loans, including potential balance-of-payments problems see, Husain K. (2017a) and Hussain (2017).

per annum in order to meet CPEC debt servicing requirements (Husain, I. 2017). Meanwhile, even if the loans are on occasion at lower interest rates, it is also natural to ask why such exceptions would be made and what the quid pro quo will be between the two sides. The case of how Sri Lanka had to lease out land to the Chinese for a 99-year period to cover its debt for a Chinese project at Hambantota is instructive in this regard (*The Hindu* 2017).

Another aspect that is generating increasing discussion in Pakistan relates to the fairness of various CPEC deals. For instance, the aforementioned Pakistani Senate hearing found that only Chinese and not Pakistani businessmen would be allowed to invest in the nine special economic zones being designated around the country (Rafi 2017; Husain, K. 2017b; *CPEC Info* 2017; see also, Husain, I. 2017). To a specific question on whether the Chinese operator of the Gwadar port would be subject to regular audits, Jamal dini, the head of the Port Authority replied in the negative citing the need to encourage the investor even as he tried to underline that the Authority could call for financial details and documents any time (*CPEC Info* 2017). This sort of an open-ended arrangement however, does not seem designed to encourage transparency. In another instance, there has been much heartburn in the Pakistan over the fact that the Chinese will get 91% of the revenue from the Gwadar port as part of CPEC, while the Gwadar Port Authority would get 9% for the next 40 years (Khan 2017).

CPEC projects also involve various kinds of tax-exemptions for Chinese companies. It might be noted that a 2015 report by the Pakistan Business Council on the 2007 China-Pakistan FTA pegged revenue loss from the agreement at PKRs.22 billion per annum on account of tax exemptions granted to imports from China (The Pakistan Business Council 2015). The CPEC appears to continue along the same lines with one Pakistani analyst raising specific questions about the SEZs noting that there were indications that industries set up in these zones would not be paying direct taxes. In this context, he asked if their imports would be dutiable and if they procured from local sources if they would be liable to pay sales tax and if taxes would also be paid on power and gas bills. Taking the questions further, he also wondered if these companies were going to be exempt from local taxes, if Pakistani procurements of SEZ output would then have to pay sales tax on the transactions (Husain, K. 2017b).

Perhaps an indication of what the answers might be comes from reports indicating that power stations under the CPEC initiative were being equipped with Chinese cables that had been exempted from Pakistani import duty and sales tax (*The New York Times* 2017). Another case in point is in Balochistan, which signed a 43-year lease with China Overseas Port Hold-

ing Company Ltd. in November 2015 handing over a 923-hectare swathe of tax-exempt land to be developed as a SEZ as part of the CPEC (*The Express Tribune* 2015). According to Jamaldini, the chairman of the Gwadar Port Authority, the land acquisition by the Balochistan government had cost it some US\$62 million in 2015 (Muhammad 2015). The point to note here is not just the length of the lease itself nor the land offered free of cost which might be considered part of standard practice in many parts of the world but the tax revenue foregone, even if GPA itself will receive 15% of the gross revenue of the Gwadar Free Zone Company Limited—including fees from the companies inside its tax-free premises, covering rent and utilities.<sup>7</sup>

And yet even such deals are not sufficient apparently for Chinese companies. There is, for example, the case of Chinese investors withdrawing from at least one power project - the 6,600MW power project in Gadani, Baluchistan, which was part of the CPEC. By Islamabad's own admission, the withdrawal was because Chinese companies were worried that they would not be paid, even though the Pakistanis had offered to set up a revolving fund for them (Pal 2015). This last suggests, in fact, that the Pakistani government's guarantees are not taken seriously by Chinese enterprises.

Finally, China itself has a record of not meeting its commitments in Pakistan. In addition to the Gadani project above, it had similarly also pulled out of five power projects in Punjab, which too would have generated 6,600MW. Altogether, these two projects totaled some US\$16 billion in value or nearly half of the original outlay for power projects under CPEC (Pal 2015). Needless to say, such withdrawals then lead to increased costs in terms of either reviving the projects or finding substitutes.

That concerns within Pakistan about the terms of CPEC deals, their expected returns and their timelines have become rather serious is evident in the statement by Pakistani Senate Planning and Development Committee Chairman Syed Tahir Hussain Mashhadi who declared that "China is our brother, but business is business" (Rafi 2017).

## V. CONCLUSION

It would seem clear that China's OBOR has several problems from a purely economic or market perspective. While the phrase "new silk market" is an attractive one, whether any of China's OBOR projects will generate tangible

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<sup>7</sup> One reason provided for the tax exemption is that the Chinese operator is bringing in all the required investment for operating and expanding the port's infrastructure (*CPEC Info* 2017).

benefits for host economies remains to be seen. For India, meanwhile, the negative experiences of those of its neighbours who have been most heavily involved in OBOR add another layer to its concerns about and opposition to OBOR.

The developments in Pakistan in the wake of the OBOR initiative, for instance, have consequences for India and imply similar consequences for other countries where Chinese investments under the OBOR framework are going. Naturally, if OBOR succeeds, its benefits will accrue to India too but if it fails its consequences are likely to affect India the greatest apart from the host economies themselves given that these are already poor or developing economies that are continuing to face or just recovering from internal instability and which often spillover with political and security consequences for India.

As the case of CPEC seems to suggest even leaving aside the political dimensions, OBOR projects will invite greater scrutiny on economic grounds alone. The terms of contracts, the ability to repay debt and the longer-term economic benefits are all still in the realm of the unknown even in the CPEC which is without doubt, the most advanced and large-scale OBOR project anywhere in the world. If Pakistan should be unable to repay its loans and China moves towards seeking equities of a political or military nature in return for its economic largesse there are likely to be political repercussions not only for the India-China relationship but also within Pakistan and for Pakistan-China ties.

For the world then, the OBOR occasions much careful study and consideration. While on the one level, its objectives are clearly understood as an economic development programme that subtly extends and promotes Chinese political influence and interests, on the other hand, there are clearly questions about China's terms of implementation of these projects and in the South Asian context just how it perceives its relationship with India.

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## THE DEVELOPMENT OF BELT AND ROAD INITIATIVE (BRI) OF SRI LANKA

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SUMMARY: I. *Introduction*. II. *Background to BRI*. III. *Sri Lanka's Historical Relationship with China*. IV. *Economic cooperation between Sri Lanka and China*. V. *Other areas of economic cooperation*. VI. *Belt and Road Initiatives in Sri Lanka*. VII. *Potential Concerns around BRI for Sri Lanka*. VIII. *Maximizing the Opportunity of BRI*. IX. *References*.

### I. INTRODUCTION

Links between Sri Lanka and China, economic relations in particular have grown exponentially during the last decade. So much so that China has become a significant economic partner of Sri Lanka. The Belt and Road Initiative (BRI) is closely connected with this. China has invested large sums of money to develop infrastructure (mega projects) and trade routes for what it believes is a mutually beneficial programme. However, BRI presents both opportunities and challenges for Sri Lanka. On one hand, Sri Lanka gains key infrastructure, capital and skills that could put it well ahead in connectivity and trade facilitation. Combined with these are the added benefits of trade and investment promotion, development of an economic hub, participation in global value chains, employment generation, technology and knowledge transfer that will help with economic growth in the foreseeable future. On the other hand, there is concern around the environmental impact of such infrastructure development, and the geopolitical and sovereignty issues that come with partnering with China and taking on significant amounts of debt.

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This chapter aims to investigate the economic relationship between China and Sri Lanka. In particular, it aims to examine the impact of BRI on the Sri Lanka economy. The chapter is organised as follows: it will provide a historical overview of BRI as well as the relationship between China and Sri Lanka; it will then examine some of the projects/activities linked to BRI in Sri Lanka, their implications for Sri Lanka, highlighting the benefits and concerns.

## II. BACKGROUND TO BRI

The US\$4 trillion Belt and Road Initiative (BRI) is considered to be China's most ambitious foreign trade and investment project to date. The project was initially named One Belt One Road (OBOR) and then later renamed as BRI as the term "one" in OBOR implies only a single network while BRI would better reflect the project's numerous network clusters. In October 2017, BRI was written into the Communist Party's constitution at the 19th National Congress of the Communist Party of China (CPC), a sign of the project's policy significance for China and its current leadership.

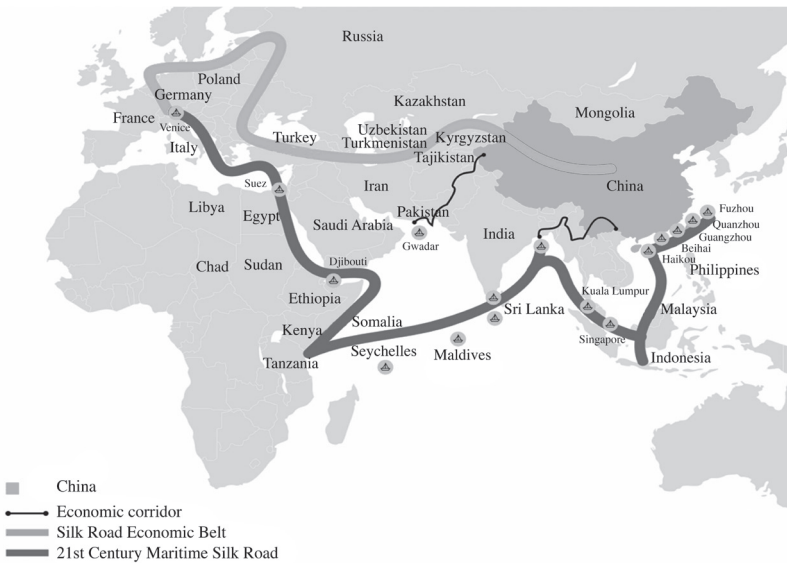
BRI is China's attempt at rebuilding the network of the Ancient Silk Route, which was a trade route connecting China to Europe through both land and sea routes. Xi Jinping, President of the People's Republic of China, unveiled the project in late 2013 during a visit to Central and South East Asia. BRI focuses on improving connectivity and cooperation among Asian countries, Africa, China and Europe. The emphasis is on enhancing land as well as maritime routes through a network of roads, rail lines and sea ports. This is mainly done through large scale infrastructure projects to improve ports and trade transport. The project spans 65 countries and about 60 per cent of the world's population (Djankov, S and Miner, 2016). The funding for the project comes through Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, which is a US\$40 billion development fund created for the initiative.

One arm of BRI, 'Silk Road Economic Belt' (the Belt) extends overland from China to Europe through Central Asia and the other, "21st Century Maritime Silk Road" (the Road), links China to Southeast Asia, the Middle East, east Africa and Europe along the Mediterranean, the Indian, Atlantic and Pacific Oceans connecting over 20 countries (Igbinoba, 2017). Sri Lanka has been an important stop on the Maritime Silk Road since ancient times. It lies along one of the world's busiest trade routes, connecting Asia with Europe, and plays a key part in China's BRI. The "Belt" is a series of

overland corridors connecting China with Europe, via Central Asia and the Middle East.

The initiative was motivated by the concern of the slowdown of the Chinese economy as it transitioned from an investment led growth model a consumer demand growth model. With China experiencing overcapacity in sectors across the country, seeking market access abroad was seen to address this problem at home. Also, the initiative will allow Chinese enterprises to access opportunities to undertake various projects and commerce in the BRI countries, assisting them to be globally competitive and become global brands through joint ventures, technology transfers and public-private partnerships. The BRI is considered to be an open and inclusive initiative allowing every country to take part in its development.

FIGURE 1. REGIONS COVERED BY BRI



Source: Low Institute

Deloitte Insights / [deloitte.com/insights](https://deloitte.com/insights)

BRI has five key objectives, namely, policy coordination, connectivity, unimpeded trade, financial integration, and people-to-people bonds. BRI expects to achieve policy coordination through intergovernmental cooperation on macroeconomic policies and increased connectivity by developing trade infrastructure as well as through trade and investment cooperation. Financial integration will be achieved through joint efforts to establish the AIIB and BRICS New Development Bank, signing of MOUs on coopera-

tion in bilateral financial regulation, establishing an efficient regulation coordination mechanism in the region. The objective of developing people to people bonds is expected to be achieved through cultural and academic exchanges and tourism among others.

Southeast Asia and South Asia are expected to be key beneficiaries of BRI (Deloitte, 2018). For the former, that is partly due to proximity to China and a higher state of development, and partly due to the demand for better infrastructure. For the latter, the size of population and vast market potential is noteworthy. Amongst the other beneficiaries include Europe, Russia and Central Asia and Africa. So far, infrastructure has attracted more funding than other sectors although it also encompasses investments in manufacturing and trade, as well as softer investments in tourism and culture.

One of the primary challenges the initiative has faced has been in obtaining the support and cooperation of other emerging economies mainly India. Western powers also remain sceptical of the initiative and view it as a means of China increasing its geopolitical power and influence. Despite this, it has received a high level of cooperation from many nations including those in South Asia (Bangladesh, the Maldives, Nepal, Pakistan and Sri Lanka) and South East Asia.

The BRI project in the past 4 years since its launch has grown in size in terms of investment and the countries being involved. In May 2017, the Belt and Road Forum for International Co-operation was held in Beijing. It was attended by heads of states of 29 governments, representatives from 130 countries and representatives of more than 70 international organizations. This event was the highest-level meeting of its kind since the BRI was proposed in 2013.

The BRI initiative has also extended to Americas (North and South); Chinese investments in Latin America continued to rise in 2017. In little over a decade, China has jumped from being one of Latin America's smallest trading and investment partners to being one of its largest.

### III. SRI LANKA'S HISTORICAL RELATIONSHIP WITH CHINA

Sri Lanka-China relationship is centuries old and has been historically strengthened by shared religious and cultural values in addition to trade and commerce. For many centuries, Sri Lanka had been at the centre of the historical Silk Road connecting Europe and China. Although the initial Silk

routes were over land, following the fall of the Mongol Empire in the 14<sup>th</sup> century, China shifted its approach to include a stronger emphasis on maritime trade (Seneviratne, 2016); Sri Lanka has been part of the maritime trade route of China since then. It has been noted that Sri Lanka was an emporium where traders from West and East exchanged wares and the discovery of many Roman coins in some parts of the country bear testimony to it.

The Rubber /Rice Pact between Sri Lanka and China was signed in December 1952, marking a significant milestone in the bilateral ties between the two nations. This was also one of the first agreements that China has signed with a non-communist country (Kelegama, 2014). In fact, it was signed five years before the two countries established formal diplomatic relations (Li, Li, 2017). Through this Pact Sri Lanka guaranteed to import 270,000 metric tons of rice each year while China agreed to purchase 50,000 tons of rubber each year for a period of five years. This Pact was renewed every five years until the year 1982. It is considered to be the most useful trade agreement that Sri Lanka has negotiated in the past, as it ensured that China offered 40 percent more than the market price for rubber while Sri Lanka provided rice for less than a third of its market value. It is also considered to be one of the most successful and durable South-South trade agreements in the world (Kelegama, 2014). Moreover, this Pact paved the way for increased formal diplomatic relations between the countries during the post-colonial rule. The pact was signed despite the protests made by the USA which threatened to invoke the Battle Act and withdraw aid from Sri Lanka. The US Vice President Richard Nixon visited Sri Lanka in November 1953 to dissuade the country from continuing to trade with China, arguing that Sri Lanka was selling strategic material to a Communist country during the height of Korean War. Nixon spent three days in Colombo and after discussions with Sri Lankan authorities, he was convinced that the pact was signed mainly for economic reasons and Sri Lanka did not have sympathies with Communism (Watson, 2010).

In February 1957, formal diplomatic relations were established with China and thereafter in 1962 the two nations signed the first agreement on Economic and Technological Cooperation. The following year a maritime agreement guaranteed that all commercial vessels engaged in cargo and passenger services between the two countries and a third country will be treated on the Most Favoured Nation (MFN) status.

Another milestone in the Sri Lanka-China relationship was the state visit of the then Prime Minister Sirimavo Bandaranaike in 1972 This resulted in the gradual increase in Chinese bilateral aid packages along with



the initiation of the construction of the Bandaranaike Memorial International Conference Hall (BMICH). Since then there have been numerous high level visits to China from Sri Lanka. The Chinese side reciprocated and some notable visits include Premier Chou En Lai visit in 1957 and 1964, and more recently the first ever visit by a Chinese President Xi Jinping to Sri Lanka in 2015. These visits further nurtured decades long friendship and cooperation.

In the meanwhile, the Sri Lanka-China Society was formed in 1981 with an aim to strengthen friendship (Jayasekara and Tennakoon, 2007). Additionally, the Sino-Lanka Joint Trade Committee and the Sino-Lanka Economic and Trade Co-operation Committee were signed in 1982 and 1984, respectively. They were then amalgamated in 1991 to form the Sino-Lanka Joint Commission for Economic and Trade Cooperation (MOFA, 1998). In addition, the Sri Lanka-China Business Cooperation Council was formed in 1994 adding to the growing attempts at strengthening the economic relationship between the nations.

The Sri Lanka-China relationship reached another significant milestone under the post-2005 administration. Relations between both countries during the rule of Sri Lankan President, Mahinda Rajapaksa, resulted in many agreements and saw closer relations due to Rajapaksa's pro-China stance. For example, in his state visit to China in 2007, on occasion of the Golden jubilee celebrations of diplomatic relations, President Rajapaksa signed eight bilateral agreements and MOUs with China. They included agreements on economic and technical cooperation, establishment of Friendship City Relationship between Guangzhou and Hambantota, investment promotion cooperation, cooperation in the film industry, academic exchanges, etc. Sri Lanka became one of the first countries to openly support the BRI since it was aligned to the country national development strategy.

Under current Sri Lankan President, Maithripala Sirisena, relations remain strong with the current administration interested in balancing both Chinese and Indian interests in the country. However, recent developments have shown a "pro-China" stance to Sri Lanka's current foreign policy, as demonstrated by the continued Chinese investments in Sri Lanka and the country's support of China's position in the South China Sea dispute. Moreover, President Sirisena and Prime Minister Wickramasinghe and others have expressed their willingness to participate in the BRI and leverage Sri Lanka's geographical position to become an economic hub in the Indian Ocean.

#### IV. ECONOMIC COOPERATION BETWEEN SRI LANKA AND CHINA

##### 1. Trade Relations

In the year 2016, China surpassed India to become the largest source of imports to Sri Lanka; in that year, Sri Lanka imported goods valued at USD 4,270mn., accounting for 22 percent of Sri Lanka’s total imports (Table 1). Items classified under electrical machinery, and mechanical machinery are the main imports from China to Sri Lanka while it is also a large provider of iron, steel, cotton and mineral fuels (Figure 3).<sup>1</sup> The amount of trade between the two countries, particularly imports by Sri Lanka have grown significantly over the last few years, as shown in Figure 4 below:

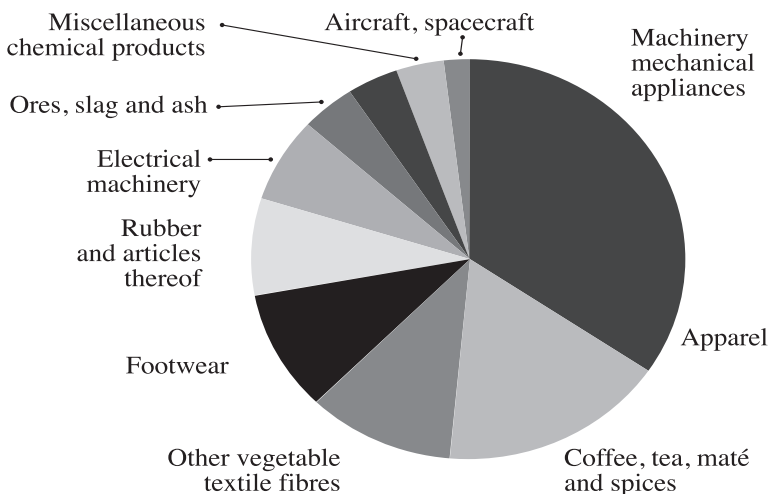
TABLE 1: SRI LANKA’S TOP 10 EXPORT AND IMPORT MARKETS, 2016 (THOUSAND)

|    | <i>Exports</i> |          | <i>% of Exports</i> | <i>Imports</i> |            | <i>% of Imports</i> |
|----|----------------|----------|---------------------|----------------|------------|---------------------|
|    | World          | 10545893 | 100                 | World          | 19,500,757 | 100                 |
| 1  | USA            | 2810220  | 26.6                | China          | 4,270,756  | 21.9                |
| 2  | UK             | 1045080  | 9.9                 | India          | 3,824,968  | 19.6                |
| 3  | India          | 753481   | 7.1                 | UAE            | 1,067,273  | 5.5                 |
| 4  | Germany        | 509881   | 4.8                 | Singapore      | 1,030,316  | 5.3                 |
| 5  | Italy          | 428902   | 4.1                 | Japan          | 949,829    | 4.9                 |
| 6  | Belgium        | 338187   | 3.2                 | Malaysia       | 642,030    | 3.3                 |
| 7  | UAE            | 292867   | 2.8                 | USA            | 539,987    | 2.8                 |
| 8  | China          | 215493   | 2                   | Thailand       | 514,463    | 2.6                 |
| 9  | Netherlands    | 208334   | 2                   | Taiwan         | 495,929    | 2.5                 |
| 10 | Japan          | 203819   | 1.9                 | Hong Kong      | 465,914    | 2.4                 |

SOURCE: TradeMap Database.

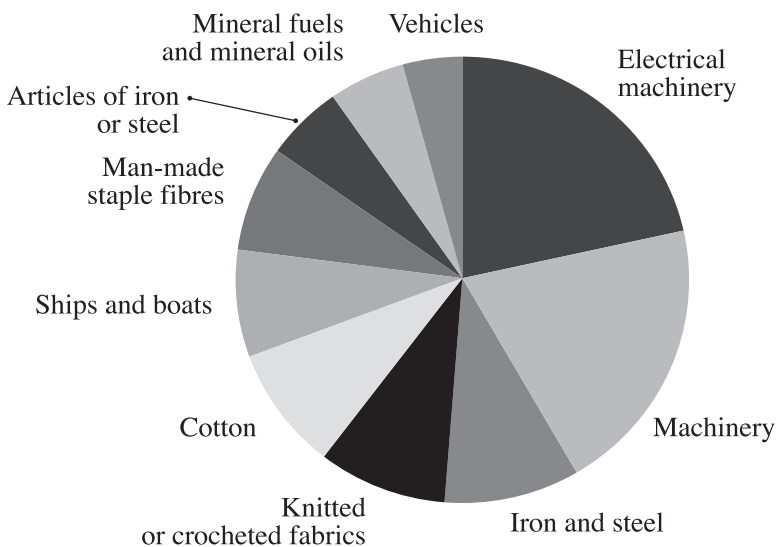
<sup>1</sup> ITC Trade Map (2017), Available at <http://www.trademap.org/Bilateral.aspx?nvpm=1|156||144||TOTAL||2|1|1|2|1|1|1|1|1>.

FIGURE 2: COMPOSITION OF SRI LANKA’S EXPORTS TO CHINA 2016



SOURCE: TradeMap Database.

FIGURE 3: COMPOSITION OF SRI LANKA’S IMPORTS FROM CHINA 2016

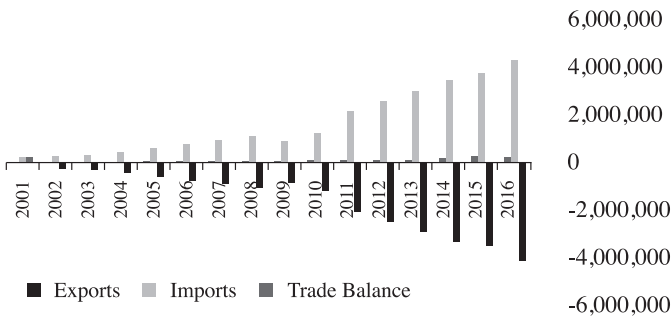


SOURCE: TradeMap Database.

As an exporting market, China is largely insignificant to Sri Lanka, making up only 2percent of Sri Lanka’s exports by value in the year 2016 (US\$ 215 million). In terms of importance, it ranks at the 8th place as an export market (Table 1). This flow has also seen a modest growth over the last few years, however not at the same rate as imports from China have seen. Weak export performance relative to imports from China is due to country’s overall weak export performance (Abeyratne, 2017). The year 2016 has shown a decrease in the overall exports to China.

The largest exports from Sri Lanka by market value include textiles & apparel (34 percent of total exports to China) and tea (Figure 2). Other exports include footwear/headgear, chemicals and transportation. Although overall China is not a key market for Sri Lankan exports, there are still certain export sectors which have not entered the Chinese market, providing a potential market for export growth. According to IPS, Sri Lanka has a comparative advantage in 565 products in the world (IPS, 2015). However, Sri Lanka is currently exporting only 243 products to China. Thus, there are almost additional 300 new products that can be potentially exported to China. Such export opportunities could provide some scope in addressing the growing trade deficit with China, which stands at US\$4 billion. The trade deficit with China has been growing year on year since the 1980s (Abeyratne, 2017).

FIGURE 4: TRADE BETWEEN CHINA AND SRI LANKA OVER THE PERIOD 2001-2016 (THOUSAND)



SOURCE: TradeMap Database.

While Sri Lanka has been actively engaging in all multilateral negotiations, Sri Lanka has entered into a few numbers of bilateral and regional agreements to date. Sri Lanka is a founding member of APTA, formerly

Bangkok Agreement which is the oldest preferential trade agreement in Asia. China joined APTA in 2001.

Sri Lanka and China began negotiations on an FTA in November 2014 and so far a number of rounds have been completed. From the point of view of Sri Lanka, the FTA would provide better access to the biggest export market in the world with a population of over 1.3 billion as well as attract export oriented investments into the country, which would help Sri Lanka to penetrate the Chinese market.

A Joint Feasibility study on the FTA in 2015 stated that it would increase bilateral trade of particular interest of Sri Lanka such as tea, rubber, fish, textiles and clothing, coconut products, gems and jewellery, fruits and vegetables, machinery and electronics. While there are likely to be potential trade benefits from a FTA with China, there are a number of challenges in negotiating a FTA. These include coverage of products under the agreement, speed of liberalisation programme, special and differential treatment, comprehensiveness of the Agreement; treatment of non-tariff measures (NTMs) in the Agreement (IPS, 2015). In addition, there are general issues that need to be addressed including increasing Sri Lanka's capacity to increase exports and undertaking policy reforms to strengthen the country's competitiveness and improve the investment climate in the country (Abeyratne, 2017).

## *2. Chinese Investments in Sri Lanka*

Sri Lanka performed poorly in attracting FDI till 2011, with annual flows under USD 1 billion. However, since then, there has been a significant uptick in foreign direct investment into Sri Lanka with a significant portion of that coming from China (as part of the Belt and Road initiative). FDI flows from China accounted for as much as 25 percent of total FDI in 2014 (Abeyratne, 2017). In the year 2015, China, Hong Kong, Mauritius, the UK and India were amongst the top five foreign investors in Sri Lanka; Chinese investment alone amounted to US\$ 990mn, which accounted for 15.5 percent of total FDI during 2011-15 (Table 2). Chinese investments in Sri Lanka have been made in the following sectors: logistics, transport, and real estate (American Enterprise Institute and The Heritage Foundation).

Table 2: MAJOR SOURCE OF FOREIGN DIRECT INVESTMENT  
IN SRI LANKA, 2011-2015

|                        | <i>US\$ Million</i> | <i>% of Total</i> |
|------------------------|---------------------|-------------------|
| China                  | 989.6               | 15.5              |
| Hong Kong              | 798.7               | 12.5              |
| Mauritius              | 576.6               | 9.1               |
| UK                     | 571.7               | 9.0               |
| India                  | 477.2               | 7.5               |
| UAE                    | 426.8               | 6.7               |
| Malaysia               | 415.3               | 6.5               |
| Netherlands            | 414.0               | 6.5               |
| Singapore              | 385.7               | 6.0               |
| USA                    | 218.9               | 3.4               |
| British Virgin Islands | 137.0               | 2.1               |
| Luxembourg             | 124.7               | 2.0               |
| Japan                  | 114.0               | 1.8               |
| Canada                 | 113.4               | 1.8               |
| Australia              | 95.2                | 1.5               |
| Switzerland            | 61.1                | 1.0               |
| <i>Total FDI</i>       | 6,381.5             | 100.0             |

SOURCE: Board of Investment in Sri Lanka as cited in Abeyratne (2017).

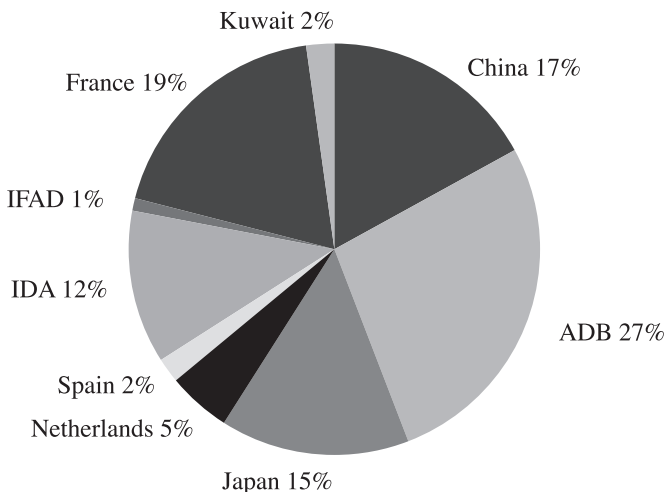
## V. OTHER AREAS OF ECONOMIC COOPERATION

### 1. *Development Assistance to Sri Lanka*

China has provided development assistance to post independence Sri Lanka to support various development needs of the country (Jayasundara, 2017). Development assistance from China has come in three major forms, namely: loans, grants and interest free loans (Department of External Resources of Sri Lanka, 2016). (Loans are made out by the state owned enterprises such as the EXIM Bank, the China Development Bank (CDC) and Industrial and Commercial Bank of China (ICBC). Grants and interest free loans are pro-

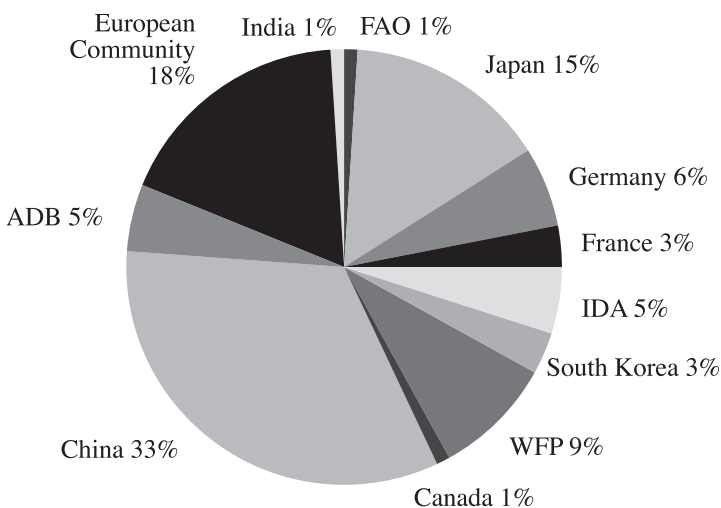
vided directly by the Government of China through the Ministry of Commerce of China.

FIGURE 5. LOAN COMMITMENTS 2016



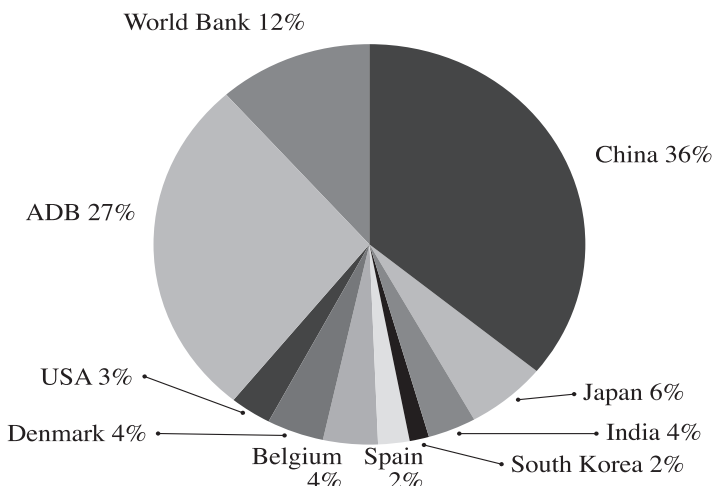
SOURCE: ERD (2016).

GRANT COMMITMENTS 2016



SOURCE: ERD (2016).

FIGURE 6: TOTAL DISBURSEMENTS 2016



SOURCE: ERD (2016).

More recently, China has emerged as the largest provider of bilateral development assistance, overtaking Japan in 2010. Till 2010, Japan was the single largest bilateral lending partner of Sri Lanka (Jayasundara, 2017); the position has since then been taken over by China. Total commitment made from China for the last five-year period from 2012 to 2016 was USD 4,217.7 million (ERD, 2016). In 2016, highest commitment by a bilateral donor was China, followed by France and Japan (Figure 5). Annual disbursement by China amounted to over US\$400 since 2012 (Jayasundara, 2017). Out of the total disbursement recorded from bilateral development partners during the year 2016, the major portion of the fund was disbursed by China (USD 440.8 million), followed by Japan and India, which contributed USD 74.4 million and 44.1 million, respectively (Figure 6).

A number of projects have been financed by China through loans for power generation, irrigation and water supply, port, airport, railways, expressways and highways (Jayasundara, 2017). A major portion of financial assistance provided by China consists of grant assistance. China has also become the leading contributor of grants in the year 2016 with 33 percent of the total grants received being from China, followed by European Community and Japan by recording 18 percent and 15 percent, respectively (Figure 5). The assistance from China mainly focus on the non-revenue generating projects such as public sector services (i.e. health sector and also other projects that are of historical importance to the relationship between the two



countries such as Bandaranaike Memorial International Convention Hall [BMICH], Nelum Pokuna National Performing Arts Theatre and Superior Courts Complex). However, as a result of the substantial financial assistance provided for the implementation of various development projects, 9 percent of Sri Lanka's outstanding debt is to China as of 2016 (Department of External Resources of Sri Lanka, 2016).

## 2. *Tourism*

Sri Lanka has become an emerging tourist destination among Chinese travellers and the Government of Sri Lanka hopes to attract at least 1 million Chinese tourists per year by 2020. Over the recent years, India has been the leading source market for tourism to Sri Lanka. Currently, China remains the second largest source market for tourism with the rapid increase of Chinese tourists since the year 2009. In 2016, there were 271,577 tourist arrivals from China, accounting for 13 percent of total tourist arrivals to the country (Table 3) compared to 17,013 arrivals from China five years back (Sri Lanka Tourism Development Authority, 2016). A majority of the Chinese tourists (90 percent) came for vacation, followed by visiting friends and family, business and MICE. On average Chinese tourist spends 9.5 days in the country; the average figure for tourists from Asia is 8.8 days which is lower than the figures for North America and Western Europe. This increase in Chinese tourist arrivals to Sri Lanka has been facilitated by more air connectivity between Colombo and opening up of a number of destinations in China, operated by airlines of both countries.

The growth rate of tourist arrivals shows the growing significance of China as a tourism partner of Sri Lanka. Chinese tourist arrivals grew by 72.5 percent in 2010-2016, while Indian and UK tourist arrivals increased by only 19.3 percent and 10.3 percent, respectively. However, Sri Lanka is not a top travel destination for Chinese tourist when compared to other countries. South East Asia, Japan and South Korea are the most popular destinations for Chinese tourists. Thus, there remains ample room for Sri Lanka to take steps to increase tourism from China. However, this should be matched by addressing challenges within the industry such as poor coordination among stakeholders, inadequate industry research, ineffective planning, inadequate human resource and infrastructure development, price competitiveness (Propelling Tourism in Sri Lanka, 2017).

TABLE 3: TOP TEN SOURCE OF TOURISTS TO SRI LANKA, 2016

| <i>Country</i> | <i>Total Arrivals</i> | <i>% of Total</i> |
|----------------|-----------------------|-------------------|
| India          | 356,729               | 17.39             |
| China          | 271,577               | 13.24             |
| United Kingdom | 188,159               | 9.17              |
| Germany        | 133,275               | 6.5               |
| Maldives       | 96,440                | 4.7               |
| France         | 95,167                | 4.64              |
| Australia      | 74,496                | 3.63              |
| Russia         | 58,176                | 2.84              |
| USA            | 54,254                | 2.65              |
| Japan          | 44,122                | 2.15              |

SOURCE: SLTDA (2016).

As Sri Lanka- China ties continue to improve through the BRI initiative, tourism between the two countries has potential to further improve. With increased connectivity through BRI development in ports, airport and road networks along with the development in hotels and Colombo, the Sri Lankan tourism industry stands to significantly benefit.

## VI. BELT AND ROAD INITIATIVES IN SRI LANKA

BRI has five major objectives, which includes policy coordination, connectivity, unimpeded trade, financial integration, and people to people contacts. Already with regards to connectivity, this has been met by China investing in a number of mega projects in Sri Lanka to develop the connectivity of Sri Lanka with the rest of the world. With regard to trade, currently China and Sri Lanka are negotiating a Free Trade Agreement (FTA). With regard to financial integration, Sri Lanka is already a member of AIIB. With regard to people to people exchange, there has been a number of cultural and academy exchanges between China and Sri Lanka over the years, as well as influx of Chinese tourists into Sri Lanka. This has furthered people to people bonds.

As mentioned earlier, the focus of the BRI programme is split between two main initiatives—a revitalised land route between China and Europe via Russia and the Maritime Silk Road which aims to connect a multitude of countries via new sea routes and infrastructure. Sri Lanka's involvements has largely been with the latter of these initiatives given Sri Lanka geographical location in the middle of the Indian Ocean, with an emphasis on Sri Lanka becoming a hub facilitating easy transit of goods from China to Sri Lanka and other South East Asian economies and beyond. Currently China's energy imports (from the Middle East) and mineral imports (primarily from Africa) pass through Sri Lanka (Palit, A., & Spittel, G. 2013).

To this effect, the majority of BRI investments in Sri Lanka have been to facilitate this maritime effort and a number of major infrastructure projects have been kicked off (Hillman, J.E.2018). Under the BRI project, Sri Lanka has currently secured up to \$8 billion of financing from China. The Chinese Government and the China sponsored Asia Infrastructure Investment Bank (AIIB) have recently proposed additional funding of up to \$32 billion for further infrastructure projects (Economic Times, 2017).

Some of the notable BRI projects in Sri Lanka include:

### 1. *Colombo International Financial City (CIFC)*

This project (formerly known as the Colombo Port City) is an instrumental part of China's BRI and aims to build a new city and financial centre along the existing Colombo coastline that will serve as Sri Lanka's financial and business district by 2030. This development is meant to support the main port and provide the ancillary services that support the shipping industry including insurance, financial and logistical services (Ministry of National Policies and Economic Affairs, 2017). With an investment of US\$ 1.4 billion in the first phase of the project which includes reclaiming 269 hectares of land, and a planned second level building complex of US\$ 13bn, it is the largest FDI project in Sri Lanka to date. It is expected to create more than 80,000 jobs. After the change of government in Sri Lanka in 2015, its construction got suspended for more than a year.

### 2. *Hambantota Port and Adjoining Industrial Estate*

Sri Lanka is located at a strategic point for the BRI. The port of Hambantota is indispensable for China's energy security because the country imports two-thirds of its oil through shipping lanes south of the port

(Nikkei,G.Y and Palma, S., 2018). This initiative aimed to build a secondary port at the coastal town of Hambantota, to alleviate capacity and crowding concerns with the primary port in Colombo. The project was initially kicked off in 2008 by Sri Lanka on the basis on Chinese finance with the intention that Sri Lanka would operate the facility. However recently, China has taken over the project through providing additional funding and in turn taking a 70percent stake in the joint venture with the Sri Lankan Port Authority which holds the remaining shares.

In addition to this, the latest investment gives China control over 15000 acres of land adjacent to the port for the development of an industrial zone in Hambantota. The feasibility study for the industrial park identified the development of shipping services, processing of seafood, agricultural products and other processing/manufactured industries. (Shida,W. 2017).

### 3. *Colombo Port Expansion*

Another BRI project in Sri Lanka is the expansion and modernisation of the Colombo port - the Colombo International Container Terminal, a Sino-Sri Lanka joint venture. The port, which serves as Sri Lanka's primary hub for freight has faced capacity concerns and as part of a joint venture with Chinese investors, construction of a new South Container Terminal was started in 2011(Bloomberg, 2013).

### 4. *Mattala Rajapaksa International Airport (MRIA)*

The airport is located in Hambantota, 241 km south-east of Sri Lanka's capital city, Colombo. MRJA is the second international airport in Sri Lanka. Construction of phase one began on 27 November 2009 and MRJA was opened in March 2013; US\$209 million were spent on the project, with \$190 million provided by the Chinese government via the Exim Bank of China.A second stage of expansion was planned but has not commenced; it will expand terminal capacity from 1mn to 5mn passengers per year (Airport Technology) but the project has proved to be an white elephant.

### 5. *Other Infrastructure Developments*

China has also invested heavily in the development of other infrastructure projects in Sri Lanka. Examples include: the US\$460 million develop-

ment of the Norochcholai coal power plant (Ministry of Power and Renewable Energy, 2017) to provide about 40 percent of the national's electricity supply (HE Cheng Xueyuan, 2018); the US\$250 Million Colombo-Katunayake expressway between the country's main airport and city facilitating travel and tourism industry (Ministry of Higher Education and Highways, 2017), Moragahakanda Project which is the biggest reservoir in Sri Lanka; Southern Railway and Expressway linking Colombo and Hambantota by the end of 2018. More recently, China has approved US\$1 billion for the funding of the phase one of the Central Expressway through a loan.

### *6. Implications of BRI for Sri Lanka*

This section aims to evaluate how the Belt and Road Initiative could potentially have a positive impact Sri Lanka. Concerns with the initiative are presented in the subsequent section.

### *7. Benefits of BRI for Sri Lanka*

BRI holds out the prospect of helping to bridge the significant infrastructure financing gap, increase connectivity, link local markets to regional and global value chains, and thereby increase trade and investment in the participating countries. BRI's impact can be framed in broad terms like trade, investment, tourism, and other flows between China and Sri Lanka.

### *8. Trade*

As the world's second-largest economy, China is one of the biggest traders in the world. While Sri Lanka is not an important trading partner of China, China has emerged to become Sri Lanka's second largest trading partner, after India in terms of Sri Lanka's total trade with the world. Initiatives, such as the BRI will enhance trade routes between both countries involved and facilitate trade bilaterally and beyond. Trade agreements have been placed under the BRI banner as well. Chinese officials have described a network of free trade agreements that would support the BRI, but to date, China appears primarily focused on bilateral trade deals. The FTA between Sri Lanka and China is expected to boost bilateral trade. According to the Feasibility Study Group of China-Sri Lanka Free Trade Agreement identifies nine potential products which would benefit from an FTA with China. According to

feasibility estimates, liberalisation of imports by China will increase exports from Sri Lanka by 3-112 per cent, depending in the export good/product.

The development of an industrial zone in Hambantota is likely to attract Chinese and foreign investment, boost jobs, tax revenues and the local economic base, contributing to expansion of bilateral and regional trade. The benefits of the maritime Silk Road stretch beyond infrastructure development by facilitating trade with new markets. The initiative focuses on increased cooperation between BRI countries which could help with the removal of trade barriers and promote regional trade and the formation of value chains.

### 9. *Investment*

Attracting more Foreign Direct Investment (FDI) is a priority for the Sri Lankan government. In countries like Sri Lanka, which has attracted limited investor interest in the past, BRI is a welcome development. As part of the BRI, there have been significant China investments in Sri Lanka. Existing investments in Sri Lanka as part of the BRI amount to approximately US\$8 billion, while China has offered up to an additional US\$24 billion in financing. The latest project to secure investment from the Chinese government is the building of a coastal rail link (HKTDC Research, 2018), and a \$500 million liquefied natural gas (LNG) plant near a Chinese-controlled port and industrial zone in (Reuters, 2018).

With increased trade and growth realised under BRI, there is anticipation that additional investments to Sri Lanka can be attracted. For example, Colombo Financial City once completed, is estimated to bring in over US\$13 billion in FDI. This can take the form of government led investment in infrastructure (as is the case with BRI) or as investment by private institutions. The outward investment can come from a combination of newly formed funds, such as the Asian Infrastructure Development Bank, the New Development Bank and Silk Road Funds, and from state-owned and private companies. Both of these approaches will enlarge the availability of capital, facilitating growth and further investment.

### 10. *Hard and Soft Infrastructure*

Speaking at the OBOR Leaders' Roundtable, Prime Minister Wickremesinghe said: "The Belt and Road Initiative will provide the much-need-

ed hard and soft connectivity in the Indian Ocean region required for rapid economic and social development”.

BRI has created significant opportunities for countries and companies to participate in a range of projects, especially those involved in construction or infrastructural works. Asia’s infrastructure is clearly in need of it: A recent ADB report highlighted 45 Asian countries should invest US\$26 trillion between 2016 and 2030 to fix their infrastructure shortfall (Deloitte, 2018). For countries needing infrastructure, the BRI holds the promise of investment in new railways, roads, ports and other projects, improving connectivity within and between countries.

To date, China has completed a number of infrastructure projects in Sri Lanka such as transportation, water, electricity, ports and etc. and have made important contributions to the socio-economic development of the country. For example, the introduction of the Katunayake Expressway connecting the city of Colombo to the airport has facilitated the faster transport of perishable goods (for example agricultural produce). The build-up of infrastructure as part of the initiative will ensure that not only will trade flow more freely, but rather local enterprises can leverage it to ensure domestic market access.

Fostering connections between Sri Lanka and China is important and should go beyond infrastructure links to include “soft infrastructure”. The BRI aims at enhancing economic relations and people-to-people contacts by deepening cooperation on education, science, technology, sport, health, etc. For example, China granted more than 1200 scholarships, training programmes and internships to Sri Lanka every year since 2015 (Xianliang, Y, 2017).

## 11. *Economic Hub*

Sri Lanka is striving to build itself as an economic hub in the Indian Ocean leveraging its strategic location and connectivity. Such a development goal is in line with the Maritime Silk Road. PM Wickremesinghe stated that Sri Lanka could be an economic hub within the BRI. BRI could open up the prospect of Sri Lanka becoming a major regional logistics and trading, and even production hub.

Currently, Sri Lanka’s main Colombo port is classed as number 30 out of 145 ports globally. Top 20 shipping lines in Asia all dock at the Colombo Port. Sri Lanka has a significantly strong feeder connection to other ports in South Asia and Africa. These ports do approximately 30 percent of their

trade via Colombo. The increased investment in capacity, port technology, warehousing and support services means that there is significant potential to attract new and larger shipping vessels, leading to significantly greater income for Sri Lanka.

In addition to Colombo, the Government has already commenced the development of the three major ports —Hambantota and Trincomalee, and the two international airports— Colombo and Mattala. These initiatives together with BRI will transform Sri Lanka into a logistics and trading hub. To support this, the new Colombo Financial City is being developed which aims to provide the support services including banking, brokerage, insurance, logistics and technology. Although BRI is helping kick-start this development, the skills and service sector developed through this will also help serve numerous other sectors of the Sri Lankan economy. However making a success of the BRI will require more than just building physical infrastructure. Soft infrastructure is critical, which means facilitating the movement of people, goods and services across borders.

## 12. *Development of Global Value Chains (GVCs)*

The growth of global value chains (GVCs) has increased the interconnectedness of economies and led to a growing level of specialisation in specific activities and stages in value chains. According to a report by the OECD, WTO, and World Bank (2014), more than 70 percent of global trade is in intermediate goods and services while income generated within GVCs has doubled over the last 15 years. However, not all firms and countries are equally involved in GVCs. Some countries participate in many, either as the host country to lead firms or as suppliers of very specific tasks, while others participate very little. These varying degrees of connectedness across countries are determined by many factors, some of which are inherent to the country (country's geographic location and natural endowment), while others can be shaped by policy (country's human capital, infrastructure, and business environment). Thus, BRI can play an important role in the participation of Sri Lanka in global value chains and facilitate the easy exchange of goods and services through necessary infrastructure development.

GVC trade in the Sri Lanka continues to be dependent on a handful of medium sized investments. The manufacture of parts and components is significantly low compared to other countries and the country's share does not appear to be increasing adequately to keep pace with the rest of the



world. Sri Lankan government has shown its enthusiasm to actively participate in global value chains development. Sri Lanka's basic manufacturing could be greatly improved once the Hambantota logistic and adjoining industrial zone is operated. Due to the extension of the maritime Silk Road to include regions as far as east Africa and Oceania, Sri Lanka will have access to diverse markets, which were previously difficult to access, providing the opportunity for increased product and service diversification.

### 13. *Growth in Tourism*

China has made it clear in its Vision and Actions document that tourism forms a key part of their plans for countries involved in the Initiative and will "jointly create competitive international tourist routes and products; and make it more convenient to apply for tourist visa in countries along the Belt and Road". Tourism in Sri Lanka is already a major industry and great contributor to the economy (CEIC). Since 2010, Chinese nationals have made up a significant portion of the overall tourist population visiting Sri Lanka. The number of Chinese tourists visiting Sri Lanka between 2010 and 2016 has grown by over 70 percent and as of 2016 Chinese tourists make up approximately 15 percent of all the tourists coming to Sri Lanka (Deyshappriya, N.R.R., 2017). As the Initiative gains traction in the region, its impact will be crucial in helping even more tourists from China and neighbouring countries to Sri Lanka facilitated by increased trade and business between Sri Lanka and BRI countries.

### 14. *Discovery and Utilization of Maritime Resources*

Better maritime infrastructure will mean that Sri Lanka can explore and exploit sea found natural resources that fall within Sri Lanka's Exclusive Economic Zone (a radius of 200 miles around the island). If significant deposits of commodities or natural resources are found within this zone, better maritime infrastructure (specifically the Hambantota and Colombo ports), better trading relations and routes with countries and increased cooperation with other countries due to better knowledge transfer (brought about by the Belt and Road initiative) will make these natural resources more exploitable and marketable.

### 15. *Technology and Knowledge Transfer*

One of the key objectives of BRI is to promote the transfer of knowledge and expertise between countries participating in the programme. Towards this end, a university alliance has been set up by China to facilitate policy, research, cross-cultural understanding and training between institutions in countries participating in the BRI (Lie, M., 2016). In addition, through the development of value chains and trade/investment flows, significant knowledge transfer will take place, which can then be disseminated locally, laying the foundations for sustained economic progress.

### 16. *Employment Opportunities*

Both through the direct efforts involved in the construction of new infrastructure and through the creation of new service industry jobs and increased trade, it is envisaged that the BRI will boost employment within Sri Lanka. For example, the new financial city is forecasted to provide 80000 new jobs when completed. (Xinhua State News Agency, 2017).

## VII. POTENTIAL CONCERNS AROUND BRI FOR SRI LANKA

### 1. *Power Rivalry*

Currently, Sri Lanka is walking a tight rope: seeking economic and other benefits from China under BRI while maintaining close relations with its rivals, the US, Japan and India (Ramanayake, P. 2017). As the biggest country in South Asia, India has been watching China's activity in Sri Lanka and elsewhere in the region with concern. BRI has raised concern of China's intentions in the Indian Ocean given the ambitions of the plan. Not surprisingly, India is not a party to the BRI. India together with Japan, who are concerned about the strategic implications of China's economic expansion, did not attend the summit held on BRI last year (Stanzel, 2017). In fact, India openly rejects the BRI, saying China's projects with neighbouring Pakistan infringe on its sovereignty. India sees China's investments in the ports and infrastructure across South Asia as a defence threat or part of the so-called "String of Pearls" strategy, according to which China will take advantage of ports in the Indian Ocean (Gwadar in Pakistan, Chittagong in Bangladesh, Kyaukpyu

in Myanmar) to contain India. From this perspective, China's investment in Sri Lanka especially in the ports of Colombo and Hambantota are seen of strategic importance. For example, the docking of a Chinese submarine at the port of Colombo in 2014 and the handover of a port at Hambantota in December 2017 raised alarms in Delhi.

In addition to India, the West and Japan have been observing China's increasing presence in Sri Lanka and its involvement with the BRI under with the Rajapaksa administration with concern, prompting the new elected government in 2015 to rebalance its relations with India and West. The strategic location of Sri Lanka at the centre of the Indian Ocean has trapped Sri Lanka in the power rivalry involving major economic powers such as the USA, India, China, and Japan.

## *2. Autonomy and Independence*

With a significant portion of investment and funding in BRI coming from Chinese public entities, there is concern of Sri Lanka's growing debt burden and loss of sovereignty. There is concern that due to the ownership of key central infrastructure (e.g. the ports) being tied to such entities, Sri Lanka sacrifices a level of autonomy around how to manage these infrastructures. In Sri Lanka, China's takeover of a troubled Hambantota port raised questions about a loss of sovereignty.

## *3. Growing Debt Burden*

As part of BRI and due to the increased funding and loans made available by China, Sri Lanka has inherited a significant amount of debt to China and rest of the world. Sri Lanka's debt equals 81.6 percent of its gross domestic product, which the International Monetary Fund says is the third-highest ratio among emerging economies. China is currently Sri Lanka's largest creditor (Legrand, 2018). The Sri Lankan government has had difficulty making repayments on some of these debt obligations and has had to restructure the debt agreements with the Chinese government. A prominent example of this is the funding around the Hambantota port. In 2008, former Sri Lankan President Mahinda Rajapaksa ordered the construction of the Hambantota Port. Due to the inability to repay the \$1.4 billion loan from China, the Sri Lankan government has granted the Chinese government an exclusive 99-year lease on the Hambantota port in exchange of US\$1.1 billion of debt write off (New York Times, 2018).

#### 4. *Transparency and Corruption*

There has been international criticism of BRI's potential to generate huge levels of corruption. Given the limited oversight (by design) and the projected speed of development, as well as the countries and industries involved, businesses working on these infrastructure projects can face bribe demands. According to the 2017 TRACE Bribery Risk Matrix, which measures business bribery risks in 200 countries, BRI countries show comparable patterns of bribery risk: China and Sri Lanka rank at 158th and 159th out of 200 countries. Coupled with overall country risks are the risks specific to the industry: 30 percent of cross-border bribery cases are in the construction and transportation sectors, and some estimate that between 10 and 30 percent of investment in publicly-funded construction projects may be lost due to corruption. Despite its stated desire for a "clean belt and road", China's past indifference to the payment of bribes beyond its borders by Chinese companies is not encouraging.

#### 5. *Low Investment Return*

Often infrastructure projects are driven more by political considerations than commercial needs. The lack of commercial imperatives behind [BRI] projects means that it is highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors (Zhou, J., Hallding, K., Han, G., 2015). A case in point is the Mattala Rajapaksa International Airport (MRIA), located in the town of Mattala, serving southeast Sri Lanka. MRJA which was opened in March 2013 by President Mahinda Rajapaksa has failed to attract business (Samarajiva, 2017). Initially, several airlines flew to the airport, including SriLankan Airlines. However, due to low demand, most of these airlines left Mattala. As of June 2017, two airlines fly from the airport to destinations within Sri Lanka and the United Arab Emirates.

Due to the low number of flights, it has been proposed to offer long-term aircraft parking services as well as creating flying schools and maintenance services to be offered from the airport. In 2016, the Sri Lankan government called for Expressions of Interest to run commercial activities as the airport is not generating enough revenue to pay back the loans. It has been called "the world's emptiest international airport" due to its low number of flights.

## 6. *Public Perception and Opposition*

There has been some negative reception to BRI, largely due to the amount of debt that has been undertaken by Sri Lanka and the loss of its autonomy. There have been a number of occurrences of public unrest, most recently rioting in the port city of Hambantota to express dissatisfaction with the loss of land; the government's handling of the debt repayment and the leasing of the port to China (Al Jazeera News, 2018). The Hambantota project failed to account sufficiently for local feelings about the development, concerns about political corruption, and national and regional political and security worries (Deloitte, 2018).

## 7. *Pollution and Sustainable Growth*

Currently, the focus of the BRI programme has been to rapidly scale out key infrastructure that is instrumental to trade, including ports, industrial zones and roads. To date, there have been limited studies to evaluate the long term environmental impact of these infrastructure projects. While the Environmental Impact Assessment (EIA) of the Colombo Port City shows that there is negligible impact from the construction, some have raised concerns around negative impacts due to the mining required for landfill and for marine life due to the reclamation of land for the project (Sivaram, K., 2017).

Moreover, there is concern that some of the other investment through BRI has been towards rapidly scaling out energy production heavily dependent on fossil fuels. Examples in Sri Lanka include funding of the Puttalam Coal Power Project. Concerns have been raised that these long term projects could breed a culture of fossil fuel dependence and dissuade investment in greener and more sustainable alternatives (Pike, L., 2017).

## 8. *Changes in Government and Policy*

After initial fanfare, projects sometimes experience serious delays. In Indonesia, construction on a US\$6 billion rail line is behind schedule and costs are escalating. Similar problems have plagued projects in Kazakhstan and Bangladesh. As changes in government and policy occur frequently, there is concern that new governments may not agree to or honour commitments made by previous ones, as it was seen in Sri Lanka. The Sirisena-

Wickremesinghe government took immediate steps to suspend a number of major Chinese-funded projects inaugurated during Rajapaksa's rule after coming into power. Within months, however, government not only restarted the projects, including the CIFC/Colombo Port City, but requested new investments from China to overcome acute balance of payments and debt problems. In such instances, politically motivated decisions could thwart investment and confidence in Sri Lanka.

### VIII. MAXIMIZING THE OPPORTUNITY OF BRI

BRI is seeking to rebuild China's ancient silk routes for the 21st century by building new connections across three continents. This is cross-border ambition on an unprecedented scale, at a time when globalisation and free trade are under threat in some regions. Under the BRI, China will build railways and highways, aviation links, oil and gas pipelines, transmission lines and telecommunication networks that will bring together many countries in Europe, Africa, and Asia and benefit millions of people.

BRI's success and its ability to foster connections between Sri Lanka and China will require more than just building physical infrastructure. Soft infrastructure is critical, as well as structural reforms and improvements in trade policy and investment climate in the country to better integrate into international value chains. The provision of funding alone is not enough to overcome the fundamental challenge of identifying environmentally sustainable and financially viable projects. Projects could fail as a result of poor investment decisions due to political priorities overriding economic considerations. The wrong kind and scale of infrastructure investment can lead to difficult debt situations. Or projects that offer insufficient returns to the communities could result in political backlash. As Sri Lanka engages with the BRI, it needs to address these risks as well as balance Sri Lanka's relationship with China and other major powers with an interest in the Indian Ocean.

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## OBOR PROJECT: THE CASE OF RUSSIA

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Artem YAKOVLEV\*\*

*SUMMARY: I. Introduction. II. The risks of growing Chinese impact on post-soviet space countries. III. The Russian vision of efficient SREB and EAEU convergence. IV. Problems versus possibilities of converging SREB and EAEU projects. V. References.*

### I. INTRODUCTION

In China's "One Belt, One Road" (OBOR) initiative and its "overland component"—"Silk Road Economic Belt" (SREB)—three points have been, from the very start, of utmost importance for Russia. The first point is linked with the risk of China's growing impact on post-soviet space countries (primarily, Central Asian countries), and the erosion of interest in deeper economic integration with Russia. The second point is connected with maximization of economic benefits from Russia's participation in New Silk Road projects. And, last but not least, the essence of the third point lies in minimization of geopolitical and economic costs coming from the eventual transport corridors of the New Silk Road bypassing Russia. In their paper the authors attempt to feature the actual state of the three problems mentioned above, they also try to find an answer to the question about the prospects of implementing the Russian project of Eurasian integration in the framework of the Eurasian Economic Union (EAEU) founded on Janu-

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ary 1, 2015 and integrated by Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia—seen through the prism of China’s integrational activity.

## II. THE RISKS OF GROWING CHINESE IMPACT ON POST-SOVIET SPACE COUNTRIES

Over twenty years after the break-up of the USSR, Russia has been making numerous (inadequate) attempts to integrate, in a more or less broad format, post-soviet space countries. Only during the 2008-2009 global economic crisis, in view of major geopolitical shifts occurred simultaneously in several regions (Europe, the Middle East, Asia-Pacific Region) did Russia, together with Belarus and Kazakhstan, succeed with a certain breakthrough in this field. The Customs Union set up in 2010 with its three countries, the Common Economic Space (CES), whose development started in 2012, and, finally, the launch on January 1, 2015 of the Eurasian Economic Union with Armenia and Kyrgyzstan acceding to it—these are the most significant stages of the Eurasian integration project.

The launch of EAEU took place at the background of an unfavorable economic situation in world raw and fuel markets, a sinking demand and decelerated growth rates of world economy. The regime of Western sanctions levied against Russia, and the Ukrainian crisis were serious external shocks, which degraded the Russian Federation’s integration potential. The formation of EAEU has developed under economic downfall in Russia (up to 2017), decelerating real GDP growth rate in several EAEU countries and aggravating financial problems in the countries of the region (Vardomsky L.B., Pylin A.G., Shurubovich A.V., 2017, pp. 22-41).

Several competitive integration strategies and projects existing in post-soviet space appear as external challenges to the Eurasian project with Russia’s participation. Their initiators put in considerable efforts to materialize, in the given part of the world, their own geopolitical and geoeconomic interests, which give weight to enormous comparative advantages of the Eurasian space (Glinkina S.P., Turaeva M.O., Yakovlev A.A., 2016). This refers, primarily, to the geopolitical position of members of the Commonwealth of Independent States (CIS) (CIS is an international organization (international treaty) destined to regulate cooperative relations between the states (not all) of former USSR. The CIS is not a supranational institution, it functions on voluntary basis.) and their natural resources. The British geographer and politician H.J.Mackinder (1861-1947) as long ago as in 1904 called the huge Eurasian heartland the pivotal region of world politics and history and ar-

gued that dominance in this space can be basic for world dominance (Mackinder H.J., 1904, p. 421-437). 16.3% of world territory, 5% of population, 25% of explored natural resources (including 7% of world oil and 40% of natural gas reserves), 10% of world industrial production are accounted for by CIS countries (Doklad Natsionalnogo ekonomicheskogo sovetu, 2004).

By the time of final institutionalization of the Eurasian integration project, China —neighboring three of the five Union participants— achieved a leading position in world economy thanks to its spectacular economic growth (an average of circa 10% per year over three decades). China’s economic strength is an objective basis to reinforce the country’s integrational engagement with its neighboring countries, among them post-soviet countries of Central Asia (CA) and Caucasus take a special place at the present stage.

For a long time, the Chinese leadership admitted that “the CIS is Russian Federation’s traditional sphere of influence. In this respect Russia is very sensitive to any external forces, China being no exception” (Doklad Natsionalnogo ekonomicheskogo sovetu, 2004). This reality considerably complicated the progress of China’s policy in the CIS and made it necessary to design a strategy of gradual exploitation of post-soviet space.

The leadership of the People’s Republic of China (PRC) did not hurry, took time and closely followed the complex and volatile situation in the Eurasian region. At the onset of the new millennium the Chinese leadership devised a multi-level, thoroughly balanced step-by-step strategy aimed at developing post-soviet space. Channels of bilateral interaction as well as mechanisms of multilateral cooperation were set in motion. Initially, the focus was on economic interaction and the goal was to achieve maximal success at minimal costs.

Everything possible was made to remove Russia’s hostility sentiments linked with China’s expansion in the region. Faced with growing heterogeneity of post-soviet space and the penetration in the region of US-led western forces, China held it to be possible and desirable to pursue in the CIS a policy coordinated with Russia. The Chinese authors claimed that “China should devise an active policy towards the CIS countries taking into account the content of Sino-Russian relations, which aim at strategic interaction and partnership, consider strategic interests and are also in line with the current situation in countries of the Commonwealth” (Van Shucun, Van Chinsun, 2012).

As a result, objective prerequisites for fostering economic cooperation were enforced by a well-defined and elaborated strategy of China developing the post-soviet space in form of bilateral relations.

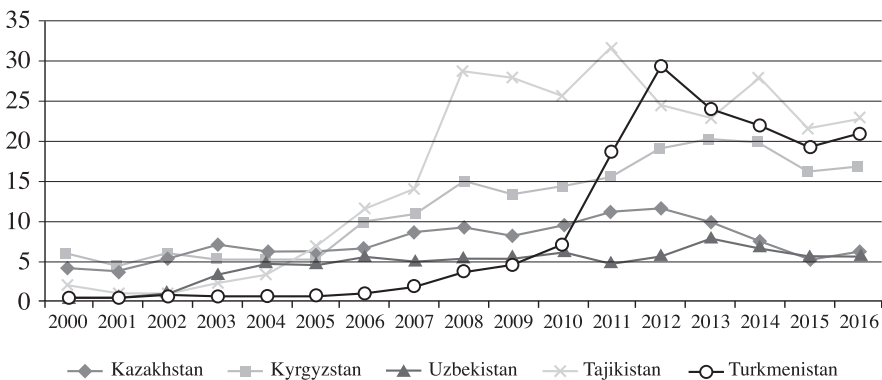
The Chinese leadership closely monitored the complicated and rapidly changing situation in the Eurasian region and stucked with the diplomatic

course to two lines: the first one is “grasping the large and letting the small go”, which means in this case-maintain stable relations primarily with large CIS countries; and the second one is moving “from near to far”, which means-start friendly relations with neighboring CIS members and then extend ties with other countries, which are of specifically high strategic importance for China.

China has passed to the strategy of strengthening bilateral links in the region by targeted actions and by thoroughly examining the situation in every single CIS country. In the security sphere the most important PRC’s partners in post-soviet space, apart from Russia, are Kazakhstan, Kyrgyzstan and Tadjikistan; in the economic sphere these are Kazakhstan, Uzbekistan, Turkmenistan, Azerbaijan, Belarus and Ukraine—in other words, either energy resources-abundant countries or those which possess a significant military potential and, thus, play an important role in China’s economic development and national defense modernization.

Foreign trade was the main tool in the strategy of post-soviet space development during its first stage. And the results are impressive. Official statistics shows that in 1992, with diplomatic relations established between China and five Central Asian countries, the overall trade turnover of China with the region made only \$460 mill. Twenty years later, in 2012, the indicator reached almost \$46 bln, thus growing 100-fold ( Xinhua News Agency, October 24, 2013). The dynamics of trade turnover between the five CA countries and PRC can be seen in Graph 1.

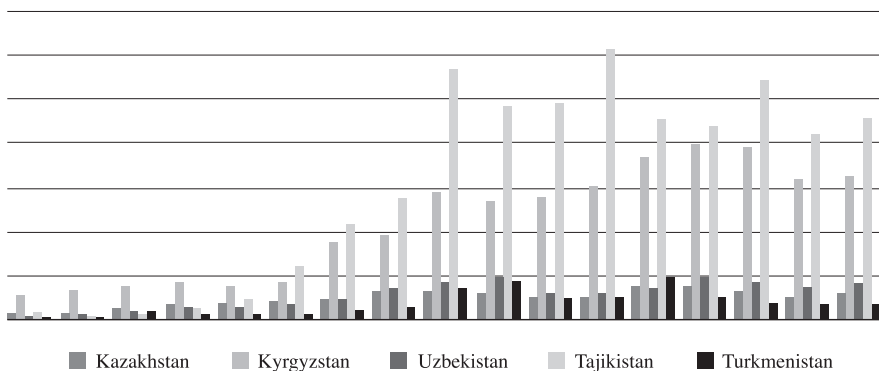
GRAPH 1. THE DYNAMICS OF TRADE TURNOVER BETWEEN PRC AND CA COUNTRIES, IN % TO GDP



SOURCE: calculations based on UN Comtrade data (<http://comtrade.un.org>) and Worldbank (<http://www.worldbank.org>).

The volume of both imports from PRC to these countries (Graph 2) and their exports to the Chinese market (Graph 3) grew considerably.

GRAPH 2. DYNAMICS OF CA COUNTRIES' IMPORTS FROM PRC, IN % TO GDP

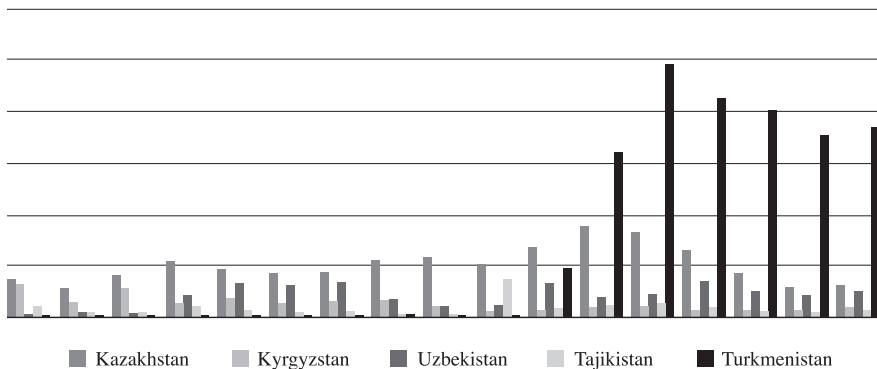


SOURCE: Calculations based on UN Comtrade data (<http://comtrade.un.org>) and World Bank (<http://www.worldbank.org>).

In Tadjikistan and Kyrgyzstan, countries most dependent on Chinese imports, the relation between value imports from China and the country's GDP reached, in particular years, 30% and 20% respectively. The share of imports from China in the overall import of CA countries grew from 20% in 1996 to 87% in 2016 (World Bank Group, 2016).

The share of China in CA countries' exports increased also, but less than imports, and made in 2016 21% of the overall export volume of CA countries (compared to 15% in 1996). The highest relation of exports to PRC to national GDP showed Turkmenistan (25% in 2012), in other countries this indicator varied between 0.1% and 8.0% (see Graph 3).

GRAPH 3. EXPORTS DYNAMICS OF CA COUNTRIES TO CHINA, IN % TO GDP

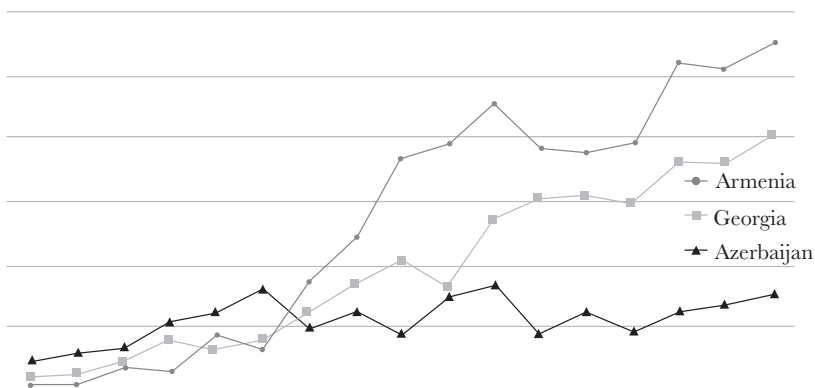


SOURCE: Calculations based on UN Comtrade data (<http://comtrade.un.org>) and Worldbank (<http://www.worldbank.org>).

Over 2004-2017 export and import shares of China grew, practically, in all post-soviet Central Asian countries. China turned into the first important trade partner of Kazakhstan and Turkmenistan, the second biggest of Uzbekistan and Kyrgyzstan and the third biggest to Tadjikistan.

China’s development of Caucasus began with a certain time lag, but substantial results have been achieved here as well (see Graphs 4, 5, 6).

GRAPH 4. DYNAMICS OF TRADE TURNOVER BETWEEN ARMENIA, GEORGIA, AZERBAIJAN AND CHINA, IN % TO OVERALL TRADE TURNOVER

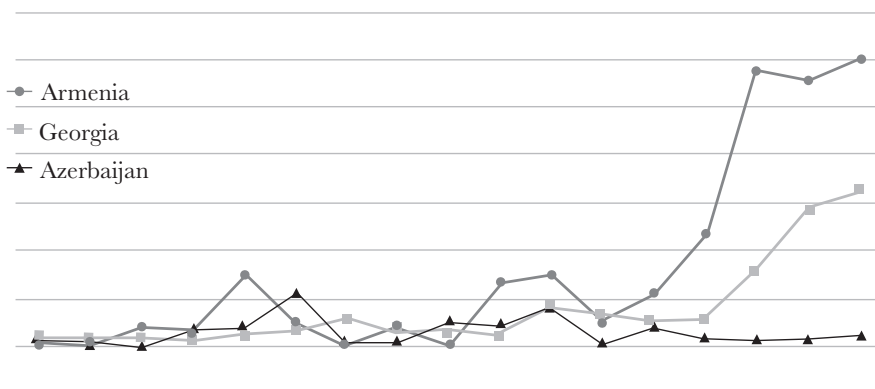


SOURCE: Calculations based on UN Comtrade data (<http://comtrade.un.org>).



Graph 4 shows that in 2000-2016 the share of Armenia's trade turnover with China in the country's overall trade turnover grew by 50.5 times, of Georgia's by 18 times, of Azerbaijan by 2.7 times. The share of China also increased sharply in Armenia's and Georgia's aggregate exports (55.5 and 19 times respectively). Meanwhile, the Chinese market has not yet discovered Azerbaijan's market, the share of exports to the latter remains on the level of 0.3%.

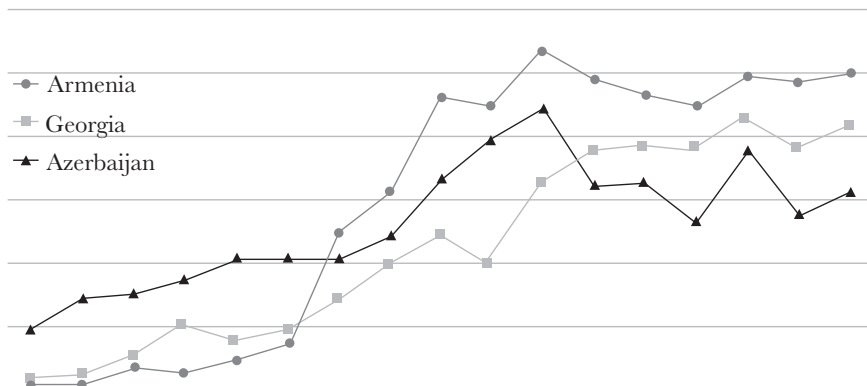
GRAPH 5. DYNAMICS OF EXPORTS OF ARMENIA  
GEORGIA, AZERBAIJAN TO PRC, IN %  
TO OVERALL EXPORTS



SOURCE: Calculations based on UN Comtrade data (<http://comtrade.un.org>).

The volume of Chinese imports increased substantially in all these countries (See Graph 6). In particular years, imports from PRC amounted in Armenia to 10.6%, in Azerbaijan to 8.9%, in Georgia to 8.5% of the overall imports of respective countries.

GRAPH 6. THE DYNAMICS OF ARMENIA’S, GEORGIA’S, AZERBAIJAN’S IMPORTS FROM PRC, IN % OF OVERALL IMPORTS



SOURCE: Calculations based on Comtrade data (<http://comtrade.un.org>).

The Chinese economic expansion could not but result in driving Russia out of the above regions—a trend illustrated by data given in Table 1 below.

TABLE 1. CCA: TRADE SHIFT FROM RUSSIA TO CHINA (PERCENT OF CCA GDP)

|   | 2000 | 2012 |
|---|------|------|
| Oil and Gas Exports to China                    | 0.3  | 2.6  |
| Oil and Gas Exports to Russia                   | 4.6  | 0.2  |
| Agricultural and Raw Material Exports to China  | 0.8  | 3.3  |
| Agricultural and Raw Material Exports to Russia | 4.7  | 0.8  |
| Manufactured Goods Imports from China           | 1.3  | 6.2  |
| Manufactured Goods Imports from Russia          | 14.5 | 8.5  |
| Manufactured Goods Exports to China             | 2.7  | 3.3  |
| Manufactured Goods Exports to Russia            | 5.5  | 3.0  |

SOURCE: World Economic and Financial Surveys. Regional Economic Outlook: Middle East and Central Asia, October 2014, p. 93.

A marked growth of China’s trade with other post-soviet countries is observed, in particular, with the Ukraine and also with Belarus (a most impor-

tant Eurasian integration participant); trade turnover with both countries increased fourfold since 2000, and import more than 10-fold in constant prices. Belarus–China trade deficit is progressing since 2006 and reached the level of \$1.5 billion in 2016.

The overall reality is that China is continually making gains in post-soviet space at the expense of Russia. This is partly because “China’s business-is-business approach” with others “differs” from “Russia’s heavy doses of geopolitics”, according to Yu Bin (Yu Bin, 2016).

In 2001-2016 the share of China as investor and supplier of equipment and transport vehicles to all post-soviet countries (mainly CA countries) was on the rise. This results in China becoming the source of modernization for the new independent states, whereas the role of Russia is contracting in this area in several countries.

Mutual trade between China and post-soviet countries is based, to a considerable degree, on Chinese trade credits, whose scale, up to 2008-2009 world financial and economic crisis, exceeded substantially China’s direct investment accumulated by the countries. Up to 2014 the annual inflow of PRC’s foreign direct investment in post-soviet Central Asian countries surpassed heavily that in the Russian Federation (see Table 2). That is why by late 2015 China’s accumulated direct investment in Kazakhstan, Uzbekistan and Turkmenistan was 11 times higher than that of Russia (Eurasian Development Bank, Report 2016). The situation changed in Russia’s favor only in 2014 (see Table 2) which gave rise to ill-founded expectations among the Russian economic elite. “About a year ago, Russian businessmen had the impression that they could go with open pockets, and the Chinese would fill them with money. Now there is a more sober approach, cognizant of the fact that the Chinese are not inclined to take risks”, Andrey Denisov, Russian Ambassador to China, claimed (Country Report: Russia, The Asian Forum, 2016).

In any case, China is already a big investor in Russia, but the true volume of Chinese investment is unknown to either China or Russia because much of the investment occurs via such places as Hong Kong and various jurisdictions with tax minimization and tough secrecy regimes. This is almost certainly true, but some attempts have been made to get a better handle on this issue. According to Alexander Gabuev, also writing toward the middle of 2017, Chinese polling of Chinese companies that have invested in Russia has given the figure of “\$40 billion of cumulative investment by the end of 2016, with about a quarter (i.e., about \$10 billion) coming after the Crimea annexation (i.e., in early 2014)” (Gabuev A., 2017). The “China Global Investment Tracker”, jointly produced by The American Enterprise

Institute and The Heritage Foundation, suggests that the value of China’s “investment” overseas, in the period from the beginning of 2005 until mid-2017, is \$921 billion, with the Russian share being \$29 billion—or a little over 3%.

In the post-soviet space China invested in form of FDI especially actively during the world financial and economic crisis, when shares of mining enterprises in the region could be acquired practically at a rock-bottom price. If we evaluate the current investment needs of post-soviet countries, we cannot but acknowledge that China’s participation in satisfying them appears to be extraordinary important, if not decisive. The model of economic growth in effect in these countries up to now is exhausted, whereas the need for a qualitative infrastructure is enormous, Managing Director, Head of Emerging Markets Economics at Citigroup, David Lubin, holds. Chinese investment in the infrastructure of post-soviet countries might be the only hope for their recovery.

TABLE 2. CHINA’S FOREIGN DIRECT INVESTMENT INFLOW IN CENTRAL ASIA (CA) AND IN RUSSIA (MLN DOLL.)

| <i>Year</i> | <i>Kazakhstan</i> | <i>Turkmenistan</i> | <i>Uzbekistan</i> | <i>Tadjikistan</i> | <i>Kyrgyzstan</i> | <i>CA</i> | <i>Russia</i> |
|-------------|-------------------|---------------------|-------------------|--------------------|-------------------|-----------|---------------|
| 2006        | 276.24            | 0.16                | 14.97             | 30.28              | 124.76            | 446       | 470           |
| 2007        | 609.93            | 1.42                | 30.82             | 98.99              | 139.75            | 881       | 438           |
| 2008        | 1.402.30          | 88.13               | 77.64             | 227.17             | 146.81            | 1.942     | 240           |
| 2009        | 1.516.21          | 207.97              | 85.22             | 162.79             | 283.72            | 2.256     | 410           |
| 2010        | 1.590.54          | 658.48              | 83.00             | 191.63             | 394.32            | 2.918     | 594           |
| 2011        | 2.858.45          | 276.48              | 156.47            | 216.74             | 525.05            | 4.033     | 568           |
| 2012        | 4578.23           | 178.25              | 187.23            | 124.4              | 353.47            | 5.422     | 660           |
| 2013        | 5.823.76          | 342.14              | 132.07            | 205.65             | 302.98            | 6.706     | 4.080         |
| 2014        | 4.382.38          | 234.6               | 145.13            | 166.9              | 278.56            | 5.208     | 8.000         |

SOURCE: Annual statistical bulletin on foreign direct investment from China 2015; Data of PRC Ministry of Commerce.

The principal form of Chinese investment is crediting. By early 2016 CA countries received credit resources in form of loans of about \$30 billion. The majority of them are tied low-interest (1.5-3%) long-term (up to 20 years) grace-period loans.

China's active credit policy in CA entailed a rapid indebtedness growth of CA countries on their eastern neighbor. In 2016 the share of PRC's share in the foreign national debt of Tadjikistan amounted to 47% (\$1.2 billion), Kyrgyzstan 38% (\$1.4 billion), Kazakhstan nearly 10% (\$14.2 billion).

China's practices of exchanging its investment (credits, in the first place) for natural resources and market shares in post-soviet countries are going on. What is more, resources of the Silk Road Fund established in 2014 are added to China's national and commercial credits. According to the Foundation Rules the mission of the Silk Road Fund is "to provide for development of China and other countries and regions included in One Belt, One Road project". Its founders are Chinese development institutions exclusively: China Export-Import Bank (15% of authorized share capital), China Investment Corporation (15%), China Development Bank (5%) and State Administration of Foreign Exchange (65%). The Fund is a commercial profit-making organization. In September 2015 it allocated \$1.2 billion to acquire from PAO NOVATEK a minority share of 9.9% in Yamal natural gas liquefaction project, and for \$2 billion the gold-mining enterprise Vasilkovskoe in Kazakhstan. Thus, these two of the three investments of the Fund were aimed at natural resources extraction enterprises situated in the post-soviet space.

Moscow views the Chinese regional policy through the prism of Russia's own efforts to strengthen integration in post-soviet space (Kobrin'skaya I., 2016). In this context, one cannot fail to see that as a result of China's expansion in post-soviet space, the dependence of EAEU economies on China is growing through trade imbalances pickup. All EAEU members (Kazakhstan excluded) have a considerable trade deficit with China. Over the last three years in Kyrgyzstan it makes 93-95% of the overall trade turnover, in Armenia about one-third, in Belarus almost a half (The authors' calculations based on UN Comtrade data, <http://comtrade.un.org>).

One of the targets of the Eurasian Economic Union from its early inception was the stated promotion of reindustrialization of member-countries. It has been done next to none in this direction for the time being.

The EAEU's inaction in developing production cooperation becomes more and more evident at the background of China's programs of displacing, in the framework of SREB initiative, of dozens of industrial productions to the territory of Kazakhstan and Kyrgyzstan. Despite discussions held in the countries on the conditions and consequences of these plans, the programs will be apparently implemented. Many non-raw productions to be displaced fabricate products Kazakhstan and Kyrgyzstan are importing from China, hence, to enter their production directly in the countries can be

useful not only for the consumers (they save time and money) but also for the state. Taxes, infrastructure, jobs—under current economic circumstances all these factors are obviously profitable for EAEU countries. China will offer additional privileges and concessions to post-soviet countries (EAEU countries included) since it tends to get rid of excessive facilities, lower the environmental burden in several Chinese provinces, use cheap labor in order to minimize production costs and, in the end, enter the broad EAEU market without customs duties and limitations.

The established China-EAEU countries cooperation pattern evidently leads to deeper competition between the latter for Chinese investment, and to contest between China and Russia for influence on post-soviet space.

### III. THE RUSSIAN VISION OF EFFICIENT SREB AND EAEU CONVERGENCE

Proclaiming One Belt, One Road integration initiative and the launch of the Eurasian Economic Union on January 1, 2015 could, according to many experts, manifest the beginning of a transition to the stage of multilateral cooperation in the region. However, for the time being, progress on this trajectory is rather illusive. Russian companies are unable to act on equal terms on post-soviet space, besides the eventual areas of joint endeavors are hardly visible. China's bilateral cooperation with every post-soviet space country, with Russia included, so far lives its own life, and only slightly depends on the search for "convergence points".

For Russia, the most successful scenario variant seems to be to set up, in the framework of mated SREB and EAEU, several successful joint and mutually advantageous projects with the aim to build value added chains and come to a clear-cut agreement about the part of value added to be produced in EAEU, and the part produced in China. Upon that, the location of enterprises should be maximally profitable for the participants. If this entails deliveries of joint products to the European Union, these enterprises might be located nearer to the border of the European Union, i.e., in Russia or Belarus; in case of the Asian region, they might be located in China or in the Russian Far East.

The practice of shifting Chinese productions to the territory of Russia or Central Asian countries participating in EAEU, might be viable under modern conditions, if the Chinese party observes environmental norms and social standards and also employs local workforce. The Chinese party is interested in this process as well. The renowned professor Peter Cai from

China accepts that Belt and Road projects are insufficient to absorb China's "vast glut of steel and other products". Instead, he says, China wants to use it to "migrate whole production facilities" to less developed countries in order "to build-up their industrial bases". In this way, "domestic economic liabilities become foreign economic and diplomatic assets" (Cai P., 2017). He quotes a variety of Chinese officials making this point, the most recent being the Chairman of the Silk Road Fund (SRF) in a May 2016 speech. According to Peter Cai, "part of this thinking is informed by China's own experience of industrialization in the 1980s and 1990s", when "China imported second-hand production lines from Germany, Taiwan and Japan" (Cai P., 2017).

With all its positive sides, this process, if large-scaled, can impede the prospect of EAEU countries' reindustrialization on their own economic basis, undermine their interest in deepening intra-regional production cooperation.

Among the future-oriented cooperation areas between EAEU and China in the framework of One Belt, One Road initiative is agriculture. The changes Asia is undergoing, most notably, the rise of the middle class, growing consumption of inexpensive quality foodstuff opens the chance to substantially extend business in the sphere together with China. Reasonable opportunities are available to augment deliveries of agricultural products from EAEU countries to PRC. It is useful to set up joint companies that would make use of the potential and technologies of EAEU and China and turn into respectable players on the rapidly expanding Asian market. This will be a new stimulus to develop agriculture in EAEU countries and will help China meet food security challenges the country is facing.

Joint development of transport infrastructure appears to be promising, particularly the construction of collective ports in the Far East, that will unclog the bottlenecks in North-Eastern China.

Investment of Chinese companies made in the seaports of Kaliningrad is of mutual interest for EAEU and China. This project, when realized, might allow PRC to acquire a container anchorage terminal directly in Europe. The perspective development of the Northern Sea Route in Russia will open huge opportunities. In case these and many other projects are implemented, one can expect a meaningful extension of trade relations between EAEU countries and China as well as with countries supporting their SREB engagement—due to reduced transport leg, cheaper transportation and accelerated product deliveries.

The process of trade liberalization can also have a positive impact on trade expansion. The Chinese party insists on having a free trade zone in

the framework of SREB. But Russia treats the idea with caution. The main point here is that Moscow is in no hurry to significantly liberalize Russian or EAEU's manufactured goods trade with China. Russia is more interested in trade facilitation than trade liberalization. It is important to provide for a big platform rather than to be involved in competition. "EAEU is not yet ready to open its market to Chinese manufacturers", Yevgeny Vinokurov, Director, Center for Integration Studies, Eurasian Development Bank, held in December 2016 (Valdai Discussion Club, 2016). In regard to export-oriented manufacturing, EAEU is seen as an area for reindustrialization and technological development of Russian economy. A report of the Russian International Affairs Council (RIAC) states that "there is a need for more active use of coordination mechanisms for the EAEU's internal industrial policy". However, another aspect to all this exists. According to Vinokurov, "in today's world, free trade areas are not so much about goods, with trade accounting for less than half of the total volume, as they are about favorable investment regimes". In investment, according to an early 2017 RIAC report, Russia is less interested in "liberalization" than in "fortification of the EAEU" (Valdai Discussion Club, 2016).

A real convergence of SREB and EAEU projects presupposes activity of private companies from EAEU countries and from China, small and middle-sized in particular. Up to the present moment all co-projects are predominantly focused on intergovernmental level. E-commerce offers additional chances for cooperation development; it can help increase export of small businesses from EAEU countries to China and from China to EAEU countries.

Thus, according to the Russian party, we should search for mutually profitable forms of converging SREB and EAEU projects. Obviously, the resulting outcome should be for us "not a romantic union of one heart but a calculated marriage" (Country Report: Russia, The Asian Forum, 2016). On the way to make this target a reality we meet a series of problems, which, in their essence, are produced by several sources. Let us expressly dwell on this point.

#### IV. PROBLEMS VERSUS POSSIBILITIES OF CONVERGING SREB AND EAEU PROJECTS

Analysis suggests that Russia and China see mechanisms of converging Eurasian and Chinese integration projects differently: the RF insists on PRC-EAEU cooperation, whereas China considers bilateral cooperation with



every single EAEU member to be possible and even more efficient. China signed bilateral agreements with Russia in May 2015, with Belarus and Kazakhstan in September 2015. All of them are aimed to implement the SREB initiative. Belarus was the first country to sign a memorandum with the Chinese Silk Road Fund.

Kazakhstan and Belarus are ahead of Russia with converging their national development programs and also with the opportunities opening up thanks to SREB. In September 2015 the heads of Kazakhstan and China advanced their initiative of converging SREB and Kazakhstan's new Nurly Zhol economic program, signed dozens of cooperation agreements in transport, industry and energy economics in the framework of Kazakhstan 2020 and SREB economic policy convergence. Two transport routes mapped out in the framework of SREB are integrated into Kazakhstan's Nurly Zhol infrastructure program destined to develop the national infrastructure and set up a powerful regional transport and logistics hub. The volume of China–Kazakhstan agreements aimed at converging SREB and Kazakhstan's Nurly Zhol strategy (signed, in accordance with the Cooperation plan, on September 2, 2016) outstrips radically the practical steps taken by the rest of SREB participants.

The experience of Belarus with the Great Stone technopark being erected near Minsk with Chinese financial support will accumulate the energy of many small and middle-sized enterprises.

The countries mentioned above are ready to establish mutual relations for purposes of small projects, which, taken together, produce a substantial positive effect. Russia still follows a different approach—of contracts worth billions, preferably signed with state companies under immediate command of highest leaders and their close circle.

In Russia alarmist sentiments persist as before on different levels of power, the fear about China gaining more from cooperation than Russia, and also illusions about the integration initiative of China being a sort of charity towards countries that gave their consent to participate in it.

It should be expressly understood that, with geopolitical reasons aside, China's motives for One Belt, One Road strategy involve lower costs of export deliveries to EU countries and higher external demand for Chinese products and Chinese experts' services. China will contribute to modernize Russia's Transsib railway system or take part in developing the Northern Sea Route only in case this participation would allow to accomplish the country's strategic purposes. It is naïve to think that China is going to promote a reindustrialization of EAEU economies leading to appear new competitors to Chinese producers. Positive effects can be achieved by all

participants of this initiative, but in the first place the Chinese leadership's purposes will and should find an unbiased accomplishment.

Still not clear enough remains the very notion of “convergence”. In his press statement following the talks with the Chinese party, RF President Vladimir Putin said that “essentially, we seek ultimately to reach a new level of partnership that will create a common economic space across the entire Eurasian continent” (en.kremlin.ru 2016). The perspective of creating a common space of Shanghai Cooperation Organization (SCO)-SREB was also discussed by China's President Xi Jinping at Nazarbayev University in September 2013. But if we recall the idea —now, apparently, shelved— of the Common European Economic Space (its decision was approved by Russia and the European Union in 2003), we cannot help but admit that the essence of “the common space” notion has not been deeply examined even theoretically. The EU insisted on Russia borrowing the European legislation, norms and regulations; Russia, in its turn, meant four freedoms (free flow of goods, services, capital and citizens). In the case of China, too, the perspective of a common economic space seems to be complicated, when shaping this space many problems, that are challenging now for both parties (EAEU and China), will have to be solved.

Without giving an answer to the question about the essence of the common economic space in the framework of EAEU and SREB convergence, the Russian leadership steps up the level of cooperation.

For example, speaking before the St. Petersburg International Economic Forum in June 2016, RF President Vladimir Putin put forward an initiative to create a “greater Eurasian” partnership “involving the EAEU and countries with which we already have close partnership—China, India, Pakistan and Iran” and “other interested countries and associations”. “To start”, Putin said, “we might streamline and unify the regulation of departmental cooperation and investment, nontariff measures of technology and sanitary control, customs administration and protection of intellectual property ... further on, we should move gradually to the reduction and eventual abolition of tariff restrictions”. This was Putin's idea several months later, in October 2016, put forward at the Valdai Discussion Club:

TRUN Russia advocates the harmonization of regional economic formats based on the principles of transparency and respect for each other's interests. That is how we arrange the work of the EAEU and conduct negotiations with our partners, particularly on coordination with the SREB project, which China is implementing. We expect it to promote an extensive Eurasian partnership, which promises to evolve into one of the formative centres of a vast Eurasian integration area (Putin V., 2016).

As for Greater Eurasia, the joint report by the Chongyang Institute for Financial Studies, Valdai Discussion Club, and The Kazakhstan Council of International Relations, describes it as “nothing else than an attempt to grope for new sources of economic growth. Russia sees them in its potential entry to Asian markets and building up trade with EAEU nations, in luring investments in infrastructure projects in Siberia and Far East. China prefers large-scale investments in external infrastructure and gaining access to new natural resources” (Valdai Discussion Club, 2017).

It suggests that after so much discussion there is a broad understanding about Greater Eurasia idea within Eurasia itself. In reality, Vladimir Putin and many influential Russian analysts mainly regard Greater Eurasia as a geo-political concept to reduce the power of the US and build a multi-polar world. Economic growth aspects are secondary.

Putting trade, security and geopolitical factors together, allows us to see that the basic reasons for EAEU and for Belt and Road are different. EAEU is based on Russia’s conviction that globalization would gradually outlive its usefulness and the perceived opportunity for it to form a center of economic and political power in Central Eurasia. China, however, launched its Belt and Road as a way of taking further advantage of globalization and boosting its own security in the process.

At the background of EAEU development trends that give rise to concerns, the losing momentum in the multilateral format of the dialogue on convergence can provoke tougher competition in EAEU, erosion of the Eurasian integration, absorption of EAEU by the eastern neighboring giant which, as shown above, is strengthening its positions in post-soviet space countries.

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## THE OBOR INITIATIVE WITHIN THE FRAMEWORK OF THE RUSSIA-CHINA RELATIONSHIP

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SUMMARY: I. *Introduction*. II. *Trends in economic relations between Russia and China*. III. *Options for future SREB ways*. IV. *Linking of the EAEU and SREB*. V. *Bibliography*.

### I. INTRODUCTION

In the last decade, taking an active part in the G20, APEC, BRICS, EAEU, SCO, other multilateral forums and organizations, as well as in the implementation of UN programs, the Russian Federation has regained its positions in the international arena, that was lost during the Perestroika and transition period. It generates international initiatives and supports projects of other countries that contribute to the socio-economic development of Russia and its partners. Thus, the Russian leaders supported China's initiative on the formation of the Silk Road Economic Belt (SREB, u OBOR), which was put forward by the Chairman of the People's Republic of China Xi Jinping in the fall of 2013 and subsequently merged with another his initiative of the 21st-century Maritime Silk Road, into a general concept called "One belt-One Road". This concept covers the spheres of infrastructure construction, investments in industrial facilities, development of natural resources, trade and economic and financial cooperation, environmental protection.

More than 60 states expressed interest in implementing the Chinese concept, among which Russia has a special place, as one of the main land routes from China to Europe will go through the territory of Russia and

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other countries of the Eurasian Economic Union (EAEU), in which it occupies key positions. Therefore, it is more interested in SREB projects, which should contribute to the formation of a single Eurasian economic and trade space, enhance regional economic integration, create a modern trans-Asian transport infrastructure, remove investment and trade barriers, enhance the role of national currencies, and deepen cooperation in the humanitarian sphere.

It is planned to build not only transport routes in the framework of the SREB, but also to form international corridors of economic cooperation. The SREB implies the expansion of the scope of financial transactions between countries, the creation of financial institutions with various regional organizations, such as the SCO and BRICS, where Russia plays an active role.

Based on Russian support for this PRC initiative and to identify the prospects for its strategic participation in the SREB we will try to analyze the current state of bilateral trade, investment, industrial, humanitarian and other ties, to consider the planned joint Russian-Chinese projects, as well as the opportunities for the EAEU and SREB integration.

## II. TRENDS IN ECONOMIC RELATIONS BETWEEN RUSSIA AND CHINA

Taking into consideration the geographical proximity of the territories, Russian-Chinese trade and economic ties have a long history, which became the basis for bilateral cooperation between the new Russia and the PRC. Stages of these relations in the period since 1992 were systematized by the Chinese researcher Wang Nana from Henan State University of Economics and Law. In particular, he noted that after the collapse of the Soviet Union, in Russia there was an acute shortage of products for everyday life, which it acquired among others from China. It helped to solve the acute problem of shortage of funds from the enterprises of the two countries and in 1993 the trade between them reached 7.7 billion dollars. In 1996, the trade turnover increased to 25% compared to 1995. In 1997-1998, as a result of the decline in world prices for raw materials, primarily oil, gas, metals, which formed the backbone of Russia's exports, and the global financial crisis, the volume of trade between the two countries declined by 10.7% and 10.5%, respectively. Wang Nana stressed that "in 1999, Russia is emerging from the impact of the economic crisis. The positive trend is especially evident in 2000 after the election of President Vladimir Putin. His strong and very first desire was to get rid of

the economic crisis and restore Russia's status as one of the leading countries in the world. Thus, he applied a pragmatic policy to orient economic interest in China (Wang Nana, 2016, pp. 73-79)".

New principles and directions of bilateral cooperation were formulated in the Treaty on Good-Neighborliness, Friendship and Cooperation between the Russian Federation and the People's Republic of China of July 16, 2001. This document laid a good foundation for business relations between the states and indicated the direction for further development of economic cooperation. Since the signing of the treaty, the volume of trade between the two countries has started to increase rapidly, and from 2000 to 2008 the average annual rate of growth in the volume of Russian-Chinese trade reached 30%.

The current state of these relations is determined by the parties as a comprehensive, equitable, trusting partnership and a strategic interaction. The development of this partnership is facilitated by an intensive political dialogue at the level of Russian President Vladimir Putin and Chinese President Xi Jinping, that have annual meeting at least five times a year.

The most important component of bilateral relations is trade and economic cooperation between the two countries. China became the largest trading partner of the Russian Federation, that by the results of 2016 took the 14th position in the rating of its twenty major trading partners.

After significant growth of bilateral trade in 2008-2013, there have been a reduction in the next 2014-2016. According to the data of the international trade center, the volume of trade between Russia and the PRC in 2016 amounted to 66 billion dollars, Russian exports — 28 billion dollars, imports — 38 billion dollars (Market Analysis and Research, International Trade Centre, ITC). The positive trade balance for the PRC was 10 billion dollars.

This volume has retained for China the status of Russia's largest foreign trade partner, and the disproportion between exports and imports is largely due to the relatively unfavorable price environment of the energy market.

Over the past few years, two commodity groups have occupied the dominant position in the commodity structure of Chinese export to Russia: "machinery, equipment, vehicles" and "textiles, products made of it, shoes". Among the main exports of China to Russia are mainly consumer goods: clothing, accessories; telephone sets; video and audio equipment; computing machines.

The structure of Russian imports from China was formed back in the 1990s and its diversification is quite high. Russian companies trade with China practically throughout the entire range of goods. The imports of



Russia from China in 2016 were cars, equipment and vehicles (58.6%); textiles and footwear (11.4%); products of the chemical industry (9.4%); metals and articles thereof (6.7%); food products and agricultural raw materials (4.3%); wood and pulp and paper products (1%).

Among the main imports of the People's Republic of China from Russia are raw materials or low-grade products mainly allocated, namely, crude oil, raw nickel, oil products and raw timber. Mineral products were the main source of growth in China's imports from Russia in 2008-2013, when the volume of purchases of these products increased from 13.4 to 29.1 billion dollars. During the period of sharp decline in prices for mineral fuel, the value of purchases of these goods declined, despite the growth of physical volumes of imports. Despite the constant increase in the number of Russian exports to China, its main structure remains raw materials. Thus, the Russian export in physical volume to China for a number of significant commodity positions increased from 2014 to 2015: oil—from 33 million tons to 42.4 million tons, nickel—from 75.6 thousand tons to 194.6 thousand tons, copper—27.3 thousand tons to 118.8 thousand tons.

In the structure of Russia's exports to China in 2016, the bulk of supplies fell on: mineral products (66.7%); wood and pulp and paper products (12.1%); machinery, equipment and vehicles (6.9%); food products and agricultural raw materials (5.8%) chemical products (5.1%); metals and items thereof (0.75%).

It is expected that the implementation of SREB will have a favorable impact on the further development of trade and investment relations between Russia and China, whose condition has been subject to short-term fluctuations in recent years. Based on the emerging trend, among the promising types of services within the SREB, provided by Russia for China are transport. From the point of view of increasing the supply of Russian civil air fleet, Chinese consumers have the most favorable prospects for cargo air transportation. The growth of these services for the transit support of Chinese aircraft through Russia is expected. Almost all prospects of railway transportation services depend on increasing the use of the Trans-Siberian Railway. The increase in the volume of road transport services depends on the development of the road network of Siberia and the Far East, as well as the construction of a motorway connecting the regions of central Russia with the already constructed Kazakhstan section of the China-Kazakhstan-Russia-Europe highway.

Prospects for the growth of construction services exports are limited to small opportunities associated with the construction of high-tech facilities in China, such as nuclear power plants, and subcontracting on possible

Chinese construction projects in Russia. Despite the negative dynamics of recent years, the tourism services have prospects, as well as the export of high-tech services, for example, telecommunications, computer and information services.

The most important factor in the implementation of SREB projects is investment, and in this regard, Russia and China have favorable prerequisites. However, so far the scale of mutual investment is still considerably lower than the volumes of bilateral trade. At the same time, China's investment in the Russian economy far exceeds Russia's investment in China.

According to the data of the Ministry of Commerce of the People's Republic of China, as of the end of 2016, the amount of accumulated direct Russian investment in China amounted to about 1 billion dollars, and the amount of accumulated direct Chinese investment in Russia was 9.5 billion dollars. Currently, Russian investors are investing in China in the production industries, construction and transportation.

China is the largest supplier and foreign investor for the Russian regions of the Far East, as well as the second largest importer of Far Eastern goods. In total, 28 projects with Chinese investments amounting to about \$ 4 billion are being realized in this territory. The companies of the two countries are implementing joint projects in fuel and nuclear energy, civil aircraft construction, rocket engine building, satellite navigation systems, construction of infrastructure facilities, etc.

At present, the bulk of Chinese investment in Russia is concentrated in the fuel and chemical complex, and significant investments have been made in non-ferrous metallurgy, machine building, and the financial sector. For example, 1.3 billion dollars was raised from the Chinese petrochemical corporation Sinopec, which in 2015 completed a deal to buy a 10% stake in one of the largest Russian gas processing and petrochemical company "Sibur". The Chinese company CNPC acquired a 20% stake in "Yamal LNG" (a deal of 810 million dollars was realized in 2014).<sup>1</sup>

According to a number of Russian researchers, due to investments in such projects as "Yamal LNG" and the construction of the Tianjin oil refinery and petrochemical plant, China will have the opportunity to adjust its fuel and energy instability in the foreseeable future. Russia, thanks to bilateral cooperation in the energy sector, can successfully distribute transit and consumer risks and accelerate the development of its territories namely Siberia and the Far East. Therefore, the creation of a stable

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<sup>1</sup> Agreement between the Governments of the Russian Federation and the People's Republic of China on Cooperation in the Implementation of the Yamal LNG Project. <http://www.mid.ru/ru/home>.

fuel and energy flow through China to the Asia-Pacific Region is a priority both for the Russian Federation and the PRC (Karitskaya, Sitnikova, Markasova, 2017).

The cooperation in the financial sphere is developing, the clearing services for the calculation in Yuan are launched in Russian territory. In Russia, there are two banks with the participation of Chinese investors. The AKB “Bank of China” (ELOS) has been operating since 1993, and AKB “TPBK” (Moscow) was found in 2007. The authorized capital of these two banks was estimated at 72 million dollars and 111 million dollars at the end of 2015. In order to finance the projects of the general concept “One belt-One Road” in 2014, two new financial institutions were created: the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), in which Russia is one of the largest co-founders.

The Chinese side highly assesses the current state of bilateral trade and economic relations. So, the Chairman of the State Council of the People’s Republic of China Li Keqiang stressed that

TRUN ...a list of investment cooperation has been defined, covering 73 priority projects. Cooperation on major joint strategic projects in the spheres of energy, aviation, space, cross-border infrastructure, etc. is deepening. Projects such as a gas pipeline along the eastern route, a wide-body long-haul passenger aircraft are successfully implemented. In an accelerated manner, the construction of the Tongjiang-Nizhneleninsky railway bridge and the Heihe-Blagoveshchensk road bridge is underway.<sup>2</sup>

To implement large-scale projects in infrastructure, energy, transport, modern high-tech industries serious private investment will be required. Therefore, it is important to create comfortable, understandable, suitable and predictable conditions for the work of investors, to establish an exchange of best practices. For example, in the Russian Federation, the experience of the countries on the Pacific Rim was used to develop favorable conditions for investors in the territories of advanced development in the Far East. In connection with the implementation of SREB, China’s direct investment in the Russian economy in the next five years can grow significantly, and their applications will not be limited to projects in the energy sector, but significantly expand into communication and IT, real estate, finance, agro-food complex, health.

The development of academic cooperation is a mutual vector of both Russia and China, which is reflected in the strategic goals, as well as form-

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<sup>2</sup> Interview of the Chairman of the State Council of the People’s Republic of China Li Keqiang to the Russian agency “Interfax” November 29, 2017 <http://www.interfax.ru/interview/589593>.

ing a human resources base for the joint construction of SREB. The cooperation of the two countries in the scientific and educational sphere includes a number of areas: the exchange of students and teachers, the involvement of scientists and scientific collaborators in joint scientific activities, as well as the creation of joint universities and research centers, the mutual study of languages and culture. For example, in 2009-2010 the bilateral years of Russian and Chinese languages were held, and in 2014-2015 the bilateral years of youth exchanges. At that moment, a comparable number of students are studying at each other's universities (about 20,000 from each country). Interest in non-linguistic humanities is growing among students of both countries. Therefore, the main goals of attracting students are to focus on teaching in non-linguistic specialties, including natural science, technologies and engineering with the combination of teaching in 2 or 3 languages, according to long-term and short-term programs, as well as working out the issue of improving career prospects.

Attraction of teachers and researchers takes into account a number of important factors, for example, the level of openness of Chinese universities for foreign, including Russian employees, foreigners' access to the labor market, the cost of grant programs, and political and geographical priorities of academic cooperation. So, in 2016, more than 800 Russians professors and teachers in the humanitarian and pedagogical sphere taught in China (mostly Russian language teachers).

China and Russia, taking into account the worldwide trend, are on the way to creating foreign campuses of leading universities, joint universities and research centers. So, at present the work on the creation of the Russian-Chinese University in Shenzhen is being completed on the basis of the partnership between the Moscow State University and the Beijing Polytechnic University (PPU). The creation of joint universities enables students to receive double degrees and conduct joint scientific research.

The main objective of training in a number of universities in China and Russia a special attention is drawn to experts in the field of economic diplomacy and trade, which will subsequently serve the projects of SREB. In the Russian Federation, one of these universities is the Russian Foreign Trade Academy (RFTA), whose programs are oriented toward cooperation with Chinese universities, such as the *Chinese Academy of International Trade and Economic Cooperation* (CAITEC), the Beijing Union University (BUU).

There is cooperation in the field of tourism. By the end of 2016, 1.3 million tourists from China visited Russia, which is 15% higher than in 2015. More than 1.6 million Russians visited China with tourist goals in 2016.

In 2017, economic cooperation between Russia and China showed a positive trend-trade turnover between the countries amounted to about 80 billion dollars. In the period since January to May 2017, trade increased by 26.1%, while Chinese exports show positive dynamics, an increase of 7.3%, in contrast to imports from Russia, declining by more than 3% in 2016. But the hopes that Russian companies can enter the Chinese market more vigorously are not fully justified, since Russian products, with the exception of hydrocarbons, have faced serious competition in China.

In general, modern Russian-Chinese relations are characterized by high dynamics of development, a solid legal base and active contacts at all levels. However, despite the persistence of partnership relations in the geopolitical arena, where the SREB and Russia still remain the most important allies for each other, in the economic aspect, relations in essence have not changed for the better in the last three years. Despite the geographic proximity of Russia and the geopolitical partnership, China continues to look to the West in search of more capacious markets within the framework of the OBOR concept and the development of SREB routes, primarily in the Russian territory. In any case, Russia's participation in this Chinese megaproject will help mitigate the impact of European Union sanctions against it, the inefficiency of which was revealed by the Spanish scientist Sánchez Andres Antonio (2016) (Report "Russian-Chinese Dialogue", 2017) and their subsequent cessation.

### III. OPTIONS FOR FUTURE SREB WAYS

At the heart of the SREB initiative is the construction of three railway corridors (northern, central and southern), which will connect the eastern provinces of China with the countries of Western Europe. It is the route of the northern corridor that will pass through Russia, and through Kazakhstan to the Baltic Sea, and its western branch through Belarus and Poland will reach the cities of Germany and Holland. The infrastructure created within the framework of SREB will allow reducing the time of delivery of container cargo from China to Europe from 45-60 days to 10 days. Based on these objectives, it is advisable to analyze the state of the transport routes that provide the currently existing commodity flows between China and Russia, as well as consider options for future SREB routes.

Marine transport currently prevails the trade between Russia and China, which accounts for 77%, while land transportation through the Russian-Chinese border accounts for 21% of cargo, and only 2% comes for transit

through Central Asia (General Administration of Customs of the People's Republic of China (GACC)).

Each of the coastal eastern and southeastern provinces of China annually ships goods to Russia worth more than half a billion dollars. Out of China's landlocked regions, only Beijing and Chongqing Province export goods to Russia for more than 400 million dollars a year. The Chinese provinces bordering with Russia are much less involved in trade. The predominance of sea transport in deliveries to Russia is typical not only for regions that have access to the sea, but also for those located far from the ocean. This indicates the existence of prospects in the development of the continental infrastructure and land transportation within the framework of SREB.

The share of vehicles in the structure of China's supply to Russia is almost zero, due to the lack of automobile bridges and high-quality highways. The use of railway transport in ensuring the delivery of export goods to Russia is even lower than the automobile one. The largest share of railway transport in the structure of Chinese exports to Russia is characteristic of Beijing and the bordering northeastern provinces of China. Currently, the volume of cargo transportation by rail on the axis of Europe-Russia-Kazakhstan-China is six times less than transported by the five largest railways in North America.

Import of Chinese goods to Russia comes through several transport corridors. The main port is St. Petersburg; the ports of Vladivostok and Vostochny are in the second place, then there is a transit through Central Asia and Novorossiysk, and lastly —the land crossing of Transbaikalian— Manchuria. The main products of Russian exports (excluding timber) are shipped to China by sea. There is a significant flow of Russian goods across the land border in the Far East.

Despite the importance of the Russian market for the People's Republic of China, in its initiative of SREB Russia acts as a partner in the implementation of infrastructure projects for the delivery of Chinese goods to European markets. Currently, maritime transport dominates the provision of trade between China and Europe, which operates on a pre-planned route with a strict schedule. So, the ship, following the route from China to Europe, comes on average in 10 ports, and on the way back comes in 3 ports. This indicates a greater demand of Chinese goods on the route rather than the European goods. Due to the existing trade imbalance, the average cost of shipping a container from Europe to China by sea is almost two times lower than in the opposite direction.

The European Union is the final western point of all routes of the concept “One Belt-One Road”. As part of the analysis of the prospects of transport routes in the direction of the EU, four corridors are considered, which potentially can provide transcontinental freight traffic. In the first place is the Northern Eurasian corridor. The main direction of this corridor is the route: China-Russia-Europe, through the territories of the Far East and Eastern Siberia. The most important transport hubs on the route are Shanghai, Vladivostok, Irkutsk, Krasnoyarsk, Novosibirsk, Omsk, Tyumen, Ekaterinburg, Kazan and Moscow. In addition to its exceptional role in the development of the eastern territories of Russia, this route has a significant potential for transit traffic. In terms of cargo transit between China and Europe, this corridor can act as an alternative sea route, allowing to significantly save, 10-15 days, on the delivery time. Transit capacities of the corridor are planned to be increased within the framework of the development program for the Baikal-Amur and the Trans-Siberian Railways (Vedomosti, December, 2016).

The second is the Central Eurasian Corridor, which combines routes passing through China, Kazakhstan and Russia, through the Russian cities of Orenburg, Kazan, Nizhny Novgorod, Moscow and further to Brest or St. Petersburg with access to the Baltic Sea ports. This route accounts for the largest share of goods delivered by land transport from Europe to China and in the opposite direction. The total length of the route is about 7 thousand km.

There is an option of passing the route from China to Russia via Kazakhstan, which is more beneficial for Russia, since it opens direct communication between the major cities of Western Siberia and China. The main bottleneck of this route is the extremely high traffic density of the Trans-Siberian Railway, due to the large volume of transportation of Kuzbass coal, industrial cargo, oil products, etc.

Another group of routes consists of routes passing through Kazakhstan, the Caspian Sea, the North Caucasus with further access through the Black Sea to the EU countries. The principal difference of this set of routes from the others is the sea sections on the route. They pass through the cities of Ürümqi, Makhachkala, and further are separated: some of the cargo flows go by rail to the port of Novorossiysk.

The International Transport Corridor (ITC) “North-South” from St. Petersburg to the port of Bandar Abbas (Iran) is a promising passenger and cargo transportation route that extends the Chinese SREB initiative and which involves Russia’s interests, with the possibility of extending to Mumbai (India) with a total length of up to 7200 km. This route is aimed at at-

tracting transit cargo traffic from India, Iran and other countries of the Persian Gulf to Russian territory (through the Caspian Sea), and further to Western and Northern Europe.

The development of the North-South corridor is being considered by Russia and other involved states (Turkmenistan, Azerbaijan, Iran, India and Kazakhstan) as an opportunity to intensify Eurasian transport to be a shorter and more economical route. The main potential advantage of the ITC is the reduction of the distance from Europe to the coast of the Persian Gulf and the Indian Ocean by about two times compared to the route through the Suez Canal.

The “North-South” corridor can play a potentially important role in strengthening the ties of the states involved. In August 2016, the leaders of Russia, Iran and Azerbaijan held talks concerning, among other things, the organization of cargo transportation along the route “North-South”. On November 1, 2017 during the meeting of the heads of these states, Russian President Vladimir Putin noted in his speech that the transport corridor “North-South” is already operating in a test mode: last year deliveries of products from Iran to Russia were carried out through it. This route showed its economic feasibility and effectiveness (Izvestia, November, 2017).

#### IV. LINKING OF THE EAEU AND SREB

In the implementation of the Chinese initiative of SREB, the EAEU member states (Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia) had a special role from the very beginning. This was confirmed by the signing on May 8, 2015 by President of the Russian Federation Vladimir Putin and President Xi Jinping of the Joint Statement on Cooperation in Combining the Construction of the Eurasian Economic Union and the Silk Road Economic Belt, the subsequent consolidation of this idea in the Ufa Declaration of the Shanghai Cooperation Organization and the launch of negotiations on concluding a non-preferential agreement on trade and economic cooperation between the EAEU and PRC.<sup>3</sup>

The interface mechanism is recognized as the most important factor for expanding cooperation in the region, developing cooperation and implementing joint projects. Xi Jinping said at the High-level Forum on International Cooperation within the framework of the “One Belt-One Road” strategy on

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<sup>3</sup> Joint Statement of the Russian Federation and the People’s Republic of China on Cooperation in Joining the Construction of the Eurasian Economic Union and the Economic Belt of the Silk Road. May 8, 2015, <http://kremlin.ru/supplement/4971>.



May 14-15, 2017 in Beijing: “... the construction of “the Belt and the Way” does not involve a clean start, but work based on the combination of existing strategies and the use of complementary advantages. We have coordinated the strategies with countries such as Russia (interfacing with the EAEU)”.<sup>4</sup>

The conjugation of the EAEU and the SREB creates additional opportunities for the development of Eurasian integration and the modernization of the economies of the EAEU member states. Conditions are being formed for attracting significant volumes of additional Chinese FDI to strengthen the economic, transport-transit, energy, production-technological and agrarian potential of the EAEU countries. The potential volume of accumulated direct investments in the economies of the EAEU countries within the framework of the SREB and linkages initiative could reach about 300 billion dollars over the next twenty years. The implementation of infrastructure projects of SREB in the territory of the EAEU (construction and modernization of roads and railways, airports, electricity generation facilities, etc.) will increase the attractiveness of the economies of the member states of the Union for investors from the third countries.

Effective conjugation of two megaprojects is possible only with reliance on powerful human capital, qualified personnel, technological and scientific achievements. To create such a foundation, it is necessary to actively develop joint educational platforms, to strengthen the interaction of universities and business schools. It should be noted that in recent years, the number of students from the countries involved in this mega-project has significantly increased in China. In 2016, the number of students from 64 countries along this route in China was 207.7 thousand people. Chinese state scholarships for foreign students are also more awarded to students from these countries. Among the 49 thousand students who received the state scholarship of China in 2016, 61% are residents of countries along the route “One Belt-One Road”.

As Chairman of the State Council of the People’s Republic of China Li Keqiang noted: “Completing the substance of the talks between China and the EAEU on the Agreement on Trade and Economic Cooperation can lay the institutional foundation for China’s trade and economic cooperation with Russia and other Eurasian countries”.<sup>5</sup> He reaffirmed China’s

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<sup>4</sup> Xi Jinping’s speech at the high-level forum on international cooperation within the framework of the One-Belt-One Way strategy May 14-15, 2017 in Beijing <http://inosmi.ru/politic/20170519/239391693.html>.

<sup>5</sup> Interview of the Chairman of the State Council of the People’s Republic of China Li Keqiang to the Russian agency “Interfax” November 29, 2017 <http://www.interfax.ru/interview/589593>.

readiness to embody the high level of political relations in fruitful economic and trade cooperation with Russian and stressed the need to strengthen the interface of development strategies, to identify the coordinating role of the mechanism of regular meetings of the heads of government, to promote effective cooperation on major strategic projects in such areas as energy, aviation, space, infrastructure and others.

The conjugation of SREB opens new opportunities for building the capacity of the EAEU in the following main areas:

First, the development of the transport, transit, logistics, telecommunications and virtual infrastructure of the EAEU, which will help to strengthen the correlation of national economies and deepen the integration of the territories of member-states into the integration processes. An additional development of the transport network of roads providing access to the processing and extracting centers of the EAEU member states is expected.

Secondly, the strengthening of the energy potential of the EAEU, including through the implementation of integrated projects in the fields of energy efficiency, energy conservation, alternative energy to improve the efficiency of national production.

Third, the expansion of the export capabilities of the EAEU (food, chemical and pharmaceutical products, metal ware, certain types of machinery and equipment, international transit services, tourism, engineering, IT and other services) to China and countries supporting the concept of “One Belt-One Road”.

Fourthly, the formation of value chains in the SREB space and interface with the use of the technological potential of the EAEU countries and projects of cooperation with the PRC in high-tech, knowledge-intensive areas, including within the framework of jointly developed scientific, technological and implementation infrastructure. The use of SREB mechanisms to connect to existing supply chains, based on the opportunities and benefits created by China’s integration initiatives in the Pacific Rim.

The interaction in the format of the EAEU-SREB can form the basis for the concept of the formation of the Great Eurasian partnership with the participation of the EAEU, the SCO countries, APEC and ASEAN, which will promote the internationalization of SREB, through the diversification of the participants, balance their initiatives for the benefit of the development of their national economies and mutually beneficial trade in goods and services between them.

The conjugation of SREB as the main overland link of the Chinese megaproject with the EAEU is directly connected with a deeper process—the radical reorganization of interstate relations in Eurasia, the renewal

of the “Russia-China” strategic partnership (RIAC, 2017). For Russia, the Chinese initiative objectively opens up additional “windows” for the development and modernization of trade, investment, infrastructure and humanitarian cooperation not only with China, but also with other countries involved in this project. Modernization of existing and construction of new infrastructure facilities in Russia and other countries belonging to the Eurasian Economic Union, with the Chinese initiative of SREB should help reduce the cost of transit of goods through Russia. The development of Russia’s transit potential will ensure its integration into the global transport system, accelerate the growth of the national gross product. Transport services will turn into one of the main items of Russian exports, and the opportunities for increasing the export of Russian goods to the countries of South Asia and the Pacific Rim region will be substantially expanded.

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## ONE BELT ONE ROAD: AN ASIAN PERSPECTIVE

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SUMMARY: I. *Abstract*. II. *Introduction*. III. *Evaluation of One Belt One Road*. IV. *Asian perspective of One Belt One Road*. V. *Opportunities for Asian economies*. VI. *Challenges for Asian economies*. VII. *Conclusion*. VIII. *References*.

### I. ABSTRACT

*Purpose.* The aim of this study is to elucidate over the One Belt One Road (OBOR) initiative of China through looking at it from Asian perspective. The study begins with highlighting the evaluation of the Maritime Silk road from the traditional Silk Road. The chapter further inspects the opportunities and challenges which will come ahead in the path of growth and development of participating Asian economies.

*Methodology/Approach.* The present study embraces a descriptive method by adopting secondary data from various organizations resources.

*Findings-* The horizon of New Silk Road initiative is much broader from the previous one. It provides various prospects for Asian economies to develop themselves but there are certain issues which came along with and those should be handled cautiously. The study further shows that the close trade and economic association between China and Asian economies will brace increasing consumption, unemployment issues, infrastructure development, political associations and finally the above all the sustainable development for one and all.

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## II. INTRODUCTION

The vision of a new Silk Road had been formulated at various occasions as two decades earlier when the Chinese President Jiang Zemin had set forth the same thought. Also in the year 2011, US Foreign Secretary Hillary Clinton had proposed a “New Silk Road” that would better connect Afghanistan with Central and South Asia. The new thing about Xi Jinping’s proposal was its geopolitical dimension which he announced at the October 2013 meeting of Asia–Pacific Economic Cooperation leaders, it would see Central China joined with Central Asia, West Asia, Eastern Europe and Western Europe (Wang, 2015). The Silk Road province covers a vast land area of approximately 5.9 million square kilometers and has a population of approximately 145 million people. It corresponds to a combined economy of around \$312.3 billion, with an average gross domestic product per capita of \$2,151. While these are not surprising numbers in terms of market development potential but what will attract most investors is what the Silk Road region can offer to the neighboring economies.

In addition, it integrated the “21st Century Maritime Silk Road”, which would connect China with parts of South-East Asia, South Asia, East Africa and Europe. And so was emergence of the strategic concept of the Silk Road Economic Belt: One Belt, One Road. Announced by Chinese President Xi Jinping in 2013, “One Belt, One Road” consists of two routes, the Silk Road Economic Belt and the 21st Century Maritime Silk Road. The routes link China to Europe by way of Central Asia, Southeast Asia, South Asia and Africa. While relative region could gain better finance, strength infrastructure for development through cooperation, China expects to be beneficial from enhanced and integrated market for its infrastructure productivity and outward investment.

With such kind of initiative, basically, China wants to take the countries along the Belt and Road as the main factor of deepening international cooperation in manufacturing, encourage and guide China-based enterprises to invest and prosper in the countries along the route, carry out extensive exchanges with all walks of life both at home and abroad, expand bilateral, multilateral and regional cooperation and support the establishment of local industrial system (STPI, 2015). Further, as of January 2017 more than 100 countries and international organizations have responded according to the initiative and over 40 have signed cooperation agreements. Also, more than \$900 billion US\$ of Belt and Road initiative associated projects are under way. Moreover, the Asian Development Bank estimates that by 2030

the initiative will cost over \$22.6 trillion, making it to the positive aspect of the project (Lehman Brown, 2017).

FIGURE 1. SILK ROAD AND MARITIME SILK ROAD



Source: Xinhua Finance Agency (2015)

### III. EVALUATION OF ONE BELT ONE ROAD

Silk Road was named by Richthofen Ferdinand von, German, in 1877. More than two thousand years ago, it linked the major civilizations of Asia, Europe and Africa. The Silk Road Spirit is a historic and cultural heritage shared by all countries around the world (Wu, 2017). Historically, the Silk Road was a network of trade routes which was formally recognized during the Han Dynasty. The road originated from Chang'an (now Xian) in the east and ended in the Mediterranean in the west, which associates China with the Roman Empire. It reached at its peak during the Tang Dynasty but demonstrated decline during the Yuan dynasty which was established by the Mongol Empire. The Silk Road ceased to be a shipping route for silk around 1453 with the rise of the Ottoman Empire, whose rulers opposed the West (Mark, 2014).

China's imperial envoy Zhang Qian helped to establish the Silk Road, a network of trade routes that linked China to Central Asia and the Arab world. The name came from one of China's most important exports i.e., silk. And the road itself influenced the development of the entire region for

hundreds of years. It was not just one road but rather a series of major trade routes that helped build trade and cultural ties between China, India, Persia, Arabia, Greece, Rome and Mediterranean countries (Lee, 2017). While many different kinds of merchandise traveled along the Silk Road, the name comes from the popularity of Chinese silk with the west, especially with Rome. The Silk Road routes stretched from China through India, Asia Minor, up throughout Mesopotamia, to Egypt, the African continent, Greece, Rome, and Britain (Mark, 2014).

The visit of Chinese President anticipated establishing a modern corresponding; creating a network of railways, roads, pipelines, and utility grids that would link China and Central Asia, West Asia, and parts of South Asia. This initiative consists of more than physical connections. The main objective behind this is to create the world's largest platform for economic collaboration, including policy synchronization, trade and financing association, and social and cultural cooperation (Jinchen, 2016). Table 1 shows the countries which are the participants of One Belt One Road initiative.

TABLE 1. COUNTRIES ALONGSIDE ONE BELT ONE ROAD

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

SOURCE: Industrial Cooperation between Countries along the Belt and Road, China International Trade Institute. The countries are grouped according to World Bank's classification by region.

The Silk Road Economic Belt has been visualized as three routes connecting China to Europe (via Central Asia), the Persian Gulf, the Mediter-



ranean (through West Asia), and the Indian Ocean (via South Asia). The 21st Century Maritime Silk Road is planned to create connections among regional waterways. More than 60 countries, with a combined GDP of \$21 trillion, have expressed interest in participating in the OBOR action sketch (Jinchen, 2016).

China established the \$40 billion Silk Road Fund to finance the initiatives of OBOR in the year 2014. The initial fund amount of \$10 billion financing is from China's foreign exchange reserves leading to contribution in the majority of the initial funds i.e., the China Development Bank, China Investment Corporation, and the Export-Import Bank of China. The Chinese government will make use of its foreign currency reserves for about 65 percent to the Silk Road Fund. China Investment Corporation and the Export-Import Bank of China will be invested in 15 percent each. And China Development Bank Capital Company will invest 5 percent for the same (Liu, 2016). Also it has made investments in several key projects including the expansion of six major economic corridors together with the New Eurasian Land Bridge, China–Mongolia–Russia, China–Central Asia–Western Asia, Indo-China Peninsula, China–Pakistan, and Bangladesh–China–India–Myanmar. These corridors will be the sites of energy and industrial clusters. And this will be accomplished through the use of rail, roads, waterways, air, pipelines, and information highways. By linking and enhancing the productivity of countries along the new Silk Road, China expects the benefits of cooperation will be strengthened and expanded (Chhibbar, 2017).

The forthcoming second and third phases will involve domestic and foreign investors which will be based in Beijing and currently supported by a majority of Chinese investors; the Silk Road Fund is not state-owned and will eventually expectantly be dominated by currencies other than the Chinese yuan (The Conversation, 2017). China also discusses free-trade agreements with the countries along the OBOR, till now China has signed 12 free-trade agreements including Singapore, Pakistan, Chile, Peru, Costa Rica, Iceland, Switzerland, Hong Kong and Taiwan and a further eight are under negotiation with Japan, Korea, Australia, Sri Lanka, Norway, the Regional Comprehensive Economic Partnership, Asean and the Gulf Cooperation Council. Also it aims to redirect the country's domestic overcapacity and capital for regional infrastructure development to improve trade and relations with Asean, Central Asian and European countries (Lee, 2017).

So basically, China wants to take the interests of all parties into account so as to create mutual benefits which will include environmental management and closer cultural exchanges. The new vision of green development of life and work that is green, low-carbon, circular and sustainable efforts

should be made to strengthen cooperation in ecological and environmental protection and building a sound ecosystem so that the agenda for Sustainable Development of OBOR project can be achieved. They wanted to give level playing field, so as to provide the comparative advantages to each country and promote all around practical cooperation (Jinchen, 2016).

#### IV. ASIAN PERSPECTIVE OF ONE BELT ONE ROAD

Belt Road initiative is one of the most inventive and ambitious programmes ever to be rolled out by a government. It represents a broad approach for China’s economic collaboration and extended presence in Asia, Africa and Europe. This initiative has been represented as a win-win initiative for all participating nations. In the belt and the road - the belt being the physical road, joining China with Europe, while the road being the ancient east-west shipping lane known as the Silk Road connecting ports in Asia with Africa and the Mediterranean. It is one of the major overseas investment take ever launched by a single country. It is known as China’s Marshall Plan, which was the American initiative to help rebuild Europe after the Second World War. The initiative has the prospective to help solve a global infrastructure gap. It possibly will also support growth in developing countries while boosting trade and generating investor returns in the associated countries (Lehovd, 2017). Table 2 provides the participating Asian countries in the Belt and Road project.

TABLE 2. ASIAN COUNTRIES ALONG THE ONE BELT ONE ROAD

| <i>Region</i>  | <i>Country</i> | <i>GDP (2016, US \$ million)</i> | <i>Land Area (Sq. Km.)</i> | <i>Population (2016, in thousands)</i> |
|----------------|----------------|----------------------------------|----------------------------|--|
| East Asia      | China          | 11,199,145.16                    | 9,388,211.00               | 1,378,665.00                           |
|                | Mongolia       | 11,183.46                        | 1,553,560.00               | 3,027.40                               |
| Southeast Asia | Brunei         | 11,400.65                        | 5,270.00                   | 423.2                                  |
|                | Cambodia       | 20,016.75                        | 176,520.00                 | 15,762.37                              |
|                | Indonesia      | 932,259.18                       | 1,811,570.00               | 261,115.46                             |
|                | Laos           | 15,903.33                        | 230,800.00                 | 6,758.35                               |
|                | Malaysia       | 296,535.93                       | 328,550.00                 | 31,187.26                              |

| <i>Region</i> | <i>Country</i> | <i>GDP (2016, US \$ million)</i> | <i>Land Area (Sq. Km.)</i> | <i>Population (2016, in thousands)</i> |
|---------------|----------------|----------------------------------|----------------------------|--|
|               | Myanmar        | 63,225.10                        | 653,080.00                 | 52,885.22                              |
|               | Philippines    | 304,905.41                       | 298,170.00                 | 103,320.22                             |
|               | Singapore      | 296,975.68                       | 709                        | 5,607.28                               |
|               | Timor-Leste    | 1,782.97                         | 14,870.00                  | 1,268.67                               |
|               | Thailand       | 407,026.13                       | 510,890.00                 | 68,863.51                              |
|               | Vietnam        | 205,276.17                       | 310,070.00                 | 92,701.10                              |
| South Asia    | Afghanistan    | 19,469.02                        | 652,860.00                 | 34,656.03                              |
|               | Bangladesh     | 221,415.16                       | 130,170.00                 | 162,951.56                             |
|               | Bhutan         | 2,212.64                         | 38,117.00                  | 797.76                                 |
|               | India          | 2,263,792.50                     | 2,973,190.00               | 1,324,171.35                           |
|               | Maldives       | 4,224.21                         | 300                        | 417.49                                 |
|               | Nepal          | 21,131.98                        | 143,350.00                 | 28,982.77                              |
|               | Pakistan       | 278,913.37                       | 770,880.00                 | 193,203.48                             |
| Sri Lanka     | 81,321.88      | 62,710.00                        | 21,203.00                  |  |
| Central Asia  | Kazakhstan     | 137,278.32                       | 2,699,700.00               | 17,797.03                              |
|               | Kyrgyzstan     | 6,551.29                         | 191,800.00                 | 6,082.70                               |
|               | Tajikistan     | 6,951.66                         | 138,786.00                 | 8,734.95                               |
|               | Turkmenistan   | 36,179.89                        | 469,930.00                 | 5,662.54                               |
|               | Uzbekistan     | 67,220.34                        | 425,400.00                 | 31,848.20                              |

SOURCE: World Bank database and The Fung Business Intelligence Centre.

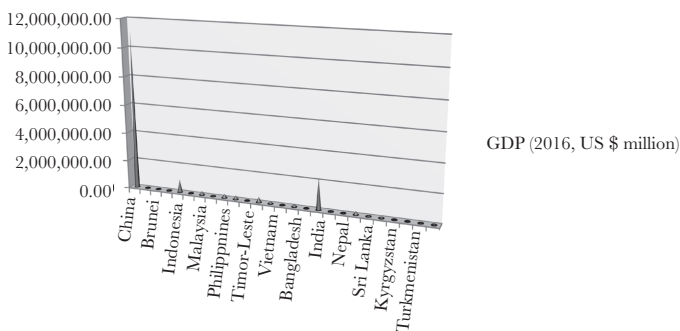
The new Belt and Road initiative is one of Asia’s most vibrant economic growth areas. With profuse natural resources like natural gas & oil, development in the transition from command to market-based economies, and growing intraregional and interregional linkages, will definitely lead the new Silk Road towards restoring its earlier prosperity. Increase in the GDP level in all the four regions of Asian countries has shown the rapid economic growth since the past decades.

The Asian countries have made progress with numerous kinds of reforms since the early 1990s, such as new commercial legislation, reduction in bureaucratic red tape for businesses continues growth in regional trade facilitation programmes, bilateral agreements and unilateral simplification of procedures. However, obstacles and delays are still common and increase transaction costs for firms, but gradual improvements are being made in ar-

eas such as investor protection and corporate governance standards, and in company, securities and bankruptcy laws. Further the Asian countries have formed various laws and announcements pertaining to various kinds of investment in order to facilitate positive outcomes.

Additionally, the Silk Road economies have pursued investment agreements with other economies so as to attain greater levels of foreign investment. Besides above efforts in various areas, Asian countries which experienced impediment in their enrolment ratios earlier because of the socio-economic disturbance in the region and also because of which secondary education enrolments were particularly low, luckily working on the improvement of this area and they are also successful as most of the countries had approximately 95 per cent of survival rates to the last grade of primary education (UNCTAD, 2009). The Figure 2 shows GDP share of the selected Asian economies for the year 2016.

FIGURE 2. GDP SHARE OF SELECTED ASIAN COUNTRIES ALONG OBOR



SOURCE: Prepared by the author.

## V. OPPORTUNITIES FOR ASIAN ECONOMIES

According to Bert Hofman, country director for China, Mongolia and Korea, East Asia and Pacific region at the World Bank, the large scale nature of the one belt, one road initiative could stimulate Asian and global economic growth. He identifies the potential benefits for belt and road countries plagued by “underdeveloped infrastructure, low investment rates and low per-capita incomes” (Hofman, 2014).

One Belt One Road will link resource and commodity rich west and Central Asia to emerging South and South East Asian countries along the

Road which has a huge potential consumer market. In the East Asian region, the rapid growth is expected to be accomplishing through China's overall economy having profuse natural resources such as oil and natural gas, evolution in the transition from command to market-based economies, and growing intraregional and interregional linkages, the new road seems to look forward towards restoring its earlier success. Southeast Asia although rich in resources suffers from infrastructure insufficiency and low level of industrial development. The project has potential to address this space and hence promote the development in the region. The OBOR project could change the situation for Countries like Cambodia and Laos (Nataraj and Shekhani, 2016). The Asia Development Bank estimates that Asia needs around US\$ 8 trillion to fund infrastructure construction for the coming ten years. China knows that its development is allied to Asia and it is working in this behalf by responding to its neighbors' huge infrastructure needs via Road and Belt initiative (Lee, 2017).

In the Southeast Asia, the Indonesians were quite excited about how this belt and road initiative going to work out. Also, how Chinese infrastructure investment going to make a difference in a place where they need that? Malaysia is obviously one of the world's great trading countries, whereas the Philippines is still quite internally focused. One of its challenges is to become a trading country. And in Malaysia the wait is to see the impact on the economic output in a positive way (Mckinsey & Company, 2016). Countries in this region also need foreign capital to help fund their fiscal and infrastructure investment needs. China brings ready capital and expertise and China's investment will continue growing, boosted by the One Belt One Road initiatives (Yap, 2017).

Further the Bangladesh government projected Vision 2021 which focuses on creating associations with its neighboring economies. Keeping this in view, the government is working in the areas of investment like energy, telecommunications and agriculture. Further transport infrastructure projects are being carried out by Chinese companies building a £3.6 billion railway from Dhaka to Jessore, energy infrastructure on building £1.3 billion coal-fired power plant in South Dhaka additionally; the AIIB has also approved a £133 million loan for Bangladesh to expand electricity into rural areas also (Lehman Brown, 2017). Additionally, India's involvement in OBOR will give a new set up to India-China collaboration as it will promote policy synchronization, increase in trade activities and investment and integration of financial system. OBOR initiative will further enhance the regional and bilateral co-operation between India & China.

Additionally, the large scale investment needed to build OBOR might encourage Chinese steelmakers to build more capacity in Southeast Asia, West Asia and African countries by setting up integrated steel mills with nearby iron-ore mines. China cement industries will also see a long term benefit as the demand from ASEAN and Central Asian countries; will increase because of infrastructure development. This could also persuade overseas expansion of Chinese cement industries in these regions. Additionally, the freight movement by road will also increase through multi-modal connectivity. Overall, the countries are expected to gain as OBOR will encourage demand, growing of new industries and creation of trade (Nataraj and Shekhani, 2016).

Through developing superior connectivity and mounting nations, once accomplished, the belt and road initiative will make it easier for large organizations and start-ups to arrive at new consumer market base. It has been expected that the growing middle class in Asia could reach four billion by 2021 and this will lead to 66% of the world's population living in Asia by 2030. This shows an emergent buyers' market in Asia demanding luxury goods and services. Consequently, the advantages of easy access to an increasing market will be available to all the investors in spite of their geographical background. Therefore, through this initiative this immense market will be accessible for all the economies.

## VI. CHALLENGES FOR ASIAN ECONOMIES

The initiative of one belt one road is not without its challenges; cooperation and coordination with partner countries over the long term are vital for it to be a lasting legacy (Lee, 2017). The geopolitical nature of many of the considered projects, including in regions captured by corruption and instability, has observers in China and abroad worrying that the scheme could simply add to China's fast-growing debt burden, now standing at more than 250 per cent of GDP. The lack of commercial imperatives behind OBOR projects means that it is extremely unsure whether future project returns will be sufficient to fully cover repayments to Chinese creditors (Fitch Ratings, 2017).

Looking at the other Asian economies, first of all, the Pakistan corridor, which runs through unstable tribal areas, although the Gwadar port is in the middle of a region where insurgents have battled government forces for decades, prompting Islamabad to promise a special unit of 12,000 soldiers to protect the corridor's construction. Multiple projects in the Middle East mean China will increasingly be drawn into the region's fractious politics

(US-China Economic and Security Review Commission, 2016). Further, the Khorgos “dry port” on the Kazakh-Chinese border is anticipated to be a center for goods passing from China into central Asia and Europe. China proposed to invest \$600m in the project, building a vast complex of wholesale markets, train lines and cargo cranes. While the Chinese side of the border is surrounded by newly built tower blocks, the Kazakh side consists of a few semi-abandoned buildings. Furthermore, discussion with Thailand over high-speed rail has been also slowed down (Hancock, 2017). In case of Afghanistan has been called the “Graveyard of empires” for good reason. These are some appealing hard-hitting areas in the world. Roads and Belts facilitate trade, but they can also enhance connectivity between extremists, and Jihadist influences. This principal work both ways. Accordingly success of the OBOR in these areas is not easy as it seems (Shanmugam, K. 2017).

Having a look at Central Asia, the institutions in the countries are still developing. A great deal still depends on a leader, or small group leaders. If there is an alteration in leadership, then there could be changes in policy. Further, Russia has very significant interests in the region, also its not specified that Russian and Chinese interests will line up on belt and road initiative, necessarily. Russia has the capability to inflict its will, if it believes that its own interests are affected. The Central Asian states are not likely to choose between China and Russia (Ministry of Home Affairs Singapore, 2017).

Belt and Road initiative has also received criticism and uncertainty from many member countries, mainly by ASEAN. They see this assignment as an attempt by China to dominate its neighboring region and as a result are facing coordination issues. Also regional and territorial disputes of China can get in the way with the project. In addition, Chinese failure in considering regional politics and non-interference policy can expose the project to political risks from both local opposition and competing regional power. The OBOR dream can also get affected for the reason of the presence of underdeveloped and immature market along the route (Nataraj and Sekhani, 2016). The Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund and the New Development Bank, if added together is still a very small amount comparative to what needs to be funded, which is approximately between \$2 trillion and \$3 trillion per year. Further the entire infrastructure across is just one third of the world’s GDP. The question is whether the availability of fund and infrastructure will be able to change the way investors think about the risk in a lot of these emerging markets (Mckinsey & Company, 2016).

## VII. CONCLUSION

By and large, One Belt One Road strategy is an intrepid and new approach, which will evolve and develop with the time and changing scenario. Belt and road are not a finite approach in terms of time and geographic space. It is one of Asia's most dynamic economic growth areas which is seen by investors as an attractive opportunity, which need some more initiatives to capitalize on its full potential. Impediment like infrastructure should be addressed by the authorities sincerely. Also, efforts are needed at the regional level to tackle issues such as cross border investment, political issues and expansion of the market for local and national organizations.

Looking at all the prospective in the new Silk Road region, it can be as vibrant and affluent as it was during the golden years of the ancient Silk Road. Central Asia and western China have prospects to attract the attention of potential investors from all around the world. And the Governments of these nations are moving forward progressively by providing apt legal and regulatory frameworks necessary for the business sector to boom. Not only for China, has the OBOR project got the potential to build a new economic architecture for the member nations that can boost economic growth for everyone. No skepticism that China's OBOR corresponds to an opportunity for increase in trade, investment and job creation in many parts of the world, in which Asian countries also hold a significant portion.

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## THE OBOR PROJECT. ECONOMIC INITIATIVES AROUND AFGHANISTAN. COOPERATION OR COMPETITIONS BETWEEN STAKEHOLDERS\*

Sayed MAHDI MUNADI\*\*

SUMMARY: I. *Abstract*. II. *Introduction*. III. *Economic Initiatives in a proximity of Afghanistan Borders*. IV. *Risk assessment of regional economic initiatives*. V. *Conclusion*. VI. *Recommendations*. VII. *References*.

### I. ABSTRACT

Two important corridors from Central and South Asia, Belt and Road Initiatives (BRI) and China-Pakistan Economic Corridor (CPEC) pass from two sides of Afghanistan's borders. In the north, Afghanistan received the first train from China at Hairatan on 07 September 2016; however, the train did not pass through the main route of BRI. In South Asia, we see further developments in the China-Pakistan Economic Corridor and changing its original route to Panjab. It seems Pakistan shows its reluctance to give connections to Afghanistan. There are several other economic initiatives such as Chabahar port, Turkey, and Kazakhstan Rail Road proposal, New American Silk Road. New American Silk Road with Chabahar and Lapis lazuli corridors in Central Asia. With this understanding, there are more than three economic initiatives pass Central Asia as each of them has its own benefits for the region. However, these economic initiatives followed by different political will; concerns raised about changing these initiatives from a geo-economic mean to geo-political issue for the stakeholders. Stakeholders have not negotiated with each other; rather they have talked with states along their economic initiatives. Additionally, radicalism, terrorism, and separatism in this region have

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\* This article does not officially reflect Afghanistan foreign Policy.

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been the important source of competition. Appraisal of regional economic initiatives' opportunities and challenges and looking for the ways forwarded that facilitate cooperation between stakeholders; thus, it is an important issue to discuss.

## II. INTRODUCTION

Historic Silk Road in Asia was the most important route for trade and transit among land-locked and other states in this vast region. All regional countries were the supplement to this important road, no authority or government could ever claim a monopoly on creation and control of the Silk Road. Another reason for strength and capabilities is that, beyond specific plan of the Silk Road, it was easy to draw new ways to connect this road, which expanded the Silk Road and made it a complex. In other words, Silk Road originated from supplies and expectations emanating from various sources ranging from the mighty empires to the smallest towns and villages.

In contemporary times, for many countries located on the ancient Silk Road, particularly land-locked Central Asia, and historic Silk Road-like trade system appears to be the only alternative for their growth and development. Due to this issue, Afghanistan as a land-locked country is making many efforts to be part of all-important Silk Road and Economic Initiatives. Afghanistan in trying to link to all these initiatives is aiming to facilitate cooperation between all stakeholders to cooperate with each other including inside Afghanistan. This article will discuss the opportunities and challenges of most important regional stakeholders' initiatives around Afghanistan.

## III. ECONOMIC INITIATIVES IN A PROXIMITY OF AFGHANISTAN BORDERS

Due to needs of land-locked countries, different stakeholders with developing economic initiatives revive the ancient Silk Road. Alongside the purpose of recovering the Silk Road initiatives, China, United States, Turkey-Kazakhstan, India-Iran have designed routes in different ways. These stakeholders along their initiatives to revive the Silk Road raised two concepts of geo-economic for cooperation and geo-politics for competition. This article appraises most important initiatives strength and challenges around Afghanistan.

### 1. *U.S. Silk Road*

The United States is promoting a “New Silk Road” that would link Afghanistan to Southern and Central Asia via an interconnected web of transit corridors, which could transform the regional trade environment, tearing down commercial barriers and offering economic benefits for all (Graham Lee, 2012, p. 5). Beside these corridors, liberating energy from Central Asia through Afghanistan toward two sides, one Chabahar-Iran and second Pakistan-ports. These two corridors considered along U.S new American Silk road. Along with this concept, the CASA 1000, TAPI and most of the rail connection in this region considered as part of New American Silk Road. CASA-1000 project aims to transport available summer electricity surplus from Tajikistan and Kyrgyzstan to Afghanistan and then to Pakistan. CASA-1000 will cover almost 1200 km-route (CASA-1000 Project). CASA-1000 will also enable trade of 1300 MW of electricity between Central and South Asia; besides TAPI pipeline both are a centerpiece of the US New Silk Road initiative. World Bank, Islamic Development Bank, USAID, US Department of State, the Russian government and others, support CASA-1000. As it., these projects as a mean toward regional cooperation achieved most stakeholder of the region to support (Vladimir Fedorenko, p. 27).

The Idea of New American Silk Road rose when U.S Secretary of State, Hilary Clinton in 2011 in India talked about new connections and energy liberation, or revitalization of New Silk Road. She said: “[Let’s build] an international web and network of economic and transit connections. That means building more rail lines, highways, [and] energy infrastructure, like the proposed pipeline to run from Turkmenistan through Afghanistan through Pakistan into India (TAPI). It means upgrading the facilities at border crossings. And it certainly means removing the bureaucratic barriers and other impediments to the free flow of goods and people” (U.S. Department of State, July 2011).

Due to New American Silk Road, anticipated to have Afghanistan embedded to the economic life of the region, so they can leave Afghanistan and this country will survive with the regional economic life. They were not calculating that we are living in the least integrated region of the world, so the idea of maintaining security with economic means and initiatives will fail in function. Thus, they had to continue its presence and at the same time guarding their establishment and orders and Afghanistan economic means. However, the concept of New American Silk Road cannot be heard directly, but it is translated to Afghanistan strategy of “Silk Road through Afghani-

stan”. Liberating energy from Central Asia, playing a regional hub and finally connecting Europe through Northern Distribution Network, which changed to Lapis Lazuli Corridor and projects like TAPI, CASA1000 and other became the most important goal of Afghanistan. Northern Distribution Network of U.S was a new corridor, which facilitates a new way for Afghan trade and transit. This corridor indirectly changed to Lapis Lazuli economic Transit and Transport Route —which also known as the Lapis Lazuli corridor— aims to enhance regional economic cooperation and connectivity between the countries; Afghanistan, Turkmenistan, Azerbaijan, Georgia, and Turkey, thereby expanding economic and cultural links between Europe and Asia (RECCA Annual Review, 2016).

One of most important reason that Afghanistan translated New American Silk Road to Afghanistan economic vision was mostly due to Central Asian negative political perceptions toward U.S improvement in their countries. There was an understanding that so far, the United States does not have a direct interest in this region; it has specific political or ideological order and attempting to have political change and implement democracy in the backyard of Russia. So far, Afghanistan is seeking implementation of these projects and does not care about democracy or human right in this region, this miss understanding removed.

MAP 1. AMERICAN NORTHERN DISTRIBUTION NETWORK, WHICH HAS CHANGED TO LAPIS-LAZULI CORRIDOR



Since the United States faced unwillingness of Central Asian countries to cooperate with, reduced its campaigns along with New Silk Road Concept in Another field (Li Qingyan 2015, p. 136).

There are some reports about the lack of enough local beneficiaries for the American money and mostly the government gaining in central Asia. People of Reporter Graham Lee in his research on the NDN found that 93 percent of the money allocated to Central Asia was going directly to local governments without having any impact on the life standards of the general population. He also found that NDN did not contribute to improving regional cooperation among Central Asian states (Graham Lee, 2012). This is also can be an important reason for U.S unwillingness or unsuccessfulness in New Silk Road in this region. Consequently, Afghanistan due to its national necessity generated new initiatives to connect Afghanistan with Central Asia, Middle East, and Europe.

MAP 2. ECONOMIC INITIATIVES IN AND ON AFGHANISTAN. SOURCE REGIONAL ECONOMIC COOPERATION, MOFA, AFGHANISTAN



### 1. Turkey Silk Road

Turkey was the first nation to recognize the independence of the Central Asian republics and today has a significant political and social presence in Central Asia. Turkey has shown its presence independent of any strategic

or cyclical political interest. Turkey due to the concept of Silk Road and its geographical condition before Hilary Clinton; was negotiating reviving the old silk road. Thus, Turkey through an International Forum on the Role of Customs Administration on Facilitating and Promoting Trade among Silk Road Countries, started its diplomacy on new Silk Road Initiatives at 2008 in Antalya. This forum focused on the simplification of border crossing procedures among Silk Road countries.

Customs and Trade Minister Hayati Yazıcı in an interview with Today's Zaman gave detailed information about the rate of trade in Europe gave an alternative and put emphases on the Silk Road path. Mr. Yazice, additionally predicted that countries on the Silk Road path are on the way of a transformation, the Silk Road will become one of the main economic routes of the world economy, moving large amounts of goods and products from Central Asia to Europe or vice versa. "This transformation consists of efforts to revive the Silk Road via extensive railway networks, transportation lines, customs gates, energy corridors and natural gas pipelines, making this area a major player in the world economy", he said, detailing Turkey's vision for the road. Countries located on the historic Silk Road route generally listed as China, Azerbaijan, India, Iraq, Iran, Kazakhstan, Kyrgyzstan, Mongolia, Uzbekistan, Pakistan, Russia, Syria, Tajikistan, South Korea, Afghanistan, Georgia, and Turkey. Other adjacent routes also existed for the Silk Road initiatives that help countries to mix their initiatives and facilitate cooperation (Cihan Today's Zaman).

The next forum held in Baku, Azerbaijan, at 2009, produced the Caravanserai project—which the concept originated from old Silk Road a place for the resting of caravan and exchange idea—this project focused on increasing the efficiency of the Silk Road routes and particularly the border crossing points (BCP). Caravanserais were supporting the flow of commerce and information along the Silk Road. In 2010 in Tehran Silk Road Truck Caravan launched through Economic Cooperation Organization (ECO). In 2011 in Georgia, "Transport Corridor Europe-Caucasus-Asia (TRACECA)\*\* appreciated for its support of the establishment of the Permanent Secretariat as the administrative body in charge of the imple-

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\*\* This initiative is the main Europe' to connect this region TRACECA, an international transport initiative involving the European Union and 14 member states (Armenia, Azerbaijan, Bulgaria, Georgia, Iran, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Turkey, Ukraine and Uzbekistan). TRACECA aims to promote regional economy by providing reliable and efficient transport links between Europe and Asia. More information is in Welcome to TRACECA", available at <http://www.traceca.org/en/traceca/>.

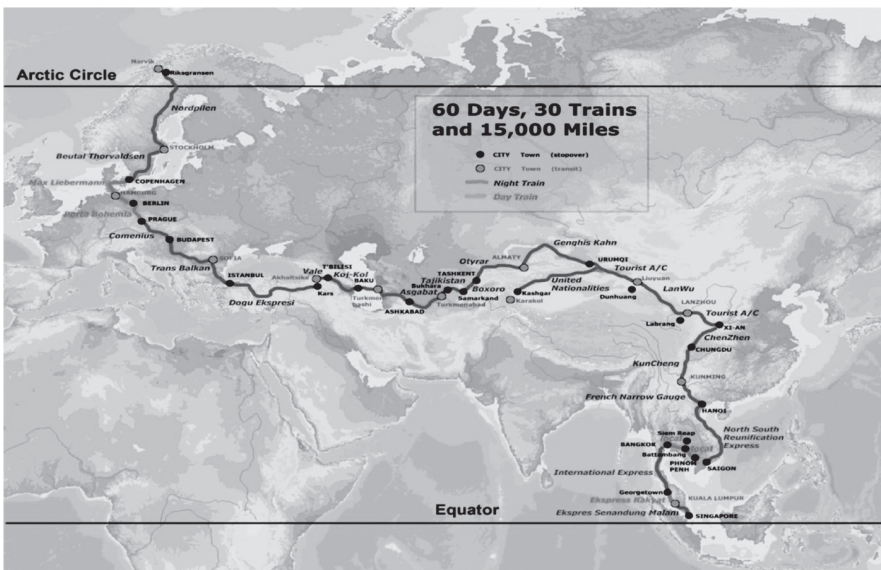


mentation and follow-up of the decisions for the Forum. The forum called its members to consider the Memorandum of Understanding (MOU) proposed by TRACECA and Azerbaijan, Georgia, Iran, Kyrgyzstan, and Turkey signed the MOU with TRACECA (Vladimir Fedorenko, pp. 11 and 12). Through this perspective, Turkey facilitates a connection between states along its initiatives with TRACECA.

Along this forum, the fifth Forum held on 29-30 November 2012 in Istanbul, Turkey. During this Forum, representatives from Pakistan, Iran, and Turkey have signed the Joint Statement on the ECO Islamabad-Tehran-Istanbul Road Transport Corridor. The sixth International Silk Road Forum held on 14-15 November 2013 in Qebele, Azerbaijan. Finally, the seventh International Silk Road Forum held on 23-24 November 2016 in Aktau, Kazakhstan (Ministry of Customs and Trade, Republic of Turkey, 2015). Forums five and six were mostly has emphasized on coordination regarding the previous mechanism, while in forum seven, states were emphasizing connections with Chinese Belt and Road Initiatives.

There is another Turkey’s railroad proposal through Almaty-Aktau port in Kazakhstan passing over the Caspian Sea-Baku-Tbilisi-Kars-Edirne (Turkey). This proposal brought Kazakhstan as one of the main route, which made it much important.

MAP 3. TURKEY PROPOSAL OF RAILROAD



The connection between both aims of economic initiatives. Having Kazakhstan as the most advanced economy in Central Asia, oil-rich Kazakhstan leads the region in terms of GDP and purchasing power, while also acting as a key business and logistic hub linking China and Europe, facilitate two important results; one gaining success, the other having china in the initiative(HKTDC Research). Kazakhstan is a country that president Xi Jinping had started to talk about Belt and road Initiatives. This country can facilitate good connections between China and Turkey perception of Silk Road and cooperation due to this subject.

The purpose of Turkey initiative was to revitalize ancient Silk Road, turn it into a preferable route and to increase the trade and transportation volume between Europe and China and among the countries on this route through harmonization, facilitation, and acceleration of border crossing procedures among Silk Road Countries. Along with this purpose, Turkey has facilitated collaboration not just with the states along economic, rather with stakeholder. Turkey has made huge collaboration with China to build a roughly 7,000 km rail network; including high-speed train projects in Turkey with the participation of Chinese companies (estimated the construction complete by 2023). Turkey made many efforts to provide reliable and efficient transport links between Europe and Asia due to the Asian and European mechanism (TRACECA). These efforts made Turkey New Silk Road more successful and transparent than American, however, the American one has been more translated to Afghan economic Strategy. Thus, one of most important significant of Turkey efforts is connecting its initiatives with other initiatives while American was not able to do it. Despite all these advantages for turkey's initiative, there should be a consideration on disadvantages and challenges of this project.

While Central and West of Asia is considered as one of the least integrated regions in the world with full of border disputes, sovereignty challenges, extremism, and separatism; Turkey economic initiatives cannot be without challenges. The most important challenges in front of Turkey's initiatives is the lack of capital to build its initiative to have all Eurasia and south Asia. In other words, no state in this region can invest all required capital; there is needed cooperative strategy among these region countries. Turkey tried to facilitate communication between states and stakeholders to invest, but it seems states concerns, made them reluctant in this regard. The most important initiative in this region is china initiatives of Belt and Road Initiatives.

## 2. *China One Belt One Road or Belt and Road Initiatives*

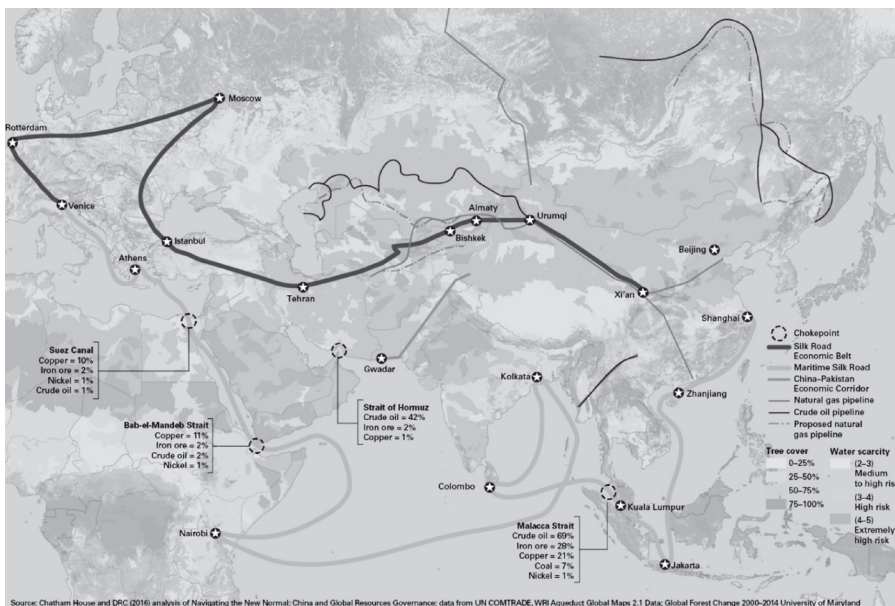
Due to having a glance at the history of China foreign policy during the communist party, China's foreign policy has moved from risk-averse caution to optimistic "dreaming" about a better world in which China will have recovered its place. Whereas 20 years ago China used to keep saying "no", or at best "maybe", to the international community, now it wants to say "yes", though without simply acquiescing in western hegemony (Pang Zhongying, 2015, pp. 1-13). China now suggests the biggest initiatives to world trade and transit and convincing the states to join and collaborate with the Belt and Road Initiatives. From another aspect Since China productions extensively increased, there was a question rising about demand shortages in the internal and international market that can negatively affect China productions. In 2009, former deputy director of China's State Administration of Taxation Xu Shanda submitted a proposal to the Ministry of Commerce titled the Chinese Marshall Plan that can create demand and more contracts for Chinese enterprises in the major projects of infrastructure and construction. Such projects would pave the ways for Chinese goods and services to enter new markets. This vision has been largely born due to Belt and Road Initiatives under President Xi Jinping administration since 2013 in Central Asia (Jiayi Zhou, Karl Hallding, and Guoyi Han, pp. 13 and 14).

President Xi Jinping officially has proposed one Belt One Road (OBOR) that changed to Belt and Road Initiatives (BRI) as Chinese initiative in September of 2013 in Astana, Kazakhstan. The Silk Road Economic Belt and road seeks to expand closer economic ties and cooperation between regional and beyond countries. These initiatives potentially involving an area that covers 55 percent of world GNP, 70 percent of global population, and 75 percent of known energy reserves. Consisting of six ways: 1. New Eurasian Land Bridge; 2. China-Mongolia-Russia Corridor; 3. China-Central Asia-West Asia Corridor; 4. China-Indochina Peninsula Corridor; 5. China-Pakistan Corridor; 6. Bangladesh-China-India-Myanmar. China has proposed and established the Asian Infrastructure Investment Bank (AIIB) for the support and setting up of Silk Road Foundation. So far, the core perspective of this Article is near economic Initiative of Afghanistan, so the Belt and Road Initiatives (BRI) in Central Asian and China-Pakistan Economic Corridor (CPEC); overall, these initiatives are following the blow elements of strategy.

- *Strengthening policy communication*; which means negotiating to solve cooperation-related issues; providing policy support for the implementation of practical cooperation and projects.

- Improving road connectivity; which means transportation infrastructure construction; energy infrastructure construction; constructing of cross-border optical cables and other communications trunk line networks
- Promoting trade facilitation; which can be translated to enhancing customs cooperation; expanding trading areas, improving trade structure; speeding up investment facilitation; expanding mutual investment areas.
- Enhancing monetary circulation; that illustrated to make more efforts in building currency stability, investment and financing and credit information systems in Asia and strengthening financial regulation cooperation.
- Strengthening people-to-people exchange. Which can be translated to sending more students to each other's countries, and promoting cooperation in jointly running schools; enhancing cooperation in and expand the scale of tourism; increasing cooperation in science and technology and increasing exchanges and cooperation between nongovernmental organizations

Map 4. CHINA BELT AND ROAD INITIATIVES



Through this program, China has been pursuing the great interest in developing multilateral partnerships with Central Asian countries in many areas, including energy, trade and transportation routes. One of the most important energy deals between Central Asia and China is the 1100-mile gas pipeline that transports Turkmen gas to China via Uzbekistan and Kazakhstan. “The Central Asia-China gas pipeline began operating in 2009 and aimed to reach its full annual capacity of 40 billion cubic meters of gas by this year”. Another important energy project is the Kazakhstan-China oil pipeline, which it is the China’s first direct import pipeline, pumping 14 million tons of oil per year. In addition, China has provided Central Asian countries with generous loans. For example, in 2009, it provided about \$4 billion to Turkmenistan to develop its Yolotan-South Osman gas field. China also provided \$10 billion in loans to Kazakhstan in 2009, including a \$5 billion loan to KazMunaiGas, Kazakhstan’s national oil and Gas Company. Jeffrey Woodruff, a senior director at Fitch Ratings, says that China’s lending politics would reduce Central Asia’s debt to Russian companies: “China wants the energy supplies, has a huge capital base to help and may be able to offer better rates than western lenders for some time going forward” (Jiayi Zhou, Karl Hallding, and Guoyi Han, pp. 13 and 14). Along This project, Belt and Road Initiatives in this region made two important scenarios to rise up, one pessimistic, and the other optimistic. Through pessimistic approach, China is getting more expansion, dominance, and chance of extraction that consequently help her to rise non-peacefully. Through optimistic approach about BRI, China facilitates mutual understanding, learning, cooperation, dialogue, development and more integration among regional and beyond regional countries.

Spillover effects have created threats to the security and stability of China’s western regions. The terrorist force of the East Islamist Movement (ETIM) resides in Afghanistan and Pakistan and acts in collusion with al-Qaeda, the Taliban, to train terrorists who stage attacks in the Xinjiang Uygur autonomous region and other provinces (Li Qingyan, p. 138).

As a neighboring country sharing a border with China, the peace and stability of Afghanistan have great significance to China safeguarding the stability of its western regions and fighting the “three forces” of terrorism, separatism and extremism, containing the harm of drugs, and promoting the development of the Silk Road Economic Belt. China and the United States can proceed with promoting the interconnection, intercommunication and the energy development of Afghanistan and look for areas to integrate with their respective belt and Road initiatives plans and explore

local projects that meet the common interests of the three sides in light of the needs for the national development of Afghanistan( Li Qingyan, p. 13). On building interconnectivity through infrastructure and telecommunications and measures for regional economic integration, China, United States and Afghanistan have similar priorities in launching power, oil, and gas projects connecting Afghanistan with surrounding countries, the engineering projects of cross-border highways and railways, on which the three countries can discuss feasible ways and measures for cooperating (Li Qingyan, p. 143).

China-Pakistan Economic Corridor is one of China economic Corridors which passing not far from our eastern borders. This economic corridor main aim is to promote bilateral connectivity, construction, explore potential bilateral investment, economic and trade, logistics and people to people contact for regional connectivity. This project includes the following aspects:

Integrated Transport & IT systems including Road, Rail, Port, Air and Data Communication Channels; Energy cooperation; Spatial layout, functional zones, industries and industrial parks; Agricultural development & poverty alleviation; Tourism cooperation & people to people communication; Cooperation in livelihood areas; Human Resource Development (CPEC, 2017).

Since 2013 China Belt and Road Initiatives is the most important initiatives with the huge amount of capital behind. Belt and Road Initiatives considered as an important game changer for the region that can facilitate cooperation among states in this region. However, there is a strong diplomacy among states along their initiatives and little coordination made between stakeholders, but these initiatives are still the most important agenda for regional cooperation and integration.

### *3. Russian perception of new Silk Road in Central Asia*

However, we have been discussing different Silk Road Initiatives from major regional and beyond regional stakeholders in Yi Asia, but there is not any New Silk Road initiative from Russia Federation in this region. During the Soviet period, Central Asia along other region received huge investments in the different area. Russian Federation as the inheritor of Soviet Union is not going to have more investment rather it wants to have them all safe and linked to Moscow. While there is, an economic project named the Eurasian Economic Union —the economic and political alliance among the former Soviet republics of Belarus—, Kazakhstan, and Kyrgyzstan, Russia

and Tajikistan and “it has been promoting its own plans for the Eurasian Economic Union” (CPEC, p. 7). Most recently, step in this project is the establishment of the Customs Union signed by three members —Russia, Kazakhstan, and Belarus. Kyrgyzstan considered joining to this project in 2015—.

Russian Federation due to the policy of saving Russian speakers and ethnic Russians abroad still is for its dominance and causes concern for Central Asians. Central Asian countries: Kazakhstan has 4 million, Uzbekistan has 620,000, Kyrgyzstan has 500,000, Tajikistan has 137,000 and Turkmenistan has 142,000 ethnic Russians in their countries (Robert Greenall, 2017). The Ukraine crisis has undermined Russia’s legitimacy by raising suspicions for both Central Asia and China about Russian intentions in the region. The prevention of color revolutions, which, in the recently updated version of Russia’s Military Doctrine, has potential implications across the former Soviet space (Pantucci & Lain, 2016). Russia along its strategy in Central Asia is increasing its military involvement in central Asia. In addition, Russia through different deals with Tajikistan and Kyrgyzstan intended to extend its bases until 2042 and 2032, respectively. It has announced an increase of troops in Tajikistan in its largest foreign base, from 5,900 to 9,000 soldiers by 2020. Russia is planning to renew the fleet of its airbase at Kant, Kyrgyzstan by 2016. It has already sent a dozen of new and modified versions of Su-25 fighter jets to replace older planes (Abdujalil Abdurasuloy, 2015) While Russia cannot have the more economic investment in Central Asian countries, she seems not to be reluctant with other economic initiatives, especially Chinese Belt and Road Initiative in this region.

Through a Russian geopolitical perspective in Central Asia, Chinese Belt and Road Initiative in cooperation with the Eurasian Union can be a good project, while it is under sanctions by the United States and many European states. China is happy to be the largest investment partner to the region but does not wish to own the political and security problems of Central Asia in the same way Russia prepared to do. Therefore, in the security sphere, Russia still is the dominant player (Pantucci & Lain, 2016). It seems Russia and China indirectly divided their duties; Russia is securing and China is investing. However, Russians cannot ignore the benefits, which are existed in central Asian convergent economic initiatives. Various Russian experts argued that the intersection of Russia’s own economic project, the Eurasian Economic Union, and China’s BRI “creates the necessary conditions for the interpenetration and integration of the EEU projects and the Silk Road Economic Belt”. From an economic point of view, there is no contradiction between these two formats —on the contrary, they comple-

ment each other—. Economic initiatives coordination and cooperation is a project that is still under negotiation. It seems to be an important part of both countries is trying to boost their economic ties (Valdai Discussion Club Analytical report). Russia is the third largest shareholder in Asian infrastructure investment Bank (AIIB) as an important fund for the BRI and at the same time, two countries have the mechanism such as the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization CSTO, over the concept of regional cooperation.

Russia and United States in Trump period seems to have different relation than Obama China-Pakistan. Trump seems to have Russia in his concentration to seek two important goals; first, reduce her commitment toward terrorism, second making an alternative for china, which make also pressure on China.

#### *4. India-Iran Economic Corridor*

Populated stakeholders along their necessities are seeking new corridors and routes. India as second most populated and important state in South Asia is increasing cooperation and trade with Iran in West Asia to reach Afghanistan and Central Asia. Iran for changing Chabahar to an important hub for international trade and transit is facilitating such route.

India is investing \$500 million in order to develop Chabahar port. The port would open a transit route to Afghanistan and Central Asia for Indian goods and products. Chabahar port would also enhance Indian oil and gas import opportunities that would also help tackle Indian energy shortage crisis. This port would also create new economic opportunities for India in Iran, Afghanistan, Central Asia and the Middle East Indian (Jawad Falak, Zeeshan Muneer and Hassan Riaz Chabahar, 2016, p. 3) companies will have opportunities to venture into Afghanistan and explore its enormous mineral wealth. In the long term, it will act as a hub for Indian trading operations to venture into the oil and mineral-rich Central Asia (Capt. HPS Sodhi, 2015).

The proposed Iran–Afghanistan road network: Chabahar–Milak-Zaranj–Dilaram, a project that constructed by India in 2009, for transport and trade to and through Afghanistan’s Garland Highway. India has already spent UDS100 million on building the 220-kilometre road in the Nimroz province of Afghanistan (Capt. HPS Sodhi, 2015). India is finalizing a plan of 900-km railway construction from Chabahar port to the rich mineral with a potential value of 420.9 billion in Bamian. This link also has avail-



ability to connect with five-nation railways especially Tajikistan, Uzbekistan, and Turkmenistan and Kazakhstan.

Map 5. CHABAHAR PORT AND CORRIDOR



Chabahar port is an opportunity for the cooperation between U.S with Iran-India, while this helps to meet and facilitate new American Silk Road. Since Chabahar Port and routes to Central Asia through Afghanistan are to liberate energy from Central Asia, U.S considering it as a common interest and along with New American Silk Road in Central Asia. Additionally, while India as one of the important American ally in Afghanistan is investing, this project translated for the purpose of Integrating Afghanistan with regional economic means, to reduce tension or threat of terrorism.

Since 2001 Afghanistan has been an important stage between regional states with the United States to negotiate and increase their mutual interests and understandings. International Sanctions strongly affected Iranian economy; they can use this opportunity to reduce the sanctions. The opportunity of foreign investment to Chabahar port and its route through Afghanistan; was given to Iran as the incentive during nuclear agreement by the United States. It is also mentioned that, however, if Tehran delivers on the nuclear agreement substantially-if not completely; India could

continue its engagement. Indian presence also can ensure long-term U.S. interests (that converge with Indian interests) guaranteed due to this project (Center on cooperation International, 2016, p. 34). While Trump tweets and possibly foreign policy toward Iran is limiting sphere and dominance on her peripheries' countries; combating terrorism through economic means with the axle of Chabahar may pivot cooperation rather completion.

Each of the new Silk Road initiatives described above has its own specific agenda, goals, and priorities to revive Silk Road. Whereas all these initiatives generally support and complement each other. For example, there has been active cooperation between Turkey and China over their respective visions of new Silk Road initiatives. Historically, the Silk Road was the most important route connecting the Ottoman and Chinese Empires. In an effort to revive the vitality of the ancient Silk Road trade scheme, in the last two decades, China has been actively cooperating with Turkey in many areas. Growing volume of trade relationships between Turkey and China will certainly require the use of transportation routes, logistic services and customs regulations through Central Asian states. With the help of Turkish partners, China has been improving its motorway connections in the North West as well as expanding its air facilities in Urumqi. Another important route is the Western Route that is currently under construction but will link northwestern China and Europe via Turkey, passing through a number of corridors including Iran and Kazakhstan (Fedorenko, p. 33). However, China Turkey bilateral economic cooperation reached to stakeholders' stage, but still their multilateral cooperation due to economic initiatives proposals are not well discussed.

Under the circumstance of US military withdrawal from Afghanistan, United States tried to integrate Afghanistan with regional economic initiatives, but it was not successful. Thus, U.S withdrawal did not happen completely. While China need stable region and U.S want Afghanistan to be integrated with regional economic routes to maintain security, it seems there is a common goal between U.S and China, and Afghanistan can be a good Stage to cooperate. Looking back to history, China and the United States had joined hands to set up cooperative training projects and assistance to Afghanistan, such as the Sino-US project of training Afghan diplomats initiated in 2012 and 2016. There are also new cooperative projects training for Afghan, such as medical personnel and agricultural technicians to commence. Cooperation on Confidence Building Measures (CBM) is an important component of the Istanbul Process can constitute

a major platform for regional interstate cooperation.<sup>\*\*\*</sup> These are some example which china and U.S had cooperated, which means they can improve their relations it in another field such as military training and facilitating military equipment cooperatively and finally cooperation in reviving belt and road initiatives in Central Asia.

#### IV. RISK ASSESSMENT OF REGIONAL ECONOMIC INITIATIVES

By looking horizontally to all economic initiative in Central Asia, it is easy to understand that Chinese Belt and Road Initiatives is the most important one in this region. BRI as the most important game changer in this region covering the strategic area in Asia and Eurasia, through chines geographical perspective. Since the initiative is a Chinese oriented project, it is not covering all regional necessities and at the same time, there is not enough cooperation among regional actors to fulfill this initiative. Those regional stakeholders, who cannot see their enough interest in BRI, seek their own strategies. Some of these strategies overlapping each other's and some others have a different route. Through a regional and horizontal perspective, states initiatives, which illustrated in this article, facing challenges and risks. "Harsh terrain, long distances to the market, high costs, slow customs, corruptions, political instability, and terrorism" (Irina Ionela Pop, 2016, p. 9), with the following elements are considered as most important challenges in this region.

1. This vision, or an iteration of it, has largely been borne out under the Xi Jinping administration, which, these investments; loans, and grants dispersed to create a network of infrastructure—including roads and rail lines, energy pipelines, power stations, and coastal ports—envisioned to extend west to Europe via the Silk Road Economic Belt, and downwards into Southeast Asia via the 21st Century Maritime Silk Road(Miao Lu, 2016).
2. Several potential risks exist in the One Belt, One Road Central Asian countries. Conflicts exist between Kyrgyzstan, Tajikistan, and Uzbekistan. For example, Uzbekistan strongly opposes China's hydro-power project in, as the proposed dam is located upstream on the Amu Darya River in Tajikistan. This investment could therefore ad-

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<sup>\*\*\*</sup> The 2014 conference of Istanbul Process decided on 64 priority projects in six major domains including anti-terrorism, drug control, disaster management, business and commercial investment opportunities, local infrastructure building, and education.

versely affect Uzbekistan's access to water, a scarce resource in Central Asia (Miao Lu, 2016).

3. Belt and Road Initiatives is mostly looked as a mean to mitigate security challenges in Xinjiang and China periphery. Most Radical groups with the exception of TIP, IMU and their related groups; defectively grantee Chinese economic initiatives in the region. While this is not enough, when we remind the U.S military withdrawal from Afghanistan, which mostly considered as a vacuum of power, China need to rethink about the safety of its capital (Christopher K. Johnson, 2016, p. 23). China invested in Kazakhstan about \$22 billion investment during 1991-2013. At end of 2014, China's total stock of FDI to Kazakhstan exceeded \$7.5 billion. Moreover, new packages of economic deals totaling \$14 billion and \$23 billion were unveiled in December 2014 and in March 2015 respectively. Therefore, it is quite important for Beijing to minimize political risks and protect her overseas direct investment having governments' guarantee that they will not change the outcome of previously signed agreements (Lidiya Parkhomchik, 2016). In guaranteeing these investments, china needs to have more involvement in political and security affairs, for stability.
4. Due to United States partnership with Trans-Pacific as a "pivot towards Asia" and continuing resistances between Washington and Beijing over the maritime territorial claims, anticipation shows there is no a real potential turning point vanishing this soon in this region. China's "periphery diplomacy" has three essential elements: criticism of the US system of alliances, promotion of cooperation with its neighbors in areas such as counter-terrorism and economic cooperation, and trying to form new international frameworks where China can play a central role (Irina Ionela Pop, 2016, p. 7). Through U.S perspective, the context of BRI initiative is strategically significant for two reasons for China. First, it validates a Chinese concern to compete with the United States as much as possible with strategic economic policies or through military ones. Second, it distracts some Chinese attention away from the Pacific and towards the west. In this perspective, it is somewhat premature for china to claim entered into the Eurasian era. Clearly, this is also to some level it is an oversimplification since it does not include consideration of the impact of the Maritime Silk Road (Ferdinand, 2016, pp. 953 and 954). U.S perception toward Chinese BRI is different, with China has given to the region. It is an important obstacle which China need to solve due to creating more coordination with U.S and States which holding U.S bases.

- China-Pakistan Economic corridor is passing from Kashmir disputed territory, any dispute between India and Pakistan stop all the corridors' activities. One of the ways may solve this issue is giving a connection to India to reach Central Asia through Afghanistan or China, which is also difficult to accept by India and even china. Additionally, since Pakistan has changed the route of the corridor to Panjab, the conflict between people of the cities was holding the original CPEC with the Panjab people has risen up. Protestors changed the term of China-Pakistan Economic Corridor to China Panjab Economic Corridor (Adnan Amir, 2015). Also changing the route of CPEC increased the distance between Afghanistan territory and CPEC. Additionally, CPEC is owned and managed by Pakistani military establishment and they expect to receive weapons in return, this also increases civilian and military disputes.

MAP 6. CHINA-PAKISTAN ECONOMIC CORRIDOR ORIGINAL AND NEW PROPOSED ROUTE



- Domestic Restructuring in the countries along the Belt and Road Initiatives is a costly project. Without considering South and Central Asia, there is about \$800 billion annual shortfall for infrastructure needs in Asia-Pacific countries which they much had better condition than the other routes (Jiayi Zhou, Karl Hallding, and Guoyi Han,

2015). These huge investments in the fluctuating and somehow vulnerable societies may not return the benefit of investment, all the time. Secondly, so far, upwards of 90 percent of China's foreign investment has been done through state channels and state-owned enterprises (SOEs), consequently, the financial investment returns have been low. For instance, the head of China's mining association in 2013 estimated up to 80 percent of China's mining ventures overseas had failed (Jiayi Zhou, Karl Hallding, and Guoyi Han, 2015). This perspective exists among Central Asian countries, which they are reluctant to give more authorities to nongovernmental companies. The practicality of some initiatives and projects criticized because of political leadership due to not being overly enthusiastic in liberalizing their trade, empowering private sector or opening their economies. However, staying aloof and failing to seize opportunities presented by such initiatives will eventually jeopardize the status quo (Vladimir Fedorenko, p. 35).

Focusing mostly on Chinese Belt and Road Initiatives' challenges, was due to its importance in this region. This literally does not mean other initiatives do not face challenges. Along with obstacles regarding BRI, all other regional economic initiatives face somehow similar or more important challenges. Chinese BRI consuming more capital, while other initiatives such as Turkey and Kazakhstan economic initiatives do not have this much capital. U.S New Silk Road banned due to Central Asian mistrust about U.S political will in this region. All economic initiatives in this region facing challenges, which originated from the substantial condition or the states, are reluctant to implement the initiatives well.

## V. CONCLUSION

Each of the new Silk Road initiatives described in this article has its own specific agenda, goals, and priorities. However, all of them contribute, much like the ancient Silk Road, to a system of trade and cooperation that is reemerging in Central Asia, but none of them can handle completely ancient Silk Road. Various new Silk Road initiatives generally have the capability to support and complement each other. For example, there has been active cooperation between Turkey and China over their respective visions of new Silk Road initiatives. Historically, the Silk Road was the most important route connecting

the Ottoman and Chinese Empires. Along with this cooperation, one more area is Afghanistan.

Afghanistan is a chance for China and the United States to discover their pragmatic cooperation. If both sides can efficiently control their differences and join hands on the issue of promoting peaceful reconstruction in Afghanistan, it will have a significant positive effect not only on peace and on prosperity in the region, but also on the development of the Sino-US relationship.

China Town Hall in the 50<sup>th</sup> anniversary of the national committee of U.S. China relations invited Dr. Henry A. Kissinger, as one of most important analysts about China and U.S relation. Kissinger during this interview answered many different questions about U.S-China relation. To a question that “what are U.S. China untapped source of cooperation?” He mentioned cooperation on Belt and Road Initiative in Central Asia and Afghanistan as the immediate country of china are two important chance for cooperation between both countries. In this article, it was well illustrated that central Asia and Afghanistan can be a unique stage for cooperation between two countries counter-terrorism stakeholders.

There are some political resistances between the United States’ New Silk Road strategy and the Russian vision of regional integration in Central Asia. The United States views the Russian-led Customs Union as an attempt to “resovietize” former soviet states. This resistance during Hillary Clinton and her agenda to slow down or prevent EEU became tenser. At the same time, there are opportunities in cooperation between both states. Through New Silk Road, projects there are projects such as CASA-1000, which Russia has invested. Since Trump took the power, anticipation for the low level of resistance and possible cooperation against combating terrorism raised up. Along with this goal, Afghanistan can be a good stage for combating terrorism and increasing cooperation between these two important stakeholders.

## VI. RECOMMENDATIONS

- China needs to improve its relations with the great powers, promoting its national interest in an internationally accepted way and focusing on cooperation.
- There should be a new chapter for the negotiating of stakeholder to talk about their regional and economic initiatives. This negotiating will not just help to have positive consequences on economic affairs; rather there will be more cooperation in security affairs.

- Facilitating connecting Chabahar through Afghanistan, with New American Silk Road. The belief or concept of economic initiatives to maintain the security stability in the region raised up. Therefore, it should change to operative strategies.
- There is a competition between China and India about routes to Central Asia, which has forced India to take U.S side. If China convinces India to accept a link connection through Kashmir territory to CPEC and then Afghanistan, this will have numerous results. First, India will grantees the security of CPEC in Kashmir dispute; second, Kashmir disputes will reduce; third, India doesn't invest massively in Chabahar while it is costly; four, CPEC benefits increase and changes to the most important route in South Asia.
- Afghanistan is not just a multilateral stage of diplomacy; rather it is a stage of the operative and practical field of cooperation with other stakeholders economically. Afghanistan should create a new diplomacy for practical economic cooperation between stakeholders.

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### CHAPTER III

## A VISION FROM AMERICA

## BRI OR THE BELT AND ROAD INITIATIVE. GENERAL CONSIDERATIONS FROM THE SECOND REFORM AND CHINESE OPENING

Arturo OROPEZA GARCÍA \*

SUMMARY: I. *Introduction*. II. *BRI or a Return to the Origin*. III. *BRI, ¿Clash of Civilizations?* IV. *BRI and the Second Reform and China's Opening*. V. *BRI or Geopolitical Reform*. VI. *The Economic Reform. Made in China 2025*. VII. *The Reform of Power. Constitutional Reform of 2018*. VIII. *Final Considerations*. IX. *References*.

### I. INTRODUCTION

Since the early 1980s, in the framework of its first major Reform and Opening, Deng Xiaoping warned us that China would continue, as an economic strategy, an *experiment* that was not on the books. The Western voices that attempt a reasonable interpretation of the Asian phenomenon have lived relentlessly trying to decipher and keep in step with a China that for four decades has known no rest. Since then, apprentice of the global process, and now, converted into the leader of globalization, it imposes its vision and its rhythm on a Western and peripheral world that is not able to realize what is next.

The new initiative One Belt One Road (OBOR), or Belt and Road Initiative (BRI), One Integration, One Path in Spanish, The New Silk Road, etc.,<sup>1</sup> constitutes, in fact, the second great opening of China. While in 1978 its way out was to the Pacific, for being a natural evolution towards its geo-

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<sup>1</sup> The author will preferentially use throughout this essay the acronym BRI, within the framework of a torrent of expressions on the subject.

graphic strength and of the use of the infrastructure that had survived the economic collapse of its communist phase; the BRI, or its opening towards its opposite axis, namely, towards Central Asia, Asia Minor, North Africa and the countries of its western border (more than 70 countries), represents a bold measure of innumerable interpretations that the West has not fully understood, nor has it constructed an adequate interpretation, or even worse, tried to elaborate a response of the BRI's magnitude.

The rescue of a millennial project? A new alternative to continental commerce? A new integration or regional association? The construction of a new geopolitical scheme? A new player of the multilateral commerce order? A different way of doing business? Contemporary adherents of the established global order? The first scaffolding of a new global order from the Asian continent? Unpublished chapters of the China-United States clash? A further escalation of the clash of civilizations? A Chinese positioning towards the confirmation of its global leadership by 2049?

It is not an exaggeration to assume that China's new BRI strategy, barely sketched in the speech delivered by Xi Jinping in the month of September 2013 in Kazakhstan, which he later ratified in Jakarta, Indonesia in October of the same year, involves, in a tacit or explicit way, the different categorizations enunciated in the previous paragraph which seek to be just a small sample of what the world begins to interpret regarding the BRI issue, which is discovered little by little like a snowball that in its passing breaks schemes, theories and paradigms that in just the first decade of the century were taken as immutable; or even worse, as is the case of Central Asia, where previously *inconsequential* economic issues, hidden by the sand of the millennia, now, because of China, are assumed to be strategic.

With the BRI proposal or the new Silk Road, with its re-launch, China communicates to the world without any reservation its clear desire to be the global leader of the 21<sup>st</sup> century in 2049, 100 years after the triumph of its revolution. Along with this, China makes public its new strategy to achieve it, reporting each of the three structural changes implemented for this purpose, as of the rise of Xi Jinping to power in 2012.

The first of these consists of the Reform of its political power, which was operated in March 2018 in the face of the promulgation of its Fifth Constitutional Reform (1987, 1993, 1997, 2004 and 2018). The second one consists of the Reform of its Economic Strategy, in the face of the implementation of its Made in China Plan 2025, 2035 and 2045. And the third strategy that refers to its Geopolitical Reform, in the face of the announcement of the new Silk Road or the global partnership initiative known as BRI in 2013.

China, at the end of the second decade of the 21<sup>st</sup> century, cannot be seen in the light of only one of these three structural changes, however important each one may be; nor does the traditional analysis of its first economic and political opening work. It is necessary to attempt an integral reflection that seeks the construction of a new narrative that describes each one of these three great actions; in a special way, from its connection and synergy with respect to the ultimate goal sought by China, which is to occupy the hegemonic leadership of the 21<sup>st</sup> century.

Certainly, this completely new project cannot be isolated from its referential framework. First, the one that corresponds to the implementation of a thousand-year-old idea that gives substance to the BRI, that refers to an emblematic and epic figure of the past—which is the Silk Road—and second, along with the removal of these historical and commercial dunes, that had been hidden for centuries, one cannot avoid, even in a referential way, analyzing the BRI in the midst of the rising debate between a legendary East (East Asia) and a declining.

In line with these concerns, the sections that follow will attempt to be a first approach to the description and relevance of what the BRI, or the New Silk Road, is, and what it could represent in this first half of the century.

## II. BRI OR A RETURN TO THE ORIGIN

For China, the oldest existing civilization in the world, the BRI, or the New Silk Road, has meant the re-launching of a geopolitical strategy that was inaugurated in the year 138 B.C., when, in the framework of its second dynasty, the Han, Emperor Wu Di commissioned Ambassador Zhang Qian to venture into its eastern periphery in search of information, expansion, and trade, which gave rise to the millennial silk caravan.

At that time, China was boasting the founding of the first modern State, in 221 B.C., in the face of the submission of the *Seven Warring States* on the part of the first emperor Shi Huangdi, at the same time, it inaugurated the first works of the now Chinese Wall, as a defense against the *barbarians* from the north.

By means of Ambassador Zhang, China tried to learn more about an unknown and complicated region located between huge mountains and deserts. The first antecedent of the Silk Road lasted 13 years, full of uncertainties, risks, and dangers. However, Ambassador Zhang made a second trip that set a precedent of interest and a possibility that would be repeated with varying imagination and interest for around two millennia.

The Silk Road, in its origin, is a first encounter between the West and East through presumptions, merchandise, and spices. At the beginning of the Road the Western counterpart of the second Chinese Empire was the Roman Empire, which knew since Alexander the Great, who came to the banks of the Indus, that beyond Antioch (Syria) and Persia (Iran), existed great kingdoms that he never wanted to explore because he did not want to expose the stability of the empire. China did the same, despite having launched and protected a silk caravan that opened trade with distant and unknown peoples; and although it is stated that since Tiberius (370 AD) the silk clothing was known and that China knew of Rome (the legendary Daqin), the truth is that the ancient empires of the West and East did not know each other;<sup>2</sup> that the Romans believed that silk grew on trees and it wasn't until 652 A.D. that Nestorian monks introduced to Europe silkworm cocoons hidden inside a bamboo cane (Marco Polo, 2014).

China was satisfied with knowing about Central Asia, and Rome did not want to see beyond Antioch in a first East-West meeting where the other was known but there was no political will for expansion. Within these intuitions, the silk caravan worked as a witness of the other which was evidenced by its merchandise, which in the case of China was led by silk and multiplied by porcelain, precious woods, precious metals, gems, spices, animals, etc.

Naturally, the Chinese Soft Power made itself present since then, as a strategic weapon of doing business: “The Chinese words were always soft, their contents always weak. With its soft words and weak contents, it is said, the Chinese attract people who live far away...” (Old Turkish inscription, Mongolia, Höllmann, 2015).

But also the Silk Route was an open artery between the East's and West's civilizations, through which religions, insurgent movements, invasions, slaves, gold, silver, war, etc., traveled. Similarly, a civilizing route was opened where the culture of the other was percolated, which had an intermittence determined by the geopolitical cycle of the moment, of great flowering, for example, in the Han era, but dominated by the Kushans in the 3<sup>rd</sup> century A.D., re-launched with the Tang Dynasty (618-907 A.D.), defended during the Pax Mongolica (14<sup>th</sup> century), and collapsed along with the Mongol Empire. The emergence of the Ottoman Empire (1299-1922) summoned again its operation and motivated the opening of a Silk Maritime Route that arises along with the innovation of Chinese ships and in-

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<sup>2</sup> Seneca said “These silk outfits are acquired at an enormous price from people who are not known for their trade: just so that our women make themselves as visible in public as they are to adulterers in the bedroom” (Höllmann, 2015).

struments of the 14<sup>th</sup> and 15<sup>th</sup> centuries, and that departed from Nan King (China), passed through the southwest of India (Calcutta), and arrived at Ormuz (Arabian Sea), and to Malindi, in what is now Kenya. Its most audacious expression was in 1405 when it was able to charter more than 300 ships of which there were 72 for the transport of goods; however, for reasons still controversial, the Chinese Ming emperors decided to cancel the sea route, leaving only short stretches. This caused the breakdown of its fleet at a time when the world was debating its geopolitical future in the seas. In the 19<sup>th</sup> century the Silk Road (Central Asia) was defined by Russian influence. And also in the 19<sup>th</sup> and 20<sup>th</sup> centuries, there is the decline of the Chinese Empire, which loses protection capacity with respect to its travelers and merchants. The Western renaissance and the fatigue of China motivate the beginning of the oblivion of a millenarian figure that paradoxically is recognized historically and is baptized as *the Silk Road* by the geographer Ferdinand Freiherr von Richthofen in 1877.

It is now, in the 21<sup>st</sup> century, that China decides, under the protection of its own hegemonic resurrection, to once again tap into an alternative of millennial origin, that gives it history, meaning and direction to its new commercial and geopolitical objectives with close to 70 countries (49 countries throughout Asia) because, to some extent, they all share in memory a long history of belonging and direction. China, as Thomas Friedman, believes that the Earth is flat and it allied with Asian countries that the global world did not remember and invites them to a great economic project. Through the BRI, China rescues the zone of oblivion and puts it back on the geopolitical map as a strategic hub for infrastructure, raw materials, gas, and oil.

However, the task will not be easy. When Alexander came to Punjab in India, his tired armies forced him to return to the West.<sup>3</sup> Now China, facing the new complexity of Asia, in its economic-political position, will have to deal with the internal problems of Iraq, the revolutionary movements of Kyrgyzstan (2005-2010), the civil-religious problems of Pakistan and Afghanistan, the civil war in Syria, the presence of ISIS in much of Asia, the violence in Tajikistan, the Kurdish conflict, these will be just some of the challenges that, like Alexander's generals, will challenge China to bring the bold BRI initiative to fruition.

"The skill of following in the footsteps of the past", stated King Wu-Ling in 307 B.C., "does not guarantee improving the world today" (Frankopan, 2015). The millennial China of the 21<sup>st</sup> century will have the challenge, in this re-launching of the Silk Road, to take these words into account.

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<sup>3</sup> Without reaching the West, he dies in the year of 323 B.C. in Babylon.



### III. BRI, ¿CLASH OF CIVILIZATIONS?

In the 19th century, a first encounter of civilizations was lived before the belligerent arrival of Great Britain to China (1839) and the United States to Japan (1854). This first debate, shock, encounter, fusion, etc., far from being concluded, has lasted in time and now, as a half of the century advances, between China and the United States becomes increasingly visible. The measured acceptance of the nineties and even the denial of this hypothesis, little by little has been giving way to the analyses that try to comment on this clash in more realistic terms. The debate now continues regarding the level and adjectivization of it. Whether it is just a commercial clash or whether it is about discussing the hegemony of the 21<sup>st</sup> century. Whether this is confined to the two nations, or it involves the entire West against East Asia. Or, as the configuration of the BRI seeks now, the inclusion of 49 nations from all over Asia, adding Central Asia and Asia Minor.

Beyond denials and demands of absolutes that confuse the analysis, the BRI sends us forcefully to a beginning of East-West confrontation, which in addition to the different schools of thought that addressed it since the 18<sup>th</sup> century, today connects directly with the discourse and contemporary strategy of the different political actors on the side of both parts.

The debate between East and West is not a new issue. However, the resurgence of China and East Asia, together with Western conflict and decline, place it back on the agenda of a global table where stories and leaderships reappear. The West, in light of its renaissance and illustration, forgot very early about its medieval past and decreed that the world started and ended in the West from the 16<sup>th</sup> century and from that triumphalism it built an omnipresent interpretation and a manifest destiny that it interpreted in the 20<sup>th</sup> century as an end of history where the West would reign forever in the world. From the Judeo-Greek-Latin root, the Western power took an irresponsible leap of more than 10 centuries and installed itself as the start of everything in the middle of the second millennium, within the framework of a pre-industrial era that endowed it with the necessary tools to its geopolitical military advance, having as its destination the rich Asian civilizations.

In its haste, the West forgot that during 90% of the modern time India and China led the world's economic wealth within the framework of their ancient civilizations and vast demographics.

The debate of the East-West pre-eminence, which was born mainly together with its maritime encounters in the 15<sup>th</sup> and 16<sup>th</sup> centuries and the discovery of China by the religious groups that frequented it in the 17<sup>th</sup> and

18<sup>th</sup> centuries, shows up with all its historical weight in currents of thought that are now rescued, that begin to sharpen arguments in the re-composition of a dormant debate, not forgotten, of the sympathizers of both sides. The Westerners, sheathed in the still supremacist discourse of the last quarter of the millennium, and the Orientalists, rescuing from the memory chest the old blazons and current cultures that gave them meaning.

The Western side, where a contempt for the Oriental has prevailed since the Academy, still considers that it is important to underline that the West has been the most developed region of the world during fourteen of the last fifteen millennia of the history of mankind. That the West has been the technological leader of the world for a million and a half years. That in cultivated plants, fortifications, proto-writing, large towns, domestication of animals, comprehensive agriculture, cities, large buildings, ceramic elaboration, the West was always ahead of Asia with an average of 1700 million years (Morris, 2014, pp. 45, 46, 71, 168 and 169). Under this idea, Jaspers also states that, “The fact that only the European evolution has led to the Technical Age—which has given the whole planet a European appearance—and that the rational way of thinking has spread to everywhere seems to demonstrate this primacy”. With a hint of justice, he adds, “True it is that also the Chinese and Indians—as well as Europeans—have felt like real men and have asserted their primacy as evident. But it does not seem to be the same as when all cultures believe that they are the center of the world, because only Europe seems to have retained its pre-eminence by virtue of their achievements” (Jaspers, 2017, p. 106).

The claim of supremacy in the midst of the unawareness of the other. In spite of being both millenarian cultures, in general terms, it can be said that until the maritime encounters since the 15<sup>th</sup> century, East and West knew each other only by intuitions, by sayings, by some merchandise and scarce trade. That the distance and the difficulty of their geography kept them distant. Both successful and often unsuccessful in their historical cycle. The arrival of Portuguese navigators to different parts of Africa since 1430,<sup>4</sup> the arrival of Columbus to America (1492), that of Vasco da Gama to India (1498), that of Giovanni Caboto to Terranova (1497), that of Christopher Columbus’s cousin, Rafael Perestello to China, that of Magellan to Asia Pacific (1480), etc., together constitute a military maritime invasion that gradually dominated the Asian continent and especially, their most successful civilizations.

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<sup>4</sup> Of which, Morris says, it was one of the decisive moments in the history of the world, in which the domination of the West over the East became possible (Morris, 2014, p. 480). For Crespo, this moment refers to the discovery of America (Crespo, 2012, p. 25).

Paradoxically, the shock of the conquest also forced both latitudes to venture into the knowledge of the other. The West from the pride of the triumph, and the East from the grudge of the defeat. Therefore, the comprehension of one with respect to the other is still a pending issue, of which the East, from the recourse of the vindication, seeks to generate a new platform of takeoff.

The history of the East, beyond the European borders, is carried out primarily by catechization priests such as Juan de Plano Carpini (1245-1247) in the Karakórum region, just as Guillermo de Roubrouck (1253-1255), Juan of Montecorvino in Beijing (1271-1238); as well as Odorico de Pordenone (1314-1330); or the Jesuits who arrived in China since 1582 and that were the source of the closest interpretation of the reality of China, headed by Michele Ruggieri and Matteo Ricci, who developed the first draft of the Chinese translation dictionary. Of course, there were merchants like Marco Polo (1271-1295) and adventurers or researchers like Sven Hedin of Sweden (1895-1899); Aurel Stein of Great Britain (1900-1906-1913); Paul Pelliot of France (1906), among others (Höllman, 2015).

Characterized by the late knowledge, the trend that defines most of the narratives of the different cultures of the East is the analysis that is made from the Western superiority, where Morris classifies them through the “School of the Ancient Destiny” (1750-1950) that explains the West’s leadership as a process that had been brewing since immemorial time (Marx, Landes, Diamond, etc.) and the *School of Modern Randomness*, as of 1800, which argues that this superiority is somewhat random and the result of the modern juncture (Morris, pp. 21-37). Both schools have different approaches, but they have the same matrix of justification on the advantages of Western civilization.

By fortune, determinism, environmental issues, biological issues, climatic issues, etc., the West never stopped to build with greater or lesser modesty, a narrative of the Oriental from the logic of the white man, and the watchtower of the Enlightenment and the Industrial Revolution, which provided sufficient inputs to minimize the other, and disqualify it from competing in the military and in technology.

It is true that the theme of the Oriental in Europe also had a broad group of sympathies such as Leibnitz, Voltaire, Jones, Said, and many others. However, in the first quarter of the 21<sup>st</sup> century and before the obvious rise of China, as Osterhammel comments, the world is returning to the moments of the 19<sup>th</sup> century where it did not have any restraint in publicizing its dominance not only over the East but with respect to the four continents,

which led it to deploy its more arrogant and condescending attitude with respect to other civilizations (Osterhammel, 2018, p. 3).

On the Western side, within this current of the discourse of conquest that, in general, prevailed regarding the Orient, there is a breaking point that started in 1978 with the appearance of the book “Orientalism” by the Palestinian-American author Edward W. Said,<sup>5</sup> who through his book substantiated a scientific claim of the Asian nations, as well as the denunciation of the autistic and incapable discourse for dialoguing objectively with those cultures.

Said places the East as a fundamental part of Europe;<sup>6</sup> it highlights the neighborhood of its old Greek colonies, the richness of its ideas; of its permanent contact and exchange with the West as an integral part of European civilization. As an intellectual reference of its discourse and justification of its institutions, of its vocabulary, of its doctrine, etc., He also defines it through the development of the main characteristics that explain it. Of the ideas and academic institutions that speak of the Oriental and treat it through its main doctrines. In this group, he includes books, writers, poets, scholars, who accept the idea of an East-West through the study of their ontological and epistemological differences. He supports it in the same way through his texts, bibliography, history; of its discussion, teaching, forms of power; of its politics, sociology, ideology, militarism, despotism, of an intellectual realism without prejudices, etc. (Said, 2001).

Said’s work, due to the quality of its content and transcendence, has been the spearhead of a large school of critic and reflection on the subject, which starts from the need to recognize the depth of the subject without the prejudices of the conquest. Of inviting to debates in the academic or ideological field about Orientalism and the Oriental; regarding the origin and depth of each of the categories; in the framework of an inexhaustible universality of the multiple Oriental civilizations (Hallaq, 2018).

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<sup>5</sup> Said’s work has not been exempt from a broad debate and criticism, both from the East and from the West, among others: that he adopts a Foucaultian determinism that limits the work; that he does not give the due credit to his predecessors like Anouar Abdel-Malek and Abdul Latif Tibawi, among others; that he falls into the same totalitarian fallacies that he criticizes; that he lacks a historiographical method; that he falls into epistemological contradictions; that he fails to take into account important Orientalist texts; that his work has anti-Semitic features, etc. (Hallaq, 2018, p. 7). Relevant issues that seem essential in the analysis of a cultural production that encompasses the vastest civilizations of the world.

<sup>6</sup> The idea of Asia as a continent is only from the 20th century. But its name is attributed to Herodotus, he named it after a nymph, daughter of Ocean and Thetis, among other interpretations.

The East-West debate, initiated right with the takeover of the main Asian states by the West, tempered by the surprise of the 18<sup>th</sup> century and radicalized by the triumphalism of the 19<sup>th</sup> and 20<sup>th</sup> centuries, in light of the new China-United States encounter in the 21<sup>st</sup> century, resurges with great push on both sides, in a line of resistance so as not to lose what has been won by the West and to recover what the East believes was lost in these 200 years.

The most radical voices come from the Eastern countries on the rise, who, beyond commodities, trade and economic numbers, are building day after day a new discourse of return, where the search for the economic hegemony does not just appear, as in the case of China, but also that of a dusted civilization that claims a place in the construction of a new global order. Clearly, it is already announced that “The 21<sup>st</sup> century will witness the confrontation between the Atlantic impetus and the Pacific impetus...” and “That the 21<sup>st</sup> century will be characterized by the fact that East Asia will rise as the world center of power...”. “That it would be risky both for Europe and for all mankind if pundits were incapable of liberating themselves from Eurocentric conceptions of the world—that—like the other parts of the world that enjoyed a splendor at other times, Europe is exhausted”<sup>7</sup> (Mahbubani, 2002). Huntington, for his part, thinks that: “The era that began with Western intrusions in 1840 and 1850 is coming to an end. China is taking back its place as a regional hegemonic power and the East is taking a stand of its own” (Huntington, 2001).

Some of the contemporary Asian intellectuals recommend, as part of the solution to the East-West problem, dismantling the conceptual and intellectual architecture of Western winning history, which has prevailed dangerously in its history and has shaped Anglo-Saxon thought (books, reports, newspapers, TV, etc.). Along with this, they propose that the West withdraw, as the religion of universal progress, the *Western Model* (democracy, capitalism, free market, etc.), as well as the recipes that they impose on the entire world (Mishra, 2017, p. 37). Osterhammel, from the Western point of view, also

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<sup>7</sup> On the subject, Mahbubani recently provided the idea of “A great convergence”, through which he explains the massive change that is being experienced globally. That since the beginning of mankind history, man has lived in different communities and tribes and in different cultures and civilizations. Now, the forces motivated by globalization are creating a new global civilization. That until recently, the North-South-Developed-Not-Developed themes were the terms used. That now these terms seem irrelevant. That the convergence of income growth should be the story of our time. That in the 19<sup>th</sup> and 20<sup>th</sup> centuries, the story was the divergent incomes. That at that time the income of the West had a large edge over the rest of mankind. That now this is changing rapidly. That this is inevitable and desirable. That the West is not losing power. That it is only sharing it (Mahbubani, 2013, pp. 1-11).

comments that when one remembers the 18<sup>th</sup>-century Eurasian equilibrium, it is not surprising that China understands its new geopolitical rise as a return to a historical normality and not as an economic miracle. That to recognize Asia as a partner on equal terms should not cause any problem in Europe, although it should be more difficult for the United States. After all, Europe has done it before (Osterhammel, 2018, p. 33).

The BRI, within this current framework of misconceived supremacies, cannot be interpreted as a commercial association scheme anymore. Its composition, today still informal, with the virtual participation of the 49 countries that are part of the largest continent on Earth, which occupies 30% of its living space and contains 60% of the world population in 45 million km<sup>2</sup>, does not look anything like the commercial agreements of the 20<sup>th</sup> century and its objectives go beyond a simple trade exchange.

The announced change of Era from the Atlantic to the Pacific, along with the Asian inevitability (Oropeza, 2017), that set the global *litis*, first, between China and the United States, escalating later to the West (the European Union and the USA) and East Asia (16 countries), before the bold call of China to all its continental neighbors through the millennial figure of the Silk Road, forces the Western pundits to update their reflections from the integral rethinking of history between East and West, based on a still unresolved historical dispute, that together with the commercial, economic and political strategies of both parts, will be playing a preponderant role in this encounter, debate or clash of civilizations, where the ghosts of yesterday resurface demanding a new order of things.

It is evident that the Western discourse on the Orient that sets off from arrogance has been exhausted. That the West cannot continue to ignore the relevance of other cultures and civilizations that from their roots are reconstructing the integration of their political power and their new economic strategies. Given the weight of the figures and projects that are now announced as BRI, to continue to ignore their ethnicities and natures would be a big mistake. Similarly, in the face of the large challenges that all mankind will face, including that of its survival, it would also be desirable for the East to pass from the *useful* resource of resentment to the comprehensive proposal of a multicultural world.

For the purposes of this essay, it is enough to draw attention to the fact that the BRI issue, due to its size and the number of Asian countries convened, is already part of this debate of civilizations of the first half of the 21<sup>st</sup> century and that, with this, it reconfigures the vision of an area that is still seen today with ignorance and suspicion.

#### IV. BRI AND THE SECOND REFORM AND CHINA'S OPENING

The first reform and opening headed by Deng Xiaoping in 1978 was preceded by hunger, fear and the failure of a Maoist period that failed to solve the great social needs of the Chinese people. In the context of the death of President Mao in 1976, and of the second political actor of importance in the same year, Zhou Enlai, the return of the figure of Deng Xiaoping under a fortunate political juncture, installed him at the head of a weak power, with doubts, for whom it was urgent to ratify himself and to give concrete answers to an enormous population of more than 900 million people who required the basic necessities of their houses, their clothing, and their livelihoods.

Although the decision of the first reform and opening of the Chinese State was first and foremost an act of courage, after two millennia of closed doors, the internal options had been exhausted and the global economy under construction was presented as the irrevocable solution for a nation that in economic matters still had not entered the 20<sup>th</sup> century. The results of this decision are already history and will remain as an example of economic success in the history of mankind: the second nation according to its economic value, the first exporting nation, the first in manufacturing, the first in contributing to global economic growth, the second nation in terms of importations, are some of the economic results obtained in four decades, which have not been achieved before by any other country.

Xi Jinping's rise to power in 2012, as the fifth replacement of a political generation that began in 1949, in the face of the triumph of the Chinese Revolution, took place in a framework of circumstances totally different from the arrival of Deng, determined by economic success, political stability, and an important social rise of the Chinese people. Under these conditions, it would seem natural that the government of Xi, like those of Hu Jintao and Jiang Zemin that preceded him, will continue with the winning formula of opening towards the Pacific in line with the unfolding of an Asian model of development with Chinese characteristics, to maintain the success of a widely recognized economic strategy. However, to the general astonishment, President Xi, son of a revolutionary hero (Xi Zhongxun), member of the political elite and declared follower of Deng's reformist line, having been appointed member of the Standing Committee of the Political Bureau of the Party (11-15-2012), in a speech delivered at a labor inspection in Guangdong (12-7-2012), advanced that "...the guide of Comrade Deng Xiaoping, was wise and correct, and he is worthy to be considered the general designer of the reform and the opening of China and the emperor

of the Socialist path with Chinese peculiarities”. “From now on, we have to follow this successful path, because it is the way that strengthens the country and makes the people prosper —However, he warned; in addition to following it in an unalterable way, we have to adopt new needs and reach a new level” (Xi Jinping, 2014).

Days before this declaration, on November 29, 2012, shortly after the closing of the XVIII National Congress of the Chinese Communist Party (CCP), the newly elected General Secretary of the Central Committee of the Party, went to the National Museum to visit the exhibition “The Revitalization Path”, and at the end of the visit, he incorporated, for the first time, into the Chinese political dogma the idea of building a *Chinese Dream*, which he ratified in his inaugural speech as president of the country when he deepened in the search of a dream that leads to the revitalization of the Chinese nation: “The greatest dream harbored by this nation since the beginning of modern times” (Xi Jinping, *The Chinese Dream*, 2014).

Xi pays homage and recognizes the leader of the first opening, Deng Xiaoping. However, through the political proposal of the construction of a Chinese Dream, he sets the mood for the Chinese Communist Party (CCP), the National People’s Congress (NPC), and for all of China, the idea that the 1978-2012 phase was exhausted and required a *revitalization* for the fulfillment of its goals.

The world is changing —Xi recognized— and China too. Hence, the development of Socialism with Chinese peculiarities must move forward following changes in the situation and conditions. Only when China advances steadily along with the times will it be full of vigor. We are willing to take as a reference all the achievements of human civilization—although he clarified—but we will not copy the development modality of any country—to finally maintain—China’s reform implies self-improvement and the development of a Socialist system with Chinese particularities” (Xi Jinping, *The Chinese Dream*, 2014, p. 36).

As part of this concern, since he came to power in 2012-2013 and within the formulation of a new strategy and vision of Chinese development (Second Reform and Opening), during 2013 President Xi Jinping made state visits to the cities of Ashgabat (Turkmenistan), Tashkent (Uzbekistan), Dushanbe (Tajikistan), Bishkek (Kyrgyzstan) and Astana in Kazakhstan, where, at the University of Nazarbayev, on September 7 of the same year, he launched, in the center of Asia, the call to build the new scheme of Association BRI or new Silk Road proposal that he extended in October of



that year, in the Indonesian Parliament, with the maritime strategy of the same project.

On May 8, 2015, the launch of the BRI was followed by the economic program called “Made in China 2025”, announced by the State Council, as a tool to consolidate China on the path of high industrialization. And in the months of October 2017 and March 2018, the CCP and NPC, respectively, operate a profound reform of the organization of the power in China, through a Constitutional Reform that consolidates Xi Jinping as the Chinese *Grand Emperor* indefinitely and without any limitation.

The new China, the China of the third decade of the 21<sup>st</sup> century, as it has already been said, cannot be analyzed under the parameters of the First Great Reform and Opening of 1978 operated by Deng Xiaoping. With all the successes, but also with all the challenges and risks of the great changes operated by Xi Jinping since 2013, the People’s Republic of China forces us today to explore it, to understand where it is heading for in 2050, at least through the three new structural changes operated by Xi as of 2013, namely: BRI or the Geopolitical Reform, Made in China or the Economic Reform, and the Reform of Power or the Constitutional Reform.

## V. BRI OR GEOPOLITICAL REFORM

### 1. *From the Deng Era to the Xi Era*

Deng Xiaoping advised his team in the eighties, facing the start of the Pacific opening, not to boast about their capabilities; that they wait for their time, and that they never show themselves as leaders in the face of the global competition. His dictum was respected and the Chinese economic re-launch and rise followed for almost four decades through a diplomacy of discretion and an apparent adaptation to institutions and to the established Western global order.<sup>8</sup>

However, the Chinese economic miracle and the geopolitical decline of the United States, in particular, and of the West, in general, among other reasons, influenced China’s reservations and those of Xi. So, they consid-

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<sup>8</sup> “To observe and analyze calmly, to secure our position, to deal with issues with confidence, to hide our capabilities and wait for the right moment, to be good at keeping a low profile, never lead a claim, to carry out operations of modest nature”. The strategy of the 28 characters to deal with the changes, articulated by Deng Xiaoping in the early 1990s shortly after Tiananmen. In Cardenal, Araújo, 2011.

ered that the time of modesty had ended and that the moment had come to show another attitude and to take the leadership flag of the future and to propose to the world the construction of a Chinese Dream; to show a people gifted with an exceptional creativity, creator of the great Chinese civilization, with the ability to continue expanding and strengthening their development path, advancing boldly and without hesitation (Xi Jinping, *The Chinese Dream*, 2014, p. 35). Within China's new attitude before the world, of debatable consequences within and outside the Asian country, is where the first consideration of the BRI began, which is created as a mega geopolitical strategy of multiple objectives, which as a whole must fertilize the consolidation of China as the global hegemon of the 21<sup>st</sup> century.

To this day, the BRI is an infinite multiplicity of topics, countries, projects, investments, challenges, oppositions, cultures, regions, civilizations, regional powers, trade, infrastructure, energy, demography, markets, and many more issues than during its gestation phase, which presents itself as a huge challenge to the rational interpretation of what it is today and of what it may become in the next three or four decades during which the completion of its installation is forecast. Notwithstanding, this lack of clarity from both the creators of the BRI and the users, and the bystanders who are interested in the subject, has not been an obstacle for the world to show itself restless and amazed given the uncertainty of a megatrend that is torn between the great transformation of the global world of today, or the failure of a political group that launched China with great audacity to the takeover of the global leadership in 2050.

The BRI numbers are impressive. At the start, nearly 70 countries from Asia, Eastern Europe, and Africa participated, involving 70% of the world's population, which also make up 55% of the world's economic output and, in a relevant manner, 75% of the planet's hydrocarbon reserves.

In the times of Xi, the BRI, the Second Opening towards the West, no longer refers to a selective and timid opening like the one of 1978, in which the search for productive investments was privileged in exchange for an extremely cheap and abundant labor force. Nor does it refer to that gradual process of assimilation to a global institutionalization in which, to date, China takes part in nearly 400 international treaties. It is no longer the strategy of a country that tries to learn from the uses and customs from abroad to assimilate itself with its own characteristics. The apprentice of the global order, the one who spoke with suspicion from its backwardness, is gone. Given its global economic significance, where China is the first or second trading partner of more than 120 countries, or its contribution to world economic growth (32%), which is higher than the sum of the developed countries

(ECLAC, 2017), China, through the BRI and its complementary strategies, paints in time a hegemony for the middle of the century; at the same time that it tries, given the Brettonian decline, to reconstruct the global order from the platform of Chinese Orientalism.

In this sense, the BRI, despite the discourses and contradictory definitions, tries to be the basis of a new time inaugurated from the vision of the *other*, of that Oriental being that was lost before the subjugation of the Western conquest from the 16<sup>th</sup> until the 20<sup>th</sup> centuries. Under this new time and vision of Xi, little by little emerges, among the official discourses, the opinion of a new generation that no longer sees China as the West's star pupil, but as a power with the capacity, strengthened in the last 100 years, that today allows it to become a leader of the international community destined to promote the process of a globalization that will build a new, safer and more prosperous world. (Lei, Liqiang, 2017, p. 19).

Some official media in China join this interpretation, noting that under the presidency of President Xi Jinping, the country is moving forward. That Xi is more ambitious and innovative in international politics than his predecessors and is convinced that China must develop a diplomatic policy that allows it to benefit from its role as a great power (People's Daily, October 1, 2014). Meanwhile, some academics also point out that China is using its rising influence to redesign the global economic governance (Lee Jong-Wha in Hong, p. 15, 2016). David Arase holds that China is using its great power in Asia to launch with the BRI a geo-economic and geopolitical agenda that generates a "community with a *common destiny*" "that maintains an asymmetric dependence with China". For Yong Deng, "The new Silk Road clearly reflects China's ambition to create through a Sino-centrism, a new Asian order" (David Arase and Yong Deng in Hong, 2016 p. 16.).

China's proposal, on the other hand, is defined as an *initiative* and not as a *strategy*, with the idea that it can be built by all its adherents. As an open and inclusive initiative that contributes to the economic development of all its participants. A proposal which, as Xi points out, does not keep anybody out, nor is against anyone. That makes it a path for peace, for prosperity, for innovation and advancement of the civilization (Shicheng, 2018). A proposal that still today is presented in confused and nebulous terms. That as of its discursive launch in Kazakhstan, has gradually been taking shape and structure. First, through the formation of a work team and a Web page in 2015, two years after its launch. In the same year, with the publication of a core document that is presented as the mandatory reference to explain what is the BRI, entitled Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road, which was prepared by

the National Development and Reform Commission (NDRC), in coordination with the Ministries of Foreign Affairs and Trade. Furthermore, in 2015, the first Working Protocol was signed by China in Kazakhstan, called the Production and Investment Agreement, which included a total of 52 projects in various areas such as mining, energy, manufacturing, chemical industry, infrastructure, transportation, etc. Along with the previous documents, there is also the Investment Work Program signed by China and Pakistan, which, because of its advances in design and operation, is considered as the flagship program to guide the work and negotiations of the rest of the countries that are negotiating an agreement with the Chinese government.

Already in 2012, Xi Jinping announced a new thought for a new era. Five years ahead, the launch of the mega BRI strategy and the advances achieved to date already marks a before and an after in the strategy that China has been attempting since 1949.

Strengthened in the economic success of the last decades, Xi breaks with the idea of a prudent China and moves towards an intelligent discourse of global leadership with 70% of the world's population and half of the global economic GDP. With this position, in its rhetoric, it surpasses the United States by offering to the world a new alternative for economic development, for which it offers investment, credits, and technology, which China does not condition in exchange for reforms to the political or economic systems of the BRI countries.

China's new offer unfolds the terms of the first opening to its western side. By doing so, the BRI bifurcates China's development towards the problematic autonomous zones of Tibet, Xinjiang, and Mongolia; directing the road of infrastructure to the difficult mountain and desert areas of Central Asia (CA); to the regions of the three forces, or *demons*, of separatism, terrorism and extremism; to the long distances of a geographical area that before the BRI still seemed hidden from the eyes of the world. An initiative that because of its atypical nature and audacity, five years after its launch and implementation, still lacks a geopolitical response from the United States and the main Western countries such as Germany, France, Italy or England, who in the face of the untimely nature of the initiative, the most they have done is to adhere, as founding partners, to the financial scheme of the Asian Infrastructure Investment Bank in 2014 and 2015 (AIIB).

The BRI finds its first explanation in the impulse of a new Chinese leader, who vis-à-vis his time, did not consider that the comfortable inertia of success was enough. A leader who risks his heritage and political future, and invites the world in general to join a great call for the development and prosperity of the world economy, for the construction of a more just

and reasonable global governance system, that helps to build a new future for mankind; objectives that as Li Xixia points out, go beyond a new world trading system and settle in a new proposal of cooperation and global order. (Li Xixia, 2018). For that reason, the essence, the first interpretation of the BRI is geopolitical. In it, the first efforts to define it and understand it must be redoubled.

## *2. The BRI and its global circumstance*

China, as George Soros points out, has become the winning nation of the global process, but along with it, the Asian country also stands out for its ability to sense and influence the formation of the new global processes and systems.

In 1978, its intuition led it to implement a selective and gradual opening that protected it from any shock mechanism that the West tried to impose; as in the case of Russia, which at its opening in 1991, orchestrated mainly by American specialists (J. Sachs), generated a cost of 4.5 times its GDP the first years, a larger amount than what it lost in the Second World War. Unlike the eighties, the opening that China is attempting today towards the West is a bold proposal in geopolitical and geo-economic terms, putting on the table of all Asian countries an infinite range of economic options that are difficult to reject. In this regard, China extends the wings of a new regional, continental and global leadership on the Asian continent, which tries to replace the hegemony that the United States has exercised over the area since the end of the Second World War, at the same time that it places the first stones for the restoration of the Middle Kingdom (Zhongguo), the millenarian Sino-centric scheme that operated in East Asia until the 19<sup>th</sup> century.

- The United States

The complexity of the BRI proposal in this respect breaks the pre-existing regional molds, just as it boldly faces the complex geopolitics of an area of ancestral roots that today coexist in a belligerent tone. In a special way, it challenges the historical presence of the United States in the Asian region.

The Pax Americana that has governed East Asia since 1950 to date has been eroding, among other reasons, before the increase of the economic strength of China, which has recorded an annual average economic growth of 10% in recent decades. Along with this, the multilateral control agencies

that the United States designed for the area have not worked according to the established objectives. For example, the Asia-Pacific Economic Cooperation Forum (APEC), launched with Australia and Japan in 1989, has become bureaucratic and China has now stormed into it. On the other hand, the Trans-Pacific Partnership Agreement (TPP) that it proposed as a Free-Trade Agreement to seven Asian nations and signed in 2016 was cancelled by Trump on the first day of his mandate in 2017.

In a fundamental way, there is also the fact of the *commercial complicity of the West with China*, as well as the region of East Asia as a whole, through which they have been together participating in a simulated economic model since the seventies, where the West contributes with financing, technology, and relocation of processes, in exchange for the precarization of cheap Asian labor. As of the 1970's, this confusion and the shared economic interests have led to a kind of simulated geo-economic stability, which now blows up, in light of its contradictions, with the US-China trade war. Beyond what arises from this dispute, the result is that the United States lost power and control in East Asia, which was taken by China to become the economic model to follow in the region and the most important trading partner of most of the countries in the area (approximately 40% on average).

In Central Asia (CA), and Asia Minor (AM), for example, the natural influence zone of Russia, the United States has ventured with little fortune given the setbacks in Iraq, Syria, Iran, Afghanistan, etc. Nevertheless, aware of its strategic importance, in 2011 through Hillary Clinton, it launched, from Kabul, the idea of an economic corridor toward the main CA countries, which was called the American Silk Road. Not only the United States, but the West in general, during the last two centuries, has tried to keep hegemonic control over the region because of its strategic relevance. In particular, the United States has tried to carry this task since the second half of the 20<sup>th</sup> century (Frankopan, 2015). Despite this, its recent failures in Central Asia and Asia Minor and the new successful role of China in the area have eroded the armor of an American hegemony of which today there are many doubts, despite the fact that some specialists, such as Zeping, affirm that, "The US will use its hegemonic system, established since the Second World War in trade, finance, currency, and the army, to stop the rise of China" (Bloomberg Businessweek, p. 38, August 23, 2018).

- Russia

It is not exaggerated to point out that along with the challenge that the BRI has in settling itself in Asia as a strategic geopolitical project of China

and confronting American dominance, there appears at a similar level the figure of a Russia with which the Chinese country shares 4250 km of border, which since the 17<sup>th</sup> century has been the cause of conflicts and invasions between the two nations, the last as recent as 1969.

To the foregoing, we must add that the BRI project core, as it was 2000 years ago for the old Silk Road, is represented by five CA nations (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) that represent the heavy door through which all kinds of connections and dealings will have to pass between East Asia (China) and Asia Minor and Europe.

The transit in this region of complicated geography has never been easy. Along with its orographic difficulty (Karakorum, Himalaya, etc.), there has always been a political and social instability that is difficult to face. To this, it is necessary to add that as of 1922 the former Soviet Union has been incorporating little by little into the five Asian nations, which it controlled until 1991, the date of its dissolution. However, Russia continues to exercise de-facto domination in the area, with a military presence, which it plans to expand and maintain until the middle of the century, so it has not been easy for Russia to accept the leading role of China, even before the launch of BRI in 2013.

The conjunctural geopolitical Russia-China understanding is a theme of wide reflection that cannot be provided given the limits of this work, but thanks to this understanding, to Chinese diplomacy and to Russian pragmatic behavior, the BRI, far from stopping in the geopolitical limits of Russia, directly crosses the country and the area through major Chinese investments that in Russia, for example, up to 2016, has about 73 strategic projects for an approximate amount of 40 billion dollars; and in the Central Asian region, where from 2005 to 2017 the Chinese foreign investment (IED) reached 920 billion dollars, while the Russian participation in the area during this period was only 29 billion dollars (Heritage Foundation, 2017).

The relationship of Russia with China can never be normal and stable. Every day the damaged pride and the fear of giving space and political control to a China that has presented itself to the five CA countries as their only opportunity for development will be debated. Their Alliance, at the beginning of the third decade of the century, will be strengthened by the joint challenge of facing the United States that is a declining hegemony. Russia, within the framework of these meetings and the disagreements with China, is betting on selling an image of shared power, even though the Russian economy is currently one-tenth of China.

Russian pragmatism, which has allowed the growth of the BRI through the main gate of Central Asia, is also supported on a two-pronged discourse.

The first one, which points out that the BRI is a joint Russian-Chinese strategy where the two countries, “Are not only partners but their relationships are the backbone to build a new global economic and political system” (Mikhail Fradkov in Gutiérrez, 2018). And the second, which explains that based on the platform of the Eurasian Economic Union (EAEU), convened by Russia in 2010 and expanded in 2015, with the participation of Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia, is that the BRI is generating the economic conditions of this new integration. “From the economic point of view —some pundits point out— there is no contradiction between these two systems, on the contrary; the two complement each other” (Mahdi Munadi, 2018).

In the end, there are two interpretations that prevail, by way of synthesis, over the idea that Russia has about the new role of China in CA. The first, which corresponds to the feelings of alarm about the large difference that has opened in the area with respect to the new power of China and the fear that this will continue to expand in the future not only in Central Asia but throughout Asia. And the second, to believe and to disseminate that Russia has military control of the project and that China is a co-leader with an economic role.

- India

The position of India is contrary to the Russian position regarding the BRI. It departs from Soviet pragmatism and re-enacts the armed conflict India had with China in 1962, regarding border limits, which India does not yet consider resolved. India has not yet accepted its formal participation in the BRI; through President Modi, it declared in 2014 its frank opposition. To this, it should be added that since 2015 India has joined a dialogue team made up of the USA, Japan, and Australia, through which they try to stop some of the Chinese initiatives in this matter, and even to launch other proposals similar to the Silk Road like the one India has proposed from the port of Chabahar, on the Iran coast, which would give it access to Afghanistan and Central Asia.

Central Asia is for Russia what the South Asia (SA) and the Indian Ocean regions are for India, which considers them its natural areas of influence and where it has built regional association ties through the South Asian Association for Regional Cooperation (SAARC). However, India’s largest concern regarding the BRI, is in Chinese politics with Pakistan, because of the frankly conflicting positions that the two countries maintain since their independence and separation in 1947. Another hot topic for India is the



maritime BRI, which considers it a threat to its historical zone of influence of the Indian Ocean, where China is building a maritime platform that is known as the *String of Pearls*, through which it is investing strategically in the Indian Ocean ports.

China, on the other hand, invited India to participate in the economic corridor BRI, China-Bangladesh-India-Myanmar. China accepted, in principle, its inclusion, but based on its geopolitical differences it suspended the talks in 2015 for security reasons. Similarly, India has made clear its displeasure for considering, that in the Economic Corridor of Pakistan, it was treated with little respect when planning its construction in geographic zones that India considers to be in litigation since 1962.

India is not part of the BRI, but it is the second founding partner of the AIIB, from which emerges the internal debate between an India that resists the growth of Chinese hegemony in the area, sponsored by the United States,<sup>9</sup> and another internal current that advises it not to be left out of BRI, as it would be to stay out of the future of Asia. In this regard, Deepak concludes that, “The BRI puts China at the center of the geopolitics and the global geo-economics, but it is still unclear what the strategic role is that India is expected to exercise” (Deepak, B.R in Hong, 2016).

- Japan

Japan’s opposition to the BRI is more evident, given the role played by the Asian country in the region during the second half of the 20<sup>th</sup> century; especially, regarding the period that covers the sixties to the nineties, when Japan played a preponderant role in the area derived from its economic success and partnership with the United States.

The geopolitical rivalry between Japan and China is millenary and it was translated for many centuries into the tributary role that the former had with respect to China, like many other countries in East Asia. This relationship broke down when, in the 19<sup>th</sup> century, in the framework of the Western advance in the area, China was confronted by a large number of Western nations during the period of the decline of its imperialism, while Japan took refuge in the West, *fled* towards the West to transform its economy and its institutions. The decisions taken by the two empires in the late 19<sup>th</sup> century resulted in the first Japanese invasion of China in 1894,

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<sup>9</sup> In October 2018, India signed an agreement to purchase arms (anti-aircraft systems S-400) with Russia for the amount of 5 billion dollars, despite the ban established by the United States, following the steps that China had taken in the same vein weeks before, testing the tolerance and its strategic relationship with the USA.

where China was defeated and displaced from the control of the East Asia region; and then in 1931 Japan repeated the action and invaded China in the framework of the Second World War, based on its new military and economic power. In the end, Japan leaves China in 1945, but the wounds of these events have not been able to close for both sides.

To date, Japan is reluctant to recognize the new economic power of China, although paradoxically the two countries, in terms of manufacturing, share the leadership of the world factory, that is East Asia, where China is its second export partner with 120 billion dollars, and Japan, in turn, is the third client of China with 148 billion dollars (OEC, 2016). However, Japan continues to privilege its strategic relationship with the United States, despite the fact that, as already indicated, the multilateral scaffolding built by the two countries in East Asia, such as the APEC, and the Asian Development Bank (ADB), that since 1966 was launched by Japan and the United States as a financial instrument for Asian development, today, pales against financial institutions and actors that accredit the BRI.

Japan is also trying its Silk Road in Asia, as a way to defend its role in the area and thus, in 2015, promoted with 110 billion dollars the corridor Bangladesh-Bhutan, India-Nepal, with a similar line to what the BRI proposed in those countries.

- International Economic Cooperation Corridors

Beginning with its strategic alliance with Russia, its invitation to the BRI and the offer of credits to India, and the geopolitical distance with Japan, main geopolitical references in the area, China constructs the new geopolitical and geo-economic architecture of an entire continent for the first half of the 21<sup>st</sup> century. Derived from this geopolitical scaffolding that will have to be observed in detail, China has six strategic vectors (International Economic Cooperation Corridors) that to date form the backbone of the BRI project:

At least three of these International Economic Cooperation Corridors emerge from its alliance with Russia. The first, which refers to what China identifies as the New Eurasian Bridge, tries to connect, via high-speed rail, the East of China to the European continent via Rotterdam, Holland, crossing 30 countries with a distance of almost 11,000 km. This project was one of the first challenges of the BRI since it constitutes a new alternative that competes with the Russian Trans-Siberian train, and of course, it was the subject of major negotiations. To join “The two Silk Roads,” the Russian and the Chinese, Alexander Gabuev, academician of the Carnegie Center

of Moscow, commented that “The agreement had been the result of painful internal decisions on the Russian side” (Hong, 2016, p. 26).

FIGURE 1. SIX ECONOMIC CORRIDORS COVERING ASIA, EUROPE AND AFRICA



SOURCE: Global Infrastructure Connectivity Alliance, 2019.

The second corridor called China-Mongolia-Russia also comprises directly the China-Russia axis, because it implies a Chinese interference in a country like Mongolia, which through time has functioned as a buffer between the two countries. Actually, its value is more strategic for China, since Mongolia borders with two of its two most sensitive autonomous regions, which are Xinjiang and the Mongol Autonomous Region. In 2015, within the framework of the installation of this corridor, a Memorandum of Understanding (MOU) was signed and, in 2016, the BRI Multilateral Protocol, where the three countries committed themselves with 32 projects in 10 relevant areas of the industry, energy cooperation, customs facilitation, environmental protection, technology, science, education, among others; and in a special way, with the stretch of Mongolia from the new Eurasian train route, whose design will reduce transportation costs, delivery days and procedures, as part of the new regional transport project.

In this corridor, the suspicion is of one country against all with regard to the multilateralism experiment developed by China. However, despite

starting the project with great dynamism, progress was slowed due to the weakest link: Mongolia, who has used *prudential* measures and real acts of confrontation with China, for example, inviting the Dalai Lama in 2016, despite warnings that the visit would be frowned upon, which was followed by a strong Chinese reprisal that resulted in increased export costs, so the Minister of Foreign Affairs of Mongolia had to apologize to China and declare that they will *not* invite the Dalai Lama *ever again* (Minwang, 2018).

If the two international cooperation corridors of the China-Russia strategic relationship mentioned above have not been easy, the implementation of the third of them, known as China-Central Asia-Asia Minor, has not been easy either. This corridor involves the five CA countries plus Iran, Iraq and Turkey and in its BRI Protocol on Production and Investment, signed in 2015, 52 projects were included in various topics such as mining, energy, manufacturing, chemical industry, materials, infrastructure, transportation, biotechnology, etc.

In addition to the Russian-Chinese geopolitical problems mentioned above, Central Asia, always forgotten by the global geography, as a region has one of the highest indexes of insecurity, political instability, lack of rule of law, high levels of corruption, low index of human development, etc., that increase proportionately from Kazakhstan, with the best risk index in the area (21), to the highest in Tajikistan (66), which also leads the region to present the lowest levels of financial reliability and savings (Ghiasy Richard and Zhou Jiayi, 2017).

Despite the fear of the Chinese power, the CA countries see its arrival in the region with optimism and as a hope to get out of underdevelopment. China, in turn, tackles the area, first, as an inevitable step towards the rest of Asia with the idea of rebuilding a new Silk Road. And second, as a highly strategic area for its high demand for gas and oil, as a strategic complement to the agreements that China has signed with Russia along the same lines. In the case of Kazakhstan, for example, in addition to signing contracts for the construction of infrastructure worth 44 billion dollars, the China Petroleum Corporation (CNPC) controls 25% of the country's oil production and has scheduled an investment of 477 million dollars to convert Khorgas into a free trade zone. With Uzbekistan, in 2013, it signed agreements for 15.5 billion dollars, which included the construction of a fourth pipeline and a railway line. With Tajikistan, in 2014, agreements were signed for 6 billion dollars for infrastructure and aluminum smelting. With Turkmenistan, which covers half of China's gas imports, in 2013, agreements were signed for 7.6 billion dollars, which includes the construction of a gas pipeline. In this country, the Chinese company CNPC is the only one that owns the

exploitation rights over the gas fields in the Bagty-yarlyk field and also participates with the development of Galkynysh, the second largest natural-gas field in the world. Finally, with Kyrgyzstan, eight agreements for 5 billion dollars were signed in 2013, which include the construction of a gas pipeline to China (Vanguardia, Dossier, No. 60, 2016).

The fourth International Economic Corridor is known as China-Indochina Peninsula and starts in the provinces of Guangxy and Hunan in China and goes to Vietnam, Laos, Cambodia, Thailand, Myanmar, and Malaysia, ending in Singapore, and this is the route that has had the least geopolitical cost for China, since it is developed in its historical tributary zone and is now organized under the Association of Southeast Asian Nations (ASEAN), although, in some of these nations, the Indian civilization has never ceased to be present, especially in the south.

Because of geographical and historical reasons, the Eastern countries that are included in this economic corridor are part of the first globalization of China; therefore, China has a larger economic deal with them and even a Free-Trade Agreement (FTA) that was signed with the ASEAN in 2010. As an example of the above, the intra-regional trade of the ASEAN countries is close to 25%, but when China, Japan, and South Korea are added, the integration scales up to 50%, surpassing the rest of the integration schemes with the exception of the European Union (65%). This shows the high degree of cohesion that the zone has in the production of manufactured goods, in which although China represents 21% of intra-regional exports, it absorbs 44% of the intra-zone imports, which marks the cohesion and importance of the region with China for decades (Oropeza, 2016, p. 201). Consequently, since before the BRI, China has put its largest investment in this economic corridor and has now reinforced it with 12 new roads, 11 new freight routes, new China-Vietnam, and China-Laos train lines and an advance of 80% of the China-Myanmar railway, etc. However, despite the great economic importance of China in the *Indochina Peninsula*, some of its member countries still bear not very fond memories of its belligerent presence, such as Vietnam, which still remembers its war with China in 1979; and recently, not only Vietnam, but also Malaysia, Indonesia and the Philippines, who view with fear and suspicion the dual role of China as a partner and new regional hegemon, with respect to its maritime borders in the South China Sea.

The fifth International Economic Cooperation Corridor corresponds to China-Pakistan (CPEC), which is the only corridor that contemplates the relationship of just one BRI country with China. At first sight, it is significant that China has chosen to give Pakistan this important role, as well as the fact that it has not directly included its close neighbor, Afghanistan. To

date, the CPEC, for the geopolitical and economic commitment that China makes, is the most important BRI corridor, to such an extent that it is considered as the flagship corridor, the model corridor that can guide the tasks of the other corridors, at the same time that it can signal the successful or problematic progress of BRI.

Regarding the CPEC, it is important to reiterate that its outline was made in the face of the opposition and annoyance of India, as a regional hegemon, because its original outline crosses territories still in debate with Pakistan and China (Gilgit-Baltistan), or only with China (Kashmir), in a *carelessness* that has generated the indignant opposition of India to the BRI. Moreover, the CPEC omits the declared participation of Afghanistan. This speaks to the fact that although China is taking high levels of risk in its investment strategies, for which it has been criticized, in the case of Afghanistan, for its political instability, for its pro-American vocation (American Silk Road), China avoided mentioning it in the CPEC. The above does not mean that Afghanistan has not been invited to the BRI and that it cannot participate in its different projects.

Pakistan presents itself before China as a country of special importance for diverse reasons. One of them, because its border is near to its autonomous region of Xinjiang, where the largest Muslim population in China lives, known as the Uighurs (hui su), so, for China, it is of the utmost importance to have a good relationship with a country of 190 million Muslims like Pakistan to avoid contamination with extremist groups in the region such as Al-Qaeda, the Taliban, the Turkish Islamist Party, etc. in the Uyghur zone. Similarly, China's economic growth and political stability have been at constant risk as it is a major importer of oil with almost 12 million barrels a day in 2017, which is largely supplied through the strategic zone of the Indian Ocean and its multiple straits, such as the Strait of Malacca, of Singapore, etc. In this context, the construction of a deep-sea port on the Pakistan coast in Gwadar is for China a strategic alternative to USA and India, as well as an outlet to the sea for its exports from central and western China. To the Chinese investments in the Gwadar Port resources were added for the integration of special economic zones, industrial corridors, a railroad that connects the port with all China and Central Asia, 3000 km of roads, electricity lines, etc., reflecting a large investment and a very important work to achieve a visible economic improvement in the country, which would give greater stability for all economic and political purposes. In this regard, the CPEC has become an example of the geopolitical support that China can provide through the BRI to the rest of the associated countries. Therefore, as Ghiasy and Zhou point out, if CPEC remains successful and sustainable, it will be-

come a clear message to other countries with investment and development problems, to become closer partners with China (Ghiasy, Zhou, 2017).

The sixth and last corridor is the China-Bangladesh-India-Myanmar corridor, which, as already mentioned, is mainly hampered by the withdrawal of India's participation since 2015, as well as by Myanmar's political instability. However, this corridor is also relevant because it includes the Maritime Silk Road project of the 21<sup>st</sup> century, which begins in Southeast China and intends to continue along the sea route to Europe.<sup>10</sup>

In the 15<sup>th</sup> century, as noted, during the Ming Dynasty, China decided to renounce its geopolitics by sea, although in the year 1405 during the dynasty of Yongle Emperor, a fleet of 62 powerful ships was integrated under the command of Zheng He, among which stood out the four largest ships in the world, 120 meters long and 50 meters wide. In the 21<sup>st</sup> century, within the framework of the BRI, China intends to re-launch a maritime strategy of positioning along the Indian Ocean, a strategy that in 2004 was qualified by the United States, in research by Booz Allen Hamilton, and C.J. Pehrson, as a *String of Pearls*. In these studies the marine, terrestrial and aerial facilities are defined as the string of pearls that China has been building since the beginning of the century in order to create a geopolitical power structure in the South China Sea and the Indian Ocean, as the starting point of a new global maritime force to accompany the Chinese interests in the area against firstly The United States and India. The String of Pearls includes the port of Gwadar in Pakistan; Chittagong in Bangladesh; Sittwe in Myanmar; Sihanoukville in Cambodia; Merguy, Thilawa, Kyanksyu, in Thailand; to which we could now add Hambantota and Colombo in Sri Lanka, Lamu in Kenya, Port Sudan in Sudan and Piraeus in Greece, where China currently holds 70% of the operation (Vanguardia, Dossier, No. 60, 2016).

### 3. *BRI or the economic resources of the integration*

In financial matters, the BRI project is also an anti-paradigmatic initiative for the global order, both because of its size and because of the wide range of projects and institutions it comprises.

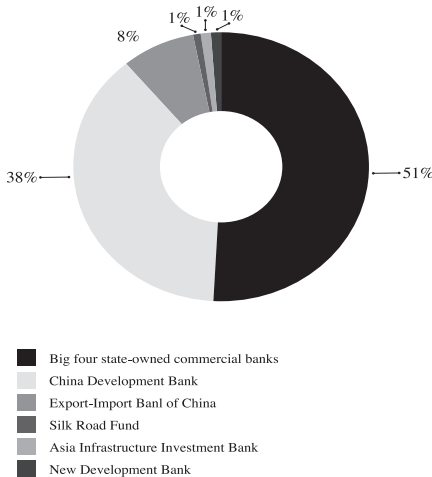
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<sup>10</sup> In this regard, in 2010 Geoffrey Kemp commented on the uncertainty of China's role in the important region of Central Asia and Asia Minor that China had to solve the enormous geographical distance from the area given its great hydrocarbon wealth. That if China expanded its seaway through the Indian Ocean and developed new terrestrial communication routes that transited through C/A and Pakistan, it could become a strategic player in Asia Minor and the Persian Gulf (Kemp, 2010, pp. 1-6). It appears that China has followed the recommendation as can be seen from the BRI strategy.

While today the BRI does not integrate a new formal paradigm of partnership, the inclusion of new topics in the trade of goods such as energy, science, technology, infrastructure; the broad levels of funding and the cultural or social issues with which it is complemented, provide a broader vision of the regional development efforts of the 21st century.

Despite the diversity of sources, which provide contrasting data, to date, BRI financing has offered large quantities to the countries with which it has initiated operations, through a very wide battery of institutions and financial bodies, which, as was already mentioned, involve the AIIB, Silk Road Fund, The new China Development Bank, which were created expressly for the BRI . At the same time, the China-ASEAN Inter-Bank, China Investment Corporation (CIC), the Development Bank of the Shanghai Cooperation Organization (SCO), as well as all the Chinese state banks. Up to 2016, in financial matters, the BRI providers that contributed the most were the four major Chinese State Commercial Banks (SOEs) with 51%. The second source of funds includes the China Development Bank with 38% and the Export-Import Bank with 8%. Given its recent appearance as of 2015, the Silk Road Fund and the AIIB registered 1%, respectively (Deloitte, 2018).

GRAPH 1. FUNDING FOR BRI BY SOURCE: OUTSTANDING LOANS OR EQUITY INVESTMENT AT THE END OF 2016 (\$ BILLION)



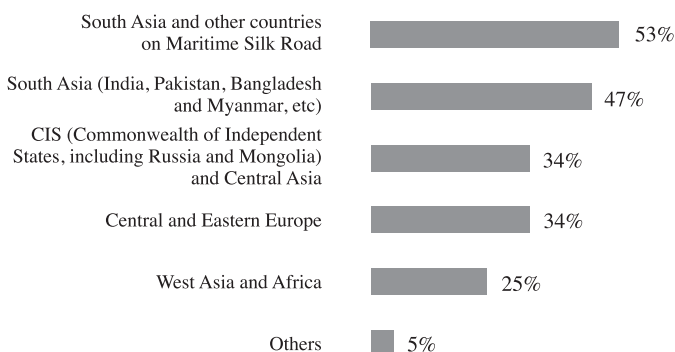
Source: Company statements; Oxford Economics; FT.

SOURCE: Deloitte, 2018.



Also, according to the Ministry of Commerce, the FDI that flows to the BRI averaged 14 billion dollars annually during 2015, 2016 and 2017, prioritizing the China-Indochina Peninsula corridor where only the SOEs invested 53% (2016); to the Bangladesh-China India-Myanmar corridor 47%; to Central Asia, Russia, Mongolia 34%; and to Eastern Europe 34% and Africa and East Asia 25%.

GRAPH 2. BRI INVESTMENT DESTINATIONS FOR SOES



SOURCE: Deloitte, 2018.

#### 4. *The BRI and its results*

The BRI is a geopolitical earthquake of great dimensions that as of its launch, whatever its result, will change the standards conceived, at least in the Asian continent.

Like all the great transformations of China, the BRI presents itself as a global intuition of great encouragement, that in order to imagine it, first feeds on its own antecedents, and then along the way, it continues assembling its structure under a pragmatism with traditional Chinese characteristics.

Deng called first opening of China an *experiment*. The BRICS were officially launched in 2009 after eight years of being an exogenous idea of Jim O'Neill. Something similar happens in the case of the New Silk Road. From an ancient idea that was always present as part of a historical archive, it was reinforced with parallel ideas that were already being discussed in the geopolitical agenda of Asia, such as the Japan's Silk Road Diplomacy proposal in 2004, which already included the five countries of Central Asia;

The Turkish Silk Road in 2008, which joins in 2016 with the BRI. Even a Chinese *Marshall Plan* that in 2009 launched the State Administration of Taxation, which as of 2013 has been repeatedly denied as part of the philosophy of the BRI. The Russian Silk Road that was already commented upon, and in 2011 the American Silk Road that the United States proposed from Afghanistan.

In this respect, the BRI begins from these influences, but in its global launch, it was born from a political intuition when Xi Jinping came to power. Since then, it has been building, day by day, the progress that it has reached to date. For this reason, after five years, the versions, explanations and figures of the BRI change and differ with respect to each of the sources consulted, although this has not been an obstacle to recognizing the dimension of its size, the infinite number of its objectives and the enormous potential of its geopolitical and geo-economic repercussions on China, Asia and the world in general. For China, the BRI also seems to be the possibility of reediting, under the conditions of the 21<sup>st</sup> century, a new role inspired in the hegemonic role that it maintained under different conditions until 1839, when the arrival of the Western maritime powers, initiated by the invasion of Great Britain in the so-called Opium War, ended its millenary regional tribulation and the central role it played in the area.

Given the multi-diversity of the BRI proposal, currently, its objectives are multiplied and confused with respect to the source from which the information was taken. As was anticipated, China talks about an initiative rather than a strategy, in order to *build it together, enjoy it together and get to know each other*, managing an open position that moves away from the idea of an imposition. Similarly, the proposal is presented as international cooperation, as more reasonable and just global governance; as the construction of a community where the future of humanity is shared, which is an open invitation to a new geopolitical order (Munadi, 2018). Meanwhile, President Xi points out that the BRI is an open and inclusive *development brand*, as well as a global public good fostered by all parties. During his speech at the BRI Forum in May 2017, Xi explains the BRI as a path to peace, to prosperity, as a path to openness, to innovation and civilization.

For the Second Forum held in April 2019, in front of 150 countries and international organizations signing the Belt and Road Cooperation initiative, President Xi before the BRI simile as a leafy tree with strong roots, confirmed that this new integration scheme responds to the global call for a new governance system, where people find a place to live better. Xu Shicheng summarizes the BRI as a facilitator for the opening of markets and the in-

crease of trade and investment; as a “New thinking and a new project to perfect the global governance” (Shicheng, 2018).

The BRI breaks with the characterization of the regional integration of the 20<sup>th</sup> century and its consequent foundation of Article 24 of the World Trade Organization (WTO), inviting the Asian community, but also the rest of the world, to a new partnership scheme, pragmatic, with Chinese characteristics, that breaks with the limitations of Article 24 itself and unfolds its wings in an uncertain flight, but suggestive, where national and regional assets can be added no longer just through the exchange of goods and services, but also of all other economic activities; imagining new scenarios and possible developments.

And this is, perhaps, the greatest contribution that the BRI has made to the West, beyond the results it can achieve, of a neo-liberal dogma where the economic growth was only imagined through foreign trade based mostly on free trade agreements, with asymmetries and dominance of origin, which have limited the development and exchange of the countries towards new and better scenarios, more in line with a 21<sup>st</sup> century where the vision of the GATT of 1947 and even of the WTO of 1994 have been surpassed.

The Chinese intuition on this point breaks the paradigm, although it barely draws, through the main lines of BRI, the new structure that China offers to replace it.

In principle, it clearly states that, “The BRI goes beyond the global trading system in the implementation of objectives of the mechanisms and principles, at the same time; it is an *exploration* of a new model of global cooperation and governance, which not only seeks the development and prosperity of the world economy but also proposes a more just and reasonable system of global governance” (Xixia, 2018). Based on this clarification, in its operation, then, the BRI accepts a line of Hard Law or binding International Law, to which it does not resign within the framework of an inclusive pragmatism; at the same time that opens the door to commercial figures of Soft Law, or non-binding, as a possible tool in the new geopolitical BRI system.

Under this broad formal framework of possibilities appear Memorandums of Understanding (MOU), Production and Investment Agreements (Kazakhstan, 2015), Multilateral Agreements (China, Mongolia, Russia, 2016), 50 Cooperation Agreements, 56 Special Economic Zones or Brokers in more than 20 countries, up to the signing of more than 15 free trade agreements from China with about 24 countries in 2017; in addition to 11 FTAs in negotiation and 11 more where the talks are just starting. Within the Soft Law Agreements, because of its importance, the Agreement signed by

China with the Asian European group 16+1 stands out; the BRICS could also be included, as well as different resolutions, declarations, agreements, etc., that are of lower rank but are already in operation (Xixia, 2018).

As can be seen, China does not renounce the WTO international order but does not accept setting up its new global lines of trade and development exclusively under its conceptual framework, opening a debate on what should be the economic regulations for a new world that is more demanding and complex. Under these new BRI paradigms, the Western offer does not appear as a strategy that will be able to compete in vision, scope, financing, formality, etc., with the comprehensive offer of the new Silk Road, and the dogmatic legal criticism will not be enough to rescue the Western trade schemes, which continue to maintain the same vision and ambition of the developed countries of the previous century.

Certainly, the architecture achieved by the European Union is still a required Western reference, because of its results and the consideration of its asymmetries and support of all its participants, despite its current crisis led by the Brexit phenomenon. But the North American Free Trade Agreement (NAFTA), now in its new version called the United States-Mexico-Canada Agreement (USMCA, for its acronym in English), and the Trans-Pacific Partnership Agreement (TPP), in its new version known as The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP-11), among others, since its blurred re-negotiation as of Trump's arrival to power, distance themselves from these new inclusive initiatives of high levels of financing, which, in principle, offer greater room for maneuvering through the economic reality of most of the participating countries.

Regarding the results of the BRI (2014-2017), it has currently been signed by more than 100 countries and international organizations, according to Professor Shicheng. Furthermore, China has signed BRI Cooperation Agreements with more than 40 countries and international organizations. China has increased its trade with the BRI to 3 trillion dollars and has invested close to 50 billion dollars. 56 zones of economic and commercial cooperation have been installed with more than 20 countries. Chinese companies have paid 1.1 billion dollars of taxes with BRI 180 thousand jobs have been created outside of China. The AIIB handed over 1.7 billion dollars and the Silk Road Fund 4 billion dollars (Shicheng, 2018).

In addition to the foregoing, China has granted 10 thousand government scholarships; and will add 100 billion yuan to the SRF and will incentivize the SOEs with a new credit of 300 billion. The NDB will be endowed with 250 billion yuan and the Ex-Inc Bank with 130 billion yuan for infra-

structure projects, productive capacity, and finance. In the next three years, in summary, China will contribute with about 8.7 billion dollars to BRI. In particular, a food aid of 2 billion yuan will be offered to the neediest BRI countries; 1 billion dollars to the Assistance Fund for South-South Cooperation. 1 billion dollars for projects that will benefit BRI countries and it will launch 100 *happy homes* projects: 100 for poverty relief and another 100 for health care and rehabilitation (Shicheng, 2018).

Up to 2019, the BRI is unfinished, confused, with lights and shadows. Most of the participating partners are invaded by hope and interest, at the same time by confusion, suspicion, fear and internal division.

They worry about their bulky debts, the quality of the investments, the strong corruption of their ruling classes, where in some cases; it is estimated that it amounts to between 10 to 30% of the credits. They are also concerned about what the ultimate goals of China may be.

Notwithstanding the above, the vast majority do not want to be left out of this great and imaginative wave of a new continental development that for many of these countries appears to be the only alternative.

For China, for Xi Jinping, the success of the BRI in the coming years, together with its economic and legal reform, are the only guarantees for their permanence in power to be prolonged during the third and fourth decade of the century, and thus the Chinese dream of a hegemonic China by 2049 may be fulfilled, 100 years after the Revolution and installation of the People's Republic of China.

## VI. THE ECONOMIC REFORM. MADE IN CHINA 2025

At the end of the seventies, China had to build everything. Its growth in relation to its GDP was erratic with sharp falls and irregular increases that, in the period 1966-1976, led it to register an average annual growth of 4%. Forty years ago, there were no FDI flows, which began to appear in a significant way from 1985 onward. Its trade was so weak that it was placed in the 34<sup>th</sup> position of the world ranking, and its exports represented only 4% of its GDP. In short, when its first reform process and opening took place in 1978, no political or economic actor believed that a country of 956 million people with extreme poverty levels of above 60% was a threat. Nobody believed that there could be a Chinese miracle (Oropeza, 2006, p. 274).

Over the next four decades, the global economic community did not believe either, each disbelief in its time, that China could manufacture motorcycles, vehicles, trucks, high-speed trains, airplanes, aircraft carriers, sat-

ellites, etc., and now China is a leader or prominent manufacturer of each of these goods or products.

Facing the third decade of the 21<sup>st</sup> century, the global economic and political community, especially the United States and the West, are once again asking themselves whether China will be able to ascend to the only economic leadership that it needs, which is the high-technology services of the of the fourth and fifth Industrial Revolution, to which some classic thinkers like Montesquieu or Weber, etc., argued that the Chinese civilization was not prone to science, which was one of the determinants of Western domination; or of the modern criteria that China was not capable of overcoming its cheap manufacture; or those who now think that it will not be able to displace the technological leadership of the United States or of the main European countries. And the essential question on the subject is again the same that was posed since the first decade of Chinese economic success. Why couldn't China do it if the internal and external conditions to achieve it remain basically the same?

Since 1978, China practices an economic model that grows and is updated, but that does not change in its nuclear structure. It corresponds to that of a powerful Developing State baptized by China as Market Socialism, which Deng Xiaoping would always explain as the experiment of combining both Capitalism and Socialism, both necessary to achieve his goals, which today seem to be, to turn China into the most developed hegemonic nation of the 21<sup>st</sup> century, based on its industrial manufacturing and intelligence services leadership.

China, in the second decade of the century once again *intuits* and *interprets* the global winds, and understands that the economic success of yesterday does not guarantee today's success, and that it is not enough to continue with the strategic instruments of its first opening as its selective and gradual globalization, nationalist management of the FDI that arrives in the country, the modernization of special economic zones, a high-priority industrial policy, the alignment of a broad and powerful Development Bank at the service of industrial development, fiscal and financial incentives, etc., that led it to displace the United States in 2010 as the largest country in manufacturing production. For this, its last sectoral economic battle, now the most relevant at the global level, is to reach and overcome the technological advance of the United States.

Faced with such challenges, China decides to move away from the comfort of its important economic triumphs and transits towards a new strategy, called Made in China 2025, that it launched in 2015, (MCh 2025) through which China concentrates most of the actions that it considers will not only

give it a new impetus to its growth, but based on a vision and a civilizing dream, it believes can place it as the leading nation of the century.

The spirit of the new strategy can be explained primarily, within the vision that Xi Jinping has been building since his arrival to power, which is reflected in the speeches and documents that he has been publishing since that date. For example, in his participation in celebration of the XIX Anniversary of the National Congress of the CCP (October 2017), where he commits himself to the people to provide a *better life*, a happy life; pointing out that for this, China has to become a country of innovation, reinforcing its task in scientific and technological research in order to break into new technologies, where China penetrates with technological innovations that improve the living standards of the Chinese people. He adds to this that innovation is the strategic force to promote development, as well as the strategic underpinning to build a more modern economy. In particular, Xi emphasizes that “We will promote basic research in applied sciences, to increase our achievements in science and technology projects, prioritizing innovation that generates key technologies, that break technological boundaries and modernize technological engineering; in short, that breaks technological paradigms” (China Daily, October 20, 2017).

By way of accompaniment of this vision, China launches its 13<sup>th</sup> Five-Year National Plan on Scientific and Technological Innovation (2016),<sup>11</sup> through which it accompanies 15 Preferential Programs in Scientific and Technological Innovation. In the same year, the Three-Year Implementation Plan of “Internet Plus” Artificial Intelligence (AI) appears; although in a significant way, because of its breadth and new vision, in 2015 China launched the Made in China 2025 Plan, as the new paradigm that unfolds and accompanies the strategy of its Second Reform and Opening to the West, which together with its Reform of Power (Constitutional Reform), as was already indicated, form the strategic triangle towards its success and geopolitical and geo-economic domination by 2049.

Certainly, Made in China 2025 is not the first scientific and technological program. In fact, since the first opening of Deng Xiaoping, he placed the issue as one of his four major priorities. However, the difference with this launching is that the services of high technology are privileged (Industry 4.0), without forgetting the traditional industry, setting the objectives of three scenarios in time, where, in 2025 it will seek to reduce the differences

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<sup>11</sup> In 2005, it approved the National Medium and Long-Term Program for Science and Technology Development (2006- 2020). And since 1978, science and technology have been a priority for China.

with other countries; in 2035, it seeks to strengthen and empower its position, and by 2045 (2049), it plans to be the world leader in the production of technological goods and services (Plan Made in China 2025, ICEX, 2016).

As in previous programs, the Plan selects 10 winning sectors, where electronic equipment, agricultural machinery, new materials, energy saving, new energy vehicles, numerical control tools, robotics, medical equipment, advanced technology maritime equipment, railway equipment, aerospace equipment, and information technologies stand out. To reinforce this launch, it plans to build 15 innovation centers nationwide by 2020 and 40 by 2025.

However, where the plan moves away from previous exercises and is part of Xi Jinping's new policy is that in this project, Deng's *prudential* policy disappears and vectors of sensitive issues that were previously biased or that were denied are exposed publicly. The first is the recognition that the plan aims to integrate a national content of 40% by 2020 and 70% by 2025, in spite of confronting the WTO narrative. At the same time, the plan proposes that by that time, Science and Technology contribute to a GDP growth of 60% and investment in the sector reaches 2.5% of GDP. In order to achieve the national content, the protection and subsidy policies that, in their own way, were inaugurated together with the Chinese opening in 1978, are reiterated. Most especially, the strategies that also directly and indirectly make Chinese Statism ostensible for the implementation and achievements of the Plan's objectives appear. There is talk of *legal pressures* through the important National Development and Reform Commission regarding global actors in China, to favor technology transfer. There is also talk of pressure for the signing of Joint Ventures in technological matters. Requirements and constraints of the internal market in exchange for technology. Pressure for low prices in technology commercialization, for the facilitation of qualified human resources, for the manufacture of technology in China, etc. In fact, quasi-institutional issues in Chinese performance since the 1980's, but which were always denied and even a number of Western specialists overlooked in their analysis of the Chinese development miracle.

According to a *New York Times* research article (How this US Tech Giant is Backing China's Tech Ambitions, 2018), the United States evidences the application of these policies, noting that American companies, "Are being forced to transfer technology, sign Joint Ventures, lower prices and help with their specialists", to the Chinese areas of artificial intelligence and semiconductors. That Qualcomm, a leading company in the construction of high-tech chips, through the NDRC, received a fine of almost one billion dollars, and its participation in the Chinese market was conditioned to



a decrease in prices and a larger transfer of technology to Chinese partners. For this, the Chinese government offered land and financing to be associated with the Chinese company Huaxintong, as well as with the company Thundersoft (drones), based in Beijing.

Another article from the *New York Times* (China Seeks Global Control in Technology, *Reforma*, 2018) reiterates the Chinese policy of demanding associations or transfer of intellectual property, “As the price of admission to the second-largest economy in the world”. Even in collusion with American companies (Advanced Micro Devices, microchips license) they are trying to circumvent the new restrictions of the American government on the transfer of technology. Sensitive Chinese government technology systems such as banks and laboratories still use Intel and Qualcomm chips, and Microsoft and Oracle software, which they consider as a weakness of its national security. To solve it, China established a fund for the manufacture of semi-conductors of more than 100 billion dollars, 150 billion dollars for artificial intelligence and 3000 million dollars for advanced manufacturing.

To the foregoing, it should be added that within this comprehensive strategy of formal and informal technological positioning, the Chinese strategists Qiao Liang and Wang Xiangsui since 1999 talk about an *Unrestricted Warfare*, where they include as part of the possible technology grab the use of financial and technological hackers through Internet browsers (Jalife-Rahme, *Reforma*, 2018).

Western manufacturers, as they did forty years ago, look to the Made in China 2025 Plan with distrust due to the open and strong will of the State to carry it out through all formal and informal channels, with great pragmatism and huge public financing. Bradsher and Mozurmarch summarize it as, “China’s desire to gain control over the most profitable segments of the global production chain” (2018). Y Lewis, Vice President of the Center for Strategic and International Studies (USA), sums up China’s informal participation saying, “Everyone fears reprisals. Nobody wants to lose the Chinese market” (*The New York Times*, *Reforma*, 2018).

The battle for the digital supremacy, as *The Economist* calls it (March 2018), or how it could escalate: The economic battle for the global hegemony of the century, is a central part of the trade war that was already declared to China by the United States through the Presidential Memorandum of March 22, 2018, based on section 301 of the Trade Act of 1974, which is derived in general from the accumulation of trade inconsistencies between the two countries since the nineties, when the huge trade deficit of the United States with China began; and in particular, it focuses on the technological war between the two countries.

Within the framework of this trade war, together with the Presidential Memorandum, the United States is strengthening the surveillance of Chinese FDI towards US companies through the Foreign Investment Risk Review Modernization Act (FIRRMA), where it includes, in a special way, the resources granted to start-ups in areas of national security. It especially monitors the new Risk Funds in which China has focused its financial triangulation to invest in the development of industrial technology in America. The Department of Defense (USA) estimates that China has contributed with 13% of the total of this type of investment (*The Economist*, August 2018). Added to that is the expanded powers of the Committee of Foreign Investment (CFIUS), to block the takeover operations of American companies when it represents a threat to national security, not only in the defense industry as it operated previously. As an example, in March 2018 this Committee blocked the hostile takeover bid of Qualcomm. (*Reforma*, June 8, 2018).

“If it is accepted as a starting point that we are in an intense power struggle with China and Russia —says John Janser of the National Defense University— then we should think about guaranteeing the innovative base, making the industrial base feasible and taking everything to scale” (*Financial Times*, July 2018).

In the framework of this historic debate over the technological-economic supremacy that will undoubtedly define positions and strengths in the coming decades, as it does now, China already has placed 9 companies in the Top Twenty Internet leaders, led by Alibaba (6) and Tencent (7); the rest are American. On innovation (2018), China ranks 17<sup>th</sup> worldwide and climbs five places over the previous year (place 22). In terms of innovation (2018), China is ranked 17<sup>th</sup> worldwide and it climbed five places with respect to the previous year (place 22). The United States lost two places in the same period, going from place 2 to 4. To date, China has 4.6 million graduates in science and technology, and the United States has one-eighth that amount. In 2016, China installed a record of 87,000 robots, more than the United States and Germany combined. In 2017, China’s investment will exceed that of (43%) USA (38%) in artificial intelligence. Similarly, China is already the second generator of scientific publications (293 thousand publications 2000-2015), after the United States (354 thousand publications 2000-2015). It is a leader in patent registration in deep learning, artificial intelligence, and second in automatic learning, after the USA. By 2025, China plans to generate three-quarters of its own demand for industrial robots and more than a third of its demand for smartphone chips. In terms of electronic commerce, Porter Erisman, adviser for Alibaba points out,

“If you want to understand the history of electronic commerce, study the United States, but if you want to understand the future of electronic commerce, study China” (*The Economist*, March, 2018/ *The New York Times*, *Reforma* 2018, *Vanguardia* Dossier No. 70, September, 2018).

Certainly, the Economic Reform is linked to the Chinese Geopolitical Reform. For this purpose there is, among other alliances, a Digital Silk Road through which China tries, with about 35 satellites, to connect at a distance of one meter or less the geography, the routes, and the geo-references of 30 BRI countries that to date have signed with the Chinese company Bei Dou (Big Dipper), which is in charge of building the digital communication route for 67% of the Asian population that is not covered. Xi pointed out with respect to this silk road of communication, nanotechnology, artificial intelligence, big data, etc., that it will help to create, “A community with a shared destiny in cyberspace” (*The Economist*, June 2018). Similarly, the millenary capital of the silk trade, Xi’an, is being promoted as a *Silicon Valley* in western China.

Finally, on 5G technology, which will define the technological leadership of the 21st century, Ren Zhengfei, leader and CEO of Huawei declares with no little pride: “Our 5G technologies are at least two years ahead (of the United States) and will be the world leaders for a long time” (*El País*, 2019).

## VII. THE REFORM OF POWER. CONSTITUTIONAL REFORM OF 2018

In the month of October of 2017, in the context of the celebration of the XIX Congress of the Chinese Communist Party, the figure of President Xi Jinping was elevated to the highest levels of Chinese power in modern times.

In an unexpected turn, according to the progressive political tendency that Deng Xiaoping had inherited, from a principle of political separation between the CCP and the government and towards a greater assimilation of the Rule of Law and the democratic order, at the end of the Congress the figure of President Xi was declared *Emperor for life* and his thinking rose to the level of President Mao Zedong and the Theory of President Deng Xiaoping, who were considered until then as the only political guides since 1949.

Reinforcing this, during the celebration of the Congress, the reform of the constitution of the CCP was decided, which has happened a few times since its approval in 1982, in order to reflect within its legal body, “The

thought of Xi Jinping, of a Socialism with Chinese characteristics for a new era”, which remain as the guide of the party and the State.

Given the historical change registered in the party, in March 2018, during the celebration of the XIII National People’s Congress, the Fifth Amendment to the Constitution of the People’s Republic of China was made. In a relevant manner, among the changes that were made, is that the leadership of the CCP was raised, once again, as the central foundation of political power, and its secretary Xi, as the nucleus of this center, by amending Article 1 of the Constitution to highlight that, “The Socialist system is the basis of the People’s Republic of China, and the CCP leadership is the characteristic of Socialism with Chinese characteristics”, principle that was in the preamble of the Constitution of 1982, on the idea of generating an authority of the Rule of Law over the political power and not the other way around, as is evident by the change. Also, in a special way, the National Supervisory Commission was created, which covered a large part of the Constitutional Reform. This powerful committee against Corruption, which until 2017 had sanctioned a million and a half people, was constituted with the Confucian idea of moral control of the power of both the party and the government. Where, this committee will be supervised by the Permanent Committee of the NPC, where Xi is the supreme figure. Likewise, the power of judicial review was removed from the Supreme People’s Court of China, transferring it to the Permanent Committee of the NPC and to the CCP, where Xi is the General Secretary of the Party.

In a most transcendent manner, the last paragraph of Article 79 of the Constitution was modified, thereby eliminating the limit to the presidential five-year terms with only one re-election. This leaves the door open to an indefinite term of the constitutional power in a political reform that tends toward the consolidation of a figure, Xi Jinping, and a political group, in the framework of the construction of the *Chinese Dream* and its objective, the great repositioning of the Chinese nation, through the achievement of a rich and powerful country that fulfills both the revitalization of the nation and the happiness of the people, as the ultimate goal (Vanguardia Dossier No. 70, September, 2018).

The result of this reform, which is made from the perspective of the reconstruction of the political power, achieves, in fact, the highest concentration of power in the figure of President Xi, who as of March 2018 became the new Emperor in Life of China, by concentrating the following legal and symbolic attributions:

1. General Secretary of the Communist Party of China
2. Chairman of the Central Military Commission
3. President of the People's Republic of China
4. Core of the Party
5. Ling Xin, maximum leader
6. Zuingao Tonge Huai, Supreme Commander
7. Dang Zhong Yang, Center of the Party

The Legal Reform of 2018, because of the depth of its changes and the impact of its consequences on the forms of construction of Chinese power, is a subject that requires further investigation. Inside China, the Reform is still part of a deep reflection that tells of the return of a power that is inspired by the millennial mirror of a neo-Confucianism, that despite its detractors, is still present in the forms of its politics and in the culture of the Chinese people of the 21st century, which seeks its modernization with its own characteristics. From a power, that based on its expressions still prefers order to social freedom, ethics, and morality over the law, and meritocratic political totalitarianism (Confucian mandarins) instead of democracy. Changes that the West cannot translate properly in the light of a unique thought and methodology that does not know or that denies, the presence of other *political forms* beyond its own truth.

The reconstruction of power in China through its Constitutional Reform of 2018 is a topic of great depth that does not admit easy opinions nor the immediate application of absolutes in any sense. Therefore, over the next few years, the significance of its consequences inside and outside China should be observed at length, with the greatest care.

For the purposes of this work, it should be noted that the construction of a powerful, monolithic and central presidential figure in the person of Xi Jinping, should be seen as one of the three central strategies adopted by China in the pursuit of its long-term objectives, in the face of a Western democracy in crisis and lacking direction. In the political field, a central power without a doubt, in imitation of a totalitarian legacy with Asian characteristics, through which it tries both to show its *ontological* supremacy and its economic efficiency, with regard to a Western economic institutionalism that still does not resolve its State-Market dichotomy.

Furthermore, as part of this comprehensive strategic vision of China, the concentration of political power could be understood as an essential complement that facilitates both the positioning of an BRI that was planned for 20 or 30 years and a Made in China with goals for 2025, 2035 and 2049, which the Chinese vision considers easier to achieve through a solid, stable

and permanent political power, that accompanies and supports the measures throughout the first half of the century.

The legal reform of power, like the BRI strategy and the economic reform of the conversion of services will have to travel, of course, through the inescapable proof of its results and its permanence over time.

## VIII. FINAL CONSIDERATIONS

The Chinese offer of informal association launched to the world and in particular, to the Asian continent, under the acronym BRI (One Belt One Road), breaks with the regional paradigms established since the postwar period, and because of its size and possible implications, poses the starting point of a new global economic and political order with Asian characteristics, in general, and Chinese characteristics, in particular.

Its installation is explained in the geopolitical phenomenon evidenced at the beginning of the century, of a China and East Asia on the rise, and a Western decline shown by the main European countries and the United States.

Similarly, the BRI offer is part of the re-launching of the Chinese economic and political project (Second Opening and Reform), that from a measured and tolerant policy regarding its role in the global order established by the West (Deng policy), through the BRI, it starts to lead a more active role, which, in its unveiling, tries to raise new flags for a globalization with Chinese characteristics (Xi policy). In that sense, “The BRI goes beyond the global trading system during the implementation of objectives, of mechanisms and of principles; at the same time, it is an exploration of a new model of global cooperation and governance, which not only seeks the development and prosperity of the world economy, but also proposes a more *just and reasonable* system of global governance” (Xixia, 2018).

Under this perspective, the possibilities of the analysis of the BRI expand and multiply geometrically, hindering its explanation, which ranges from a new regional trade proposal, to the possibility of becoming a geopolitical and geo-economic strategy of unsuspected dimensions, which could have as its ultimate objective the repositioning of China as a hegemonic leader in the middle of the century. Furthermore, within this last objective, it could include the cultural and civilizational recovery of an always present Orientalism that was relegated in the last two centuries (small parenthesis from Huntington) in the face of the Western subjugation of the former Asian powers such as China, India, Japan, etc.

Seven years after its launch, the BRI also moves freely between a geopolitical megatrend and an amorphous mechanism under construction, which has not yet been defined in structure, content, and direction. Likewise, its current narrative is divided between the celebration of a new economic and political global order, such as a high-risk investment scheme, located in a fearful and timid Asian geopolitical framework.

The interpretations of the BRI will tend to be more objective as its juridical, economic and political structure advances, which will allow the establishment of its true frontiers and possibilities.

However, given the numbers in terms of countries (70), world GDP (52%), world population (70%), global oil and gas reserves (75%), etc., its first explanations do not admit reductionism. In that regard and beyond the degree of success of its goals, the BRI scheme would have to be positioned as the spearhead of a Second Chinese Reform and Opening to the West, as a strategic movement of complementation with respect to its first Reform and Opening towards the Pacific in 1978, which to date is exhausted, not to sustain a moderate economic development of China, but to give China that final impulse to an Asian project that unlike the seventies, now seeks the leadership of a new global order with Chinese characteristics.

In the logic of this approach, the Second Reform cannot be seen only through the BRI, but because of its importance and strategic value, both the Economic Reform led by the Made in China 2025 program, as well as the Reform of its Political Power which came about in 2017/2018 through its Constitutional Reform should be included in this impulse.

These three reforms, each within the framework of its competency, are now a fundamental part of the new Chinese project of the 21<sup>st</sup> century, with which it is betting on its hegemonic leadership by the middle of the century.

Within a global disorder and a world in transformation, the Chinese proposal appears as an articulated option, waiting for a better response and interpretation from the West and peripheral countries.

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## THE RELEVANCE OF 5G IN THE DIGITAL SILK ROAD

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SUMMARY: I. *Introduction*. II. *Elements of the Digital Silk Road*. III. *The 5G connectivity: the circulatory system of the DSR*. IV. *Industrial policy and alliances for technological change*. V. *China expands its technological leadership through the DSR*. VI. *Acceleration of the digital economy due to Covid19 and necessity of 5G connectivity*. VII. *On the spread of 5G and geopolitical tensions*. VIII. *Conclusion*. IX. *References*.

### I. INTRODUCTION

The first reference to the Digital Silk Road (DSR), named *Information Silk Road*, can be found in a white paper by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs and the Ministry of Commerce over the vision of the Belt and Road Initiative (BRI). As part of the infrastructure needed to improve connectivity between BRI participants, Chinese authorities mentioned the improvement required in the capacity for information exchange, such as submarine optical cable and satellite communication (NDRC *et al.*, 2015). These proposals have been enriched by other technological services, such as data centers and critical technological developments within the digital economy in which China has shown its leadership, such as 5G cellular networks. As we will show in this chapter, 5G technology will become the circulatory system of this technological revolution.

The DSR essentially integrates two lines of initiatives. The first one is related to China's industrial policy and innovation efforts on various technological fronts, particularly those related to communication technologies. As we will see, although the State establishes the guiding principles, collaboration with the private sector is key to this area. The second has to do with China's internationalization and economic collaboration strategies through

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the BRI. As an open initiative, the BRI is a space for collaboration between governments of different countries. For these reasons, the DSR constitutes a sophisticated space of coordination between international, public and private, interests towards innovating within one of the most dynamic economic sectors of the XXI century.

The DSR adds a dimension to the terrestrial *Silk Road Economic Belt* and the maritime *Silk Road*. It is complemented with the former, because collaboration in a broader range of topics, such as development policies or culture, facilitates the understanding regarding the digital economy. We can find complementarities in both directions, with the geographical closeness revealing itself as a crucial factor concerning the integration of the real economy. Thus, the physical infrastructure necessary to integrate digital economies is more natural to be implemented under a broad collaboration scheme, such as that offered under the BRI platform. That may be the case of laying fiber optic, terrestrial and submarine cables. In the opposite direction, advances in the integration of digital economies would be complementary to other actions such as those aimed to facilitate international trade.

Cyber connectivity will offer a fundamental aspect to land and sea connectivity, which it enriches and complements. Logistics networks will require improved physical infrastructure, some of the aspects of which will be discussed in this chapter. But, in addition, optimal connectivity will critically depend on public policies, regulations, standards, and institutions. Possibly, digital connectivity is, among those in the BRI, the dimension that will be most affected by these factors. One of the fundamental aspects of the DSR, which reflects collaboration between countries, is the integration of standards in communication and information technologies. The digital inclusion favors the creation of integrated markets, facilitating international trade as well as the internationalization of the respective companies. Huawei, for instance, has been a front-line contributor in setting standards related to cutting edge communication technologies, promoting connectivity with physical infrastructure for the creation of information transmission capabilities. Notice that creating standards, in addition to benefiting the developing market, also places the participating firm at the vanguard of the competition.

The DBR is part of an initiative that has, among its objectives, the promotion of innovation. The scientific vision considers its integration into the industrial sector, and the digital economy is recognized as one of the technological revolutions of the 21st century. Collaboration is proposed in the areas that will constitute the leading sectors of the future: nanotechnology, artificial intelligence, or quantum computing. Notice how complementari-

ties among the multiple dimensions for international cooperation considered in the BRI reinforce economic integration. For example, cultural exchange, considered within the “people to people” axis, can improve mutual understanding and strengthen trade relations. Thus, the improvement in digital communication can arise in cultural exchanges and joint business opportunities. There would be network gains from collaboration on a broader range of issues, similar to how more users improve the consumer experience on a wide variety of digital products. Cooperation in these areas does not prevent competition in others but facilitates the delimitation of its most adverse effects.

## II. ELEMENTS OF THE DIGITAL SILK ROAD

As part of the BRI work plan, the *Belt & Road Digital Economy International Cooperation Initiative* has been signed with Egypt, Laos, Saudi Arabia, Serbia, Thailand, Turkey, and the United Arab Emirates. In August 2018, China and 49 other countries published the *Joint Statement on Pragmatic Cooperation in the Field Intellectual Property Among Countries Along the Belt & Road*. Although this document is only a letter of intent, it proposes actions and a framework to collaborate towards the protection of intellectual property, closely related to the development of new technologies in general and the role of communication technologies in the exchange of creative content. Even though China is among the world’s technological powers and is proposing, accordingly, an intellectual protection regime, flexibility is offered on this matter, and the need for technology transfers is also being discussed. Cooperation agreements have been signed with Kyrgyzstan, Afghanistan, and Tajikistan. A letter of intent for international collaboration has also been signed with the International Telecommunication Union and 46 collaboration agreements in science and technology. Regarding infrastructure, international fiber optic cables have been built, such as China-Myanmar, China-Pakistan, China-Kyrgyzstan, and China-Russia (OLGPBRI, 2019).

In 2016, the Digital Belt and Road Program was launched to promote cooperation in environmental monitoring with experts from 19 countries and 7 international organizations. The program provides information for the creation of the UN 2030 Sustainable Development Goals indexes. The enormous amount of data offered for this type of measurement (for example, the Sentinel 5P satellite of the European Space Agency alone makes 20 million observations daily on air pollution) requires greater computing capacity. Currently, this challenge has been faced with cloud computing solu-

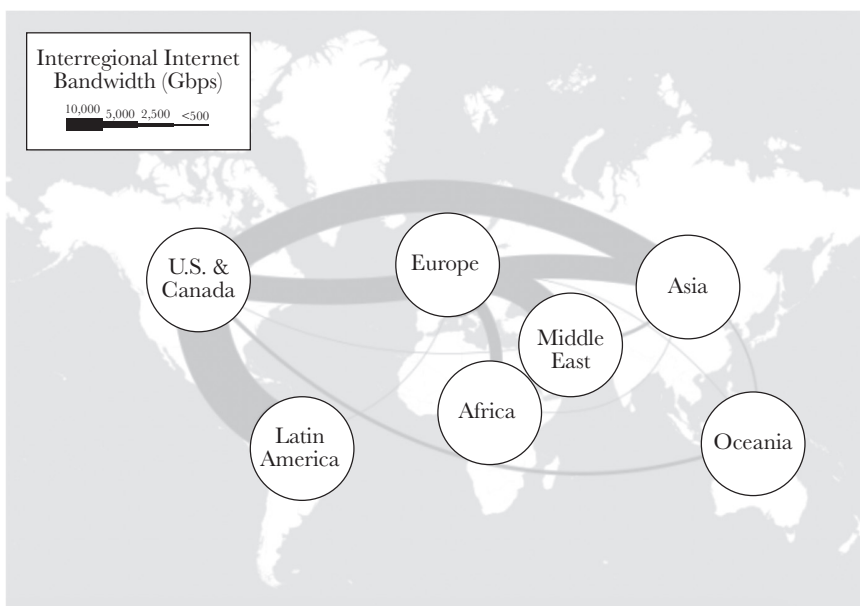


tions; in the future, it is planned to be coped with quantum computing (Guo, 2018). Faced with these problems that affect all of humanity, international collaboration is necessary to share data, infrastructure, and, in general, coordinate efforts.

For the deployment of 5G networks, the implementation of physical infrastructure plays a fundamental role. In the context of the BRI in general and the DSR in particular, we are interested in looking at international connectivity, which in this regard materializes through fiber-optic networks. The placement of fiber optic networks follows the two axes of the BRI, the maritime through submarine fiber-optic networks and the terrestrial toward Central Asian countries that have no coast.

From 2015 to 2019, the global internet bandwidth has grown at a compound annual rate of 28% to 466 TBPS, with particularly strong growths in Africa (45%) and Asia (42%) (Mauldin, 2019). However, as it can be seen in Figure 1, interregional bandwidth is still weak between Asia, the Middle East, Africa and Oceania. On the other hand, Latin America lacks strong bandwidths independent of the USA and Canada.

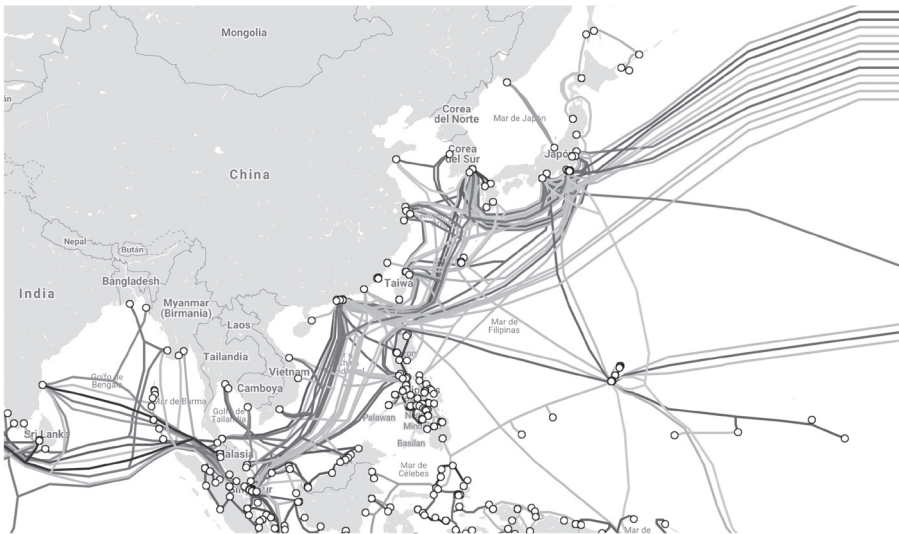
FIGURE 1. INTERNATIONAL INTERNET BANDWIDTH BETWEEN REGIONS (2019)



SOURCE: Mauldin (2019).

Also, a considerable part of the existing submarine cables has already been amortized. Notice that 40% of the submarine cables (as of 2018) were built before 2000, which placed them at the end of their useful life. After the crises of Internet companies in 2001, the construction of this type of infrastructure was significantly reduced. The submarine cables are very convenient since most of the countries have access to the sea. However, several countries in Central Asia do not. In fact, one of the two countries (along with Liechtenstein) that does not have direct access to the sea or borders a country that has one is located in this region: Uzbekistan. In terms of land connections, China has a system of 17 border stations with 12 countries with a bandwidth higher than 70 TBPS (CAICT). The geographical position of China, which shapes the BRI, also gives advantages in terms of providing a better communication network, through both land and sea, with countries in Africa, the Middle East, Central Asia, South Asia, Southeast Asia, and Oceania. Chinese companies have increasingly participated in the construction of these cables under international collaborations. Companies like Hengtong, ZTT, YOFC, and FiberHome lead the manufacturing of fiber optic cables. Huawei Marine is one of the most advantageous global integrators for the delivery of submarine cables.

FIGURE 2. SUBMARINE FIBER-OPTIC CABLES FROM THE CHINESE COAST



SOURCE: TeleGeography.

We can expect that, in the coming years, the data that shape Figure 1 will change due to the intensification of communication around the DSR, whose irradiating nucleus is China. As we can see in Figure 2, China has intensified the construction of submarine fiber optic cables, increasing its density in recent years. The lines in gray represent fiber cables under construction, from which it can be deduced that this increase is in full expansion.

One of the most remarkable projects is PEACE (Pakistan East Africa Cable Express), which connects the port of Gwadar (Pakistan), the principal port of the China-Pakistan Economic Corridor, with Egypt, through the Mediterranean with France, south to Kenya and with a line that reaches Seychelles. In a second phase, the southern edge would reach South Africa. The PEACE cable is a reflection of how the Maritime Road relates to the DBR. It offers 16 Tbs per fiber pair system and was built and is being operated by a group of Chinese and local companies from the countries through which it runs: Hengtong, Huawei Marine, PCCW, Cybernet Pakistan, Djibouti Telecom and Hormuud Telecom, among others.

The development of the *China Pakistan Economic Corridor*, within the BRI, will constitute a mutual opportunity for economic and geostrategic development. For China, it implies a connection that allows it to access the Arabian Sea avoiding the Strait of Malacca. For Pakistan, the project will create many opportunities for economic development, due to the investments attracted and the improvement in infrastructure. As of May 2016, the China-Pakistan cable was launched as part of the Trans-European network, offering Pakistan an added loop to its submarine cable connections. In service since July 2018, the Special Communication Organization of Pakistan and China Telecom operate it jointly. The cable has a distance of 2,950 km and passes through a maximum height of 4,880 meters above sea level. The Pakistani part, of 820 km, has been jointly built by OSC and Huawei Technologies at the cost of \$ 44 million, for which the EximBank of China provided a loan at 2% per year for 85% of the project. This is the seventh cable in Pakistan, but, above all, it gives it greater flexibility, since all the previous ones reached the port of Karachi. In contrast, this one does it by land and will be extended to the port of Gwadar, to also connect with the maritime road (Rauf, 2019).

The pursuit of internationalization by leading Chinese companies had favored the entry into new markets, even before the DSR strategy was conceptualized. For example, Zhongxing Telecommunication Equipment (ZTE), in collaboration with local companies, built the first fiber optic network in Afghanistan, with financing from the World Bank. This project was initiated in 2007. The investments made, in particular in the improvement

of communications infrastructure, have reached countries that are very short in this area, such as those in the African continent. As part of the BRI, data centers have been built and Smart City Initiatives have been carried out in countries such as Djibouti, Ethiopia, Kenya, Tanzania, Mozambique, Zimbabwe, Zambia, Angola, South Africa, Nigeria, Mali, Ghana, Algeria, Egypt, and Morocco. The three African countries that have received the most substantial amount of investment in BRI projects have been: Ethiopia (\$ 2.4 billion), Nigeria, and Zimbabwe (\$ 1.8 billion each). In these BRI projects, it has not been China the only investing country participating; for example, in Rwanda, South Korea has been leading the efforts to construct a 4G network (Deutsche Welle, 2019). In the face of the development of these communication infrastructure projects in Africa; Western countries have shown little interest.

Even though in some aspects, Russia prefers to opt for its technological developments, which give it independence from other powers, there has also been a meaningful collaboration with Chinese companies, which must be understood within the framework of the DBR. In September 2018, Alibaba established a joint venture with three Russian entities (Megafon, Mail.ru, and the state fund Russian Direct Investment Fund) for the development of a digital e-commerce platform linked to the consumers of the Alibaba platform. In December of that same year, Huawei and Union Pay created the first digital payment service in Russia. In June 2019, MTS, the Russian telephone operator, signed a contract with Huawei to develop 5G technologies jointly and to launch the first pilots in Moscow (Barisitz, 2020).

Since November 2017, the Malaysian government, in collaboration with Alibaba Group, promoted the first Digital Free Trade Zone (DFTZ). This initiative combines the classic design of an FTZ, offering incentives and exemptions to encourage a specific sector of the economy with high growth potential and offering job opportunities, with the particular requirements of the digital industry. Thus, DGTZ combines both physical and virtual spaces. To access these advantages, companies have to belong to one of the subsectors of the digital economy: Internet of Things, artificial intelligence, Fintech, creative media technology, among others. The DFTZ will also make international trade more dynamic because simplifying paperwork through electronic platforms for international trade will reduce the time it takes for physical goods to reach their destination. New digital technologies such as blockchain and 5G are being used to keep track of containers. Automation would reduce physical inspection and automatically pay customs. These technologies could reduce rail transport time, as several borders are crossed through the Belt corridors. In terms of delivery within the country,

the Chinese government has set 24-hour targets within 95% of the national territory, which will offer a large market with unprecedented agility (Min, 2018).

These projects require financing, so the links between the digital economy with the financial institutions that are promoting the BRI are also noteworthy. This commitment preceded the formalization of the digital bet within the framework of the DSR. Thus, on May 10th, 2010, the Ministry of Industry and Information Technology (MIIT) signed a memorandum of cooperation with China Export & Credit Insurance Corporation for the financing of various productive sectors, among which was the digital economy. Besides, institutions such as the Asian Infrastructure Development Bank, New Development Bank, Silk Road Fund, closely linked to the BRI, have continued this financing under the DSR.

### III. THE 5G CONNECTIVITY: THE CIRCULATORY SYSTEM OF THE DSR

The introduction of 5G networks is going to be one of the great technological revolutions of the coming years. The improved connectivity will be fed back with the economic spills of the construction of necessary infrastructure. The exploitation of this technological advance will reposition countries on the international scene based on the competitiveness of their industry. As it is evident, the rapid adaptation of productive capacities to this set of technological possibilities will be a decisive factor in determining countries' competitiveness in the coming years.

The high traffic capacity, reliability, and low latency of 5G networks allow a qualitative leap that goes far beyond being able to stream high-quality videos. The number of units that can be connected to the network increases exponentially, with multiple communications that allow the application of the Internet of Things. Automated operations in the manufacturing sector are facilitated by the massive use of data, enabling the achievement of Industry 4.0 objectives. This is the type of communication that allows remote surgeries or autonomous vehicle control, with minimal latency requirements. It can receive massive data from millions of vehicles to improve the traffic of a city, or the movement of tens of millions of people to try to foresee the focus and progression of a contagious disease. Combined with big data and artificial intelligence solutions, which accelerate and automate decision-making, 5G connectivity lays the foundation for an industrial revolution.

The capacities of 5G communication networks are enormous, such as 20Gbps download speeds, 100 Mbps upload, high network stability, 1ms latency, and a capacity of one million connections per square kilometer. Different spectra need to be combined to offer these capabilities. Thus, ranges below 1GHz are used to achieve wider coverage. The bands in the 3.5 (3.3-3.8) GHz spectra are of higher frequency and therefore offer greater data transmission capacity. However, their disadvantage is that they have a shorter range, 400 meters for the 3.5 GHz medium spectrum. At the other extreme, frequencies above 24 GHz are focused on high-speed transmissions, which maximize the bandwidth characteristics and minimal latency. Its coverage is the most limited. The adaptability of the network to the needs of the users depends on an optimal combination of the capabilities offered by the different ranges of spectra. The Global System for Mobile Communications Association (GSMA) recommends that 80-100 MHz of contiguous spectrum be provided to each operator in the mid-bands. Ranges close to 100 MHz can guarantee better service. Further international harmonization is also recommended, in particular, to minimize cross-border interference (GSMA, 2019). Here are two criteria that are taken into account in the DSR: international collaboration and collaboration between policymakers and private companies, particularly to agree on technical issues.

To be able to offer the previous capabilities, the cost of network infrastructure is going to increase, in particular, to exploit the complementarities between 5G macro layers, with broader coverage, and small cells, with higher capacity and better latency. McKinsey's estimations of the increased cost of infrastructure depend on the annual growth in data usage. They range from 60% peaks (for 25% annual growth in data usage) to 300% (for 50%). The relation between data usage growth and infrastructure cost is not linear because it depends on technological advances. Thus, a more substantial increase in the use of data would reach a peak in the cost of infrastructure earlier, which would later be reduced thanks to the technological improvement. In any case, policymakers must bear in mind that the increase in costs can significantly harm the implementation of this technology. Therefore, the maximum collaboration between countries and with operators and developers is necessary. Policymakers must prioritize the implementation of technology at competitive prices, over short-term collection approaches. Taking over commitments with the industry in this regard would offer more benefits for the country in the long term.

At the 5G World Convention that took place in Beijing in November 2019, it could be seen how several equipment manufacturers are already betting on this connectivity in their devices. The 5G connection is a real-

ity in equipment from Samsung, Huawei, Xiaomi, among others. At the same time, companies like Apple have not yet announced any models that include this capacity and do not have their own modems with this technology. The convention was not about potential applications, but about real ones. The MIIT offered the first non-experimental 5G licenses to China Telecom, China Mobile, China Unicom, and China Broadcasting Network. Zones, such as the downtown area of Beijing, already have 5G connectivity available (Lin, 2020).

The progress that Chinese companies show is not the result of chance. Faced with intense competition, in which the entry of Chinese latecomers has been fought with patent legal battles, Chinese companies bring the inertia of a more intense technological advance. Huawei began its 5G research in 2009 with a \$ 600 million investment in R&D. By 2019, the company had disbursed four billion dollars in the development of this technology. This amount overpasses the investment of all producers in the USA and Europe in 5G together. Accordingly, up to June 2019, Huawei had already shipped more than 140,000 5G base stations. China Unicom and the Computer Network Information Center have created the 5G Technology Joint Lab to enhance collaboration in the development of standards and new technologies related to 5G. This is only a reference to the possibilities of collaboration between telecommunications companies and institutions. Over seven years (since 2018) China Mobile, China Unicom, and China Telecom, the three most important Chinese state-owned companies in the sector, have planned investments of 180 billion dollars (Rawat and Hao, 2018). Despite the leadership of Chinese companies, in today's competitive environment, it is impossible to think of a company going on itself. That is why it is common to find patent licenses among the main companies in the communications sector, such as Qualcomm, Nokia, Ericsson, Huawei, or Samsung (Huawei, 2019).

Although initially, but we can already observe some real applications of the capabilities of this type of communication. On March 16th, 2019, Ling Zhipei, chief of the Neurosurgery Department at the General Hospital of the People's Liberation Army, operated from Sanya (Hainan) in the extreme south of the country on a Parkinson's sick patient who was in Beijing (almost 3,000 kilometers away). He had implanted a brain pacemaker, using a network installed by China Mobile and Huawei. The delicacy of the operation reflects the achievements in reducing latency, of 30 microseconds in the mentioned operation (Lin, 2020).

Economic news media such as *The Economist* (2020) place Huawei at the forefront of the race in the development of 5G technology, followed by

Nokia-Ericsson and with American companies such as Qualcomm or Cisco without a great desire to provide a complete infrastructure in which they observe low-profit margins. The advantages that Huawei presents in the development of 5G technology comes from three aspects. First, it is the only provider that offers an integrated solution; that is, it covers all the necessary equipment. For example, the next alternative being developed combines Nokia and Erikson's products, which could lead to integration inefficiencies. Second, Huawei has been the first company to develop the technology, and since its research has not stopped, it can be expected to be in a more advanced position than that of its competitors. Third, Huawei has presented telecommunication equipment at low costs, in an apparent strategy of searching for volume and markets, compared to others with higher margins (Majerowicz, 2019). In the absence of the full development of other technology offerings, their prices are very likely to be more attractive to developing countries and, in general, to those with economic difficulties.

The difficulty of development in 5G base stations is that the scope of these results requires an unusual combination of new developments. Without being the object of this chapter getting into technical details, we can refer to: 5G Massive MIMO (Multiple Input, Multiple Output) 64T antennas that are not weighted; miniaturized filters that do not heat up; new cooling systems; development of new materials resistant to higher temperatures; specialized software. The ability of each party to solve the problem may depend critically on the other. For example, an optimal design of a cooling system appropriate to the size of the base station depends on the ability of the materials to operate at higher temperatures (Huawei, 2019).

The effective use of all this information depends on having a physical infrastructure for communication, which refers to 5G networks. It also depends on the development of skills to take advantage of this technology. Collaboration between the public and private sectors, at the national and international levels, through initiatives such as the DSR, can foster the development of these productive capacities. It should not be assumed that the optimization of the use of productive factors will occur spontaneously. This element, which could be included in the Total Factor Productivity, insofar as it is related to the efficiency in the use of the available productive factors, depends on the incorporation in the digital economy and the use of its capabilities. It is similar to how Western economies invested heavily in infrastructure and fostered an economy that relied heavily on the car. However, the automobile could not have offered its competitive advantages without roads, regulations, and transportation policies. It is intriguing to think about how an economy would look like if it had not taken the necessary measures



to develop an integrated economy regarding the advantages, opportunities, and dangers presented by the automobile industry. We should consider that the digital economy could reach similar disruptive levels. In that case, a country that does not develop adequate infrastructure, policies, and alliances to take advantage of technological opportunities will be condemned to the lack of material opportunities.

The improved connectivity is already affecting making a difference in the productive system. 5G technology allows a real-time connection between the company's machinery, which includes robots and software that participate in decision-making and even the customer and their product evaluation. The AI offers algorithms for taking advantage of that information for greater automation of decisions. This system has allowed progress towards the customization of the masses (Bianchi and Labory, 2018), a system that, through current technological solutions, seems to combine scale and scope economies. Communication networks allow the continuous collection of data on revealed preferences of consumers through their purchases, production decisions within the company, changes in prices and characteristics of inputs, product distribution, etc. As this is done massively, economies of scale are achieved without using a standardized product, but rather by standardizing flexibility to take advantage of the best margins of individualized attention.

#### IV. INDUSTRIAL POLICY AND ALLIANCES FOR TECHNOLOGICAL CHANGE

The support that China offers to DBR is intrinsically related to the technological commitment of its industrial policy, particularly concerning communication technologies. In 2010, China published its "Strategic Emerging Industries Program", under which it has been given greater prominence to private initiative, which already had experience on the matter. This collaboration has been carried out under the leadership of the State, which has coordinated a complex set of policies such as education, regulation, standard-setting, financing, etc.

To analyze the complementarities between the DBR and Chinese industrial policy, it is interesting to observe the insertion of these issues in the respective five-year plan. In the 13th Five-Year Plan 2016-2020 (CCCPC, 2015), the DBR is mentioned as *Online Silk Road*, and related technologies play a major role in the document. In textual terms, it is stated that "innovation is the primary driving force for development", and concrete quan-

titative objectives are established, such as reaching 2.5% of GDP on R&D spending by 2020. Information networks are established as a strategic industry, together with quantum computing and the Internet of Things. There is a whole section dedicated to cyber economics, with various chapters. Chapter 25 affirms the need to build fiber-optic information networks throughout the country, in order to give access to households to connections of more than 100 Mbps in urban areas and more than 50 Mbps in rural areas. At the international level, the complementarity of this type of infrastructure is discussed through the *Online Silk Road* with the Arab countries and *China-Asean Information Harbor*. In addition to extending coverage and free access 4G technology spots, research targets are set for mobile networks and 5G network applications, quantum computing, and artificial intelligence. The development of this infrastructure is closely related to the industrial objectives of the subsequent chapters, where the development of New Internet Industries is analyzed, based on the Internet+plan (Chapter 26); implementation of the *National Big Data Strategy* (Chapter 27); and strengthening security in information networks (Chapter 28).

Although we should measure competitiveness in international markets, for which the BRI proposes a flexible opening agenda, there is prior learning at the national level with the intervention of the State. Following the industrial policy approach, the State has, for instance, promoted the construction of intelligent infrastructure in Chinese cities. This has accelerated the adoption of digital technology, and Chinese companies have acquired valuable experience, which makes them more competitive. It has also allowed solving some of the typical problems of cities, such as traffic, based on artificial intelligence and big data.

In November 2017, the Ministry of Science and Technology appointed Baidu, Alibaba, Tencent, and iFlytek to develop and run artificial intelligence platforms. In the following years, new companies were incorporated in the list. This recognition facilitates access to financing and participation in public projects, but also requires partially sharing their technology and qualified personnel with other companies that are potential competitors. For example, City Brain is Alibaba's artificial intelligence platform. Under this platform, a solution, using big data, has been offered to the city of Hangzhou, dramatically reducing traffic congestion and improving public services' response times, such as firefighters (Naughton, 2019).

China has also made advances in quantum computing. In 2016, it launched the first satellite that uses communication channels with quantum encryption and has built the longest quantum communication cable between Beijing and Shanghai (Segal, 2018). The Chinese government and

its producers have promoted the World Internet Conference, from which a global vision of the Chinese approach to the digital economy can be offered, to exercise international influence. The government itself collaborates with the private sector to exert influence on standards so that national companies can face competition from an advantageous situation.

There have been meaningful industry partnerships in the development of the BeiDou 3, a satellite navigation system made up of 30 satellites. On March 9th, 2020, China launched the 29th satellite of the project and it is intended to complete the system in May 2020 with the 30th unit. BRI countries have been offered to participate in the expansion of coverage offered by this satellite navigation system. The system has applications in the following areas: ground, river, marine, and air transportation, including autonomous navigation; geographic information for agriculture; establishment of unified time units for optimal electrical transmission; disaster prevention and communication; etc. The satellite system has been of assistance for the autonomous navigation of drones in the delivery of material during confinement and emergency constructions related to the Covid19 crisis (BeiDou, 2020). This system also targets public security objectives, such as police coordination. Accordingly, the Chinese motivation for an independent national defense has motivated to develop a satellite navigation system independent of the American GPS, the European Galileo, and the Russian GLONASS. Regarding this particular domain, there have been agreements with Thailand, Brunei, Laos, and Pakistan for the use of BeiDou by the respective governments and their military programs (Hong, 2018).

Analyzing the elements of the Chinese industrial approach is useful to understand the strength of the country's commitment to technological advances. Three areas of particularly powerful innovation concerning digital technologies can be identified in China (in brackets the most important companies of each area are presented): Shenzhen National Innovation Zone (Huawei, Tencent, DJI); Zhongguancun National Innovation Zone at Beijing (Xiaomi, Baidu, Didi, JD.com); and Hangzhou National Innovation Zone (Alibaba, Ant Financial). The dynamics between these places of innovation is related to their economic situation. If, in 2015, the average technological salary in Silicon Valley was seven times that of these Chinese areas, we can understand that there is not a transfer of technology via the attraction of a large number of workers. In the Chinese case, there has not been massive immigration of workers in search of higher wages, but of returnees who brought their experience and created their firms. The Shenzhen model has some peculiarities compared to other areas of technological innovation. A local adaptation of the products is sought. Thus, for example,

telephones with two SIM slots are built for migrant workers who want to avoid roaming between their work and their home. In the same way that the Special Economic Zones were areas of exploration, in Shenzhen it is usual to experience the reaction of the market with small quantities of product, and then scale up production in the event of a positive response. The intellectual property regime is flexible, which does not prevent innovation from seeking the benefits of market entry, but without an extreme restriction on copycats. Such an approach can be particularly interesting for developing countries. The flexibility of their companies and production systems allows them to adapt to rapid market changes. Its companies face a wide variety of market segments, from state-of-the-art products to lower price ranges, solutions that can be better tailored to the situation of developing markets (Fung *et al.*, 2018).

From the many differences with the American approach, we can point out one which is essential regarding the cultural diversity of the BRI. The Americans have been historically very successful in expanding the market for their products. One of its fundamental tools has been marketing. There may have been slight adaptations, but as with Coca-Cola, Hollywood movies, or Starbucks (iconic products of the model), digital products such as Windows, iPhone, or Facebook have been homogeneous. The recipient market would adopt them in imitation of American consumption patterns. Chinese companies, on the other hand, are offering a greater variety of products, showing greater adaptability to change. Faced to a cultural reality that was very different from the Western one, Chinese companies learned flexibility. It is observable that more cultural diversity is a fact along countries belonging to the BRI. Then, the Chinese approach with more variability and adaptability could work better than the extension of western consumption patterns.

Chinese companies are at the forefront of technology, as the consequence of years of large investments. For example, Huawei invests at least 10% of its income in R&D as part of its policy. Consequently, it has accumulated 73 billion dollars of investment from 2008 to 2018. At the end of 2018, it had 87,805 patents granted, of which 11,152 were in the USA. In other indicators, the company publishes annually between 100 and 200 academic papers and has made more than 60,000 contributions to International Standards Organizations (Huawei, 2019). The above data reflects the image of a company that bets on its technology, like other leading Chinese companies. The image of Chinese companies as copycats, although it may have been valid a few years ago, no longer reflects the essence of Chinese competitiveness.

The larger size of Chinese companies, as a result of being victorious in the vast local market, and their shareholding structure have allowed them to adopt different and longer-term strategies, similar to what has been done by the Chinese State itself. Long-term thinking is essential in the face of a developing market in which specific segments emerge and disappear. Companies such as eBay tried to obtain too much profitability rates from their market shares too soon in response to their shareholders' requirements. Against this model, Alibaba provided a free basic services scheme with premium paid services. Its punctual profitability was lower, but it could be done with a bigger market. Alibaba's business model did not go unnoticed by eBay and was rejected with condescendence. However, Alibaba was victorious and eBay currently does not represent a comparable competition (Lee, 2018, pp. 34-36). This episode reflects a lesson in the capabilities of Chinese companies to capture broader markets based on lower margins.

A clear example of the government's commitment to new complementary technologies with 5G advances is that of AI. Thus, between 2017 and 2020, more than 450 million dollar financing had been programmed to promote the Nanjing Economic and Technological Development Zone. This is related to grants to attract talent, funding for research projects, creation of an AI center, and associated government purchases: training, autonomous robots, simplification of administrative procedures and face recognition technology, among others (Lee, 2018, pp. 98-100). On the one hand, the previous industrial policy elements are the typical ones, so that it is clear that for China the classical industrial policy approach remains valid. On the other hand, note that this Economic and Technological Zone was created in 1992, so there is also a willingness to keep it updated. This technology area is still specialized in optical display, equipment, and biopharmacy. The preceding reflects a continuous approach to renewal and technological commitment, based on which the industrial policy approach does not refer to a particular moment in the economic development of a country.

## V. CHINA EXPANDS ITS TECHNOLOGICAL LEADERSHIP THROUGH THE DSR

China's digital economy is growing at enormous rates. In 2016 it represented almost a third of the economy (30.3%), and it is showing superior growth: that same year, for example, while the rest of the economy grew at 6.7%, the digital economy did so at 18.9% (Min, 2018).

One of the aspects of the digital economy is fintech, which is growing steadily in China. Internet payments have grown a lot in the country with systems like Alipay (from Ant Financial), WeChat Wallet, and Huawei Pay, among others. In 2016, when the USA had 74 billion US \$ in mobile payments, China already reached 790 billion. In other words, an economy with a similar total GDP (lower if we did not take into account the purchasing power parity adjustment) and with four times more population (a more penetrating technological insertion could be expected in communities with higher GDP per capita) multiplied by ten the nominal amount of mobile payments of the former (Fung *et al.*, 2018). Alipay, for example, has more than 300 million users, with more than 45 million daily operations to 2018. The experience that these companies bring when they go to the international market is that of a market that has matured rapidly and is very competitive. In addition to online payments, services such as P2P loans, online microfinance, crowdfunding, or mutual funds and insurance have been strengthened. The Chinese government's approach, despite its speed in openness, maintains elements of stability. For example, the growth of Fintech must motivate the growth of the real economy. This approach can help avoid future financial bubbles (Min, 2018).

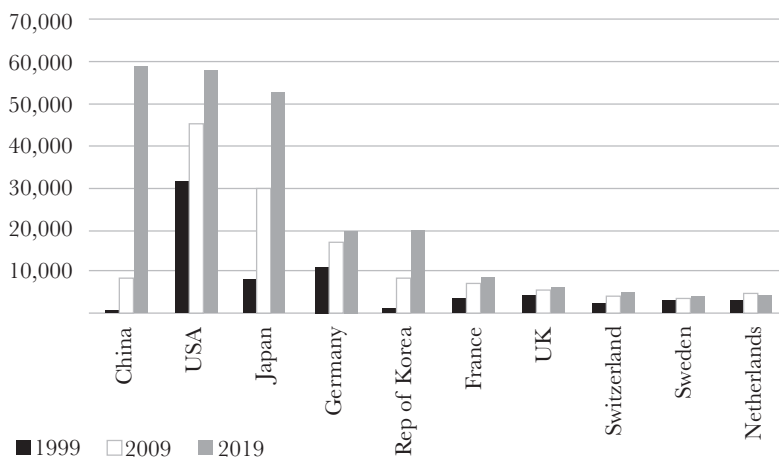
The lack of development in some technologies (or their lack of expansion) can facilitate the adoption of new ones by reducing the cost of transformation, which also has network effects. Thus, the lack of insertion of credit cards in China may have facilitated the adoption of new payment technologies through cell phones (to which a vast majority of the population had access). The great extension in the use of the WeChat super application and its WeChat Wallet payment system has enabled, for example, bidirectionality in the O2O (online-to-offline) scheme. This scheme reflected the ability to request online the distribution of services offline. The best-known cases, due to their rapid extension, might be the services of shopping, home delivery, or transportation. Payments through cell phones using QR codes, which have notoriously extended in China, offers a novelty of attraction towards the digital economy of interactions that occur in other areas and whose payment is made online.

With the same ease as technology allows a money transfer between two people, the digital money technology offers payment for goods and services at affordable rates. Thus, for example, in WeChat, this service is free for users with very few sales. For more qualified users, the charges remain low, from 0.1% of the value of the transaction with marginal additions based on accumulated amounts. These costs are exiguous compared to that of credit cards, which explains the null interest of financial institutions in Western

countries to move towards a similar model. These solutions, however, would be beneficial for Latin American countries in general and Mexico in particular. Due to its low barriers to entry, it would be effortless for the informal economy to move to mobile payment schemes. It would have positive effects on security and, above all, on the increase in the tax base, offering an outline of a higher collection with equal or lower margins. In addition, the elimination or reduction of cash would reduce the scope for criminal activities. Regarding this technology, it will be very interesting for Latin America what happens in the countries linked to the BRI in the coming years. Some of these countries may present similar elements concerning low bank penetration and a large informal economy. The contributions of technology in terms of financial inclusion, formality, and tax collection must be observed by countries such as Mexico.

The DSR strategy will boost China’s position as a superpower of electronic commerce by strengthening its digital economy and through international collaboration. China is at the forefront in this matter, ranking second in the Global Ecommerce Market Ranking 2019, only behind the United States and ranking first in several aspects: the greatest number of online consumers (1 billion), the greatest number of cross-border consumers (149.4 million), and the largest market by revenue (639.1 million in 2018). Besides, the countries of Southeast Asia, one of the geographic areas aimed by the BRI, are among those for which the greatest market growth is expected in relative terms. (EShopWorld, 2018).

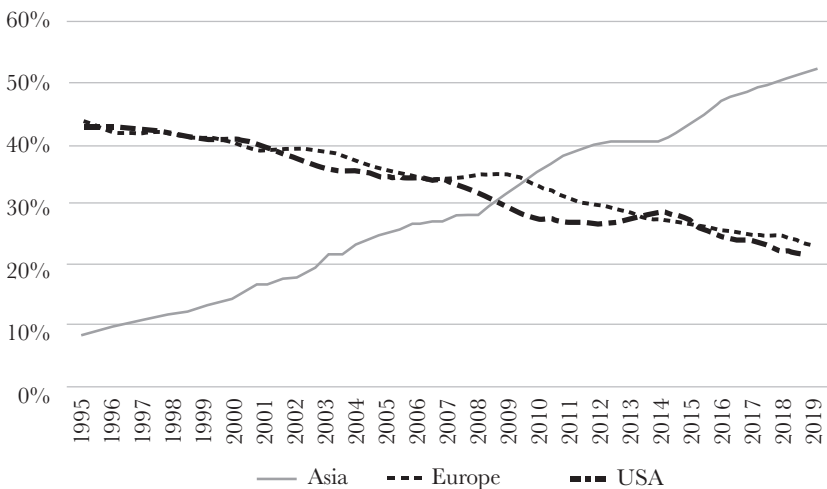
GRAPH 1. INTERNATIONAL PATENT (PTC) APPLICATIONS BY ORIGIN



SOURCE: Own elaboration with data from World Intellectual Property Organization.

As we have seen, the DSR constitutes a new region for collaboration in intellectual property protection. That is of significant relevance, due to the changes that are taking place regarding global technological leadership. In Figure 3, we can see the change that has occurred in the last two decades in international patent applications of the ten countries with the highest number of applications in 2019. It reflects the change in technological leadership that is taking place and will affect the geopolitical equilibrium. All countries, except the Netherlands during the last decade, have increased the number of international patent applications, reflecting the greater internationalization of companies, intensification of innovation, and the intellectual protection system. However, from all the promotions, China is the highest one. While this country only had 276 patent applications in 1999, a figure that would not enter this select group of ten leading countries, in 2009 it already had 7,900 applications, which placed it behind Korea. By 2019, it was leading the ranking with 59,005 patents requested internationally. In third place, and comparable to China and the USA, it is located Japan, with 52,665 applications. Germany and Korea are in a second group, with slightly less than 20,000 international applications. The rest of the countries are below 8,000 applications.

GRAPH 2. INTERNATIONAL PATENT (PTC) APPLICATIONS BY ORIGIN (%)



SOURCE: Own elaboration with data from World Intellectual Property Organization.



As it can be seen from the rise of China in Figure 4, but from a more geopolitical perspective that makes sense for the analysis of the DSR, the tendencies are not the reflection of the rise of a country, but a change in the regional geopolitics of technology. On the one hand, it is the consequence of China's growth in a region on which it has a great influence, due to its civilizing character. But also, the increases of the three East Asian powers have been relatively more substantial than that of their Western counterparts, showing the higher innovative power of the Asian development model. Japan has increased the number of international patent applications by 5.86% annually equivalent during the last decade; 14.84% considering its growth over the last two decades. In the case of Korea, the annual equivalent growths have been 9.03% for the last decade and 24.90%, considering the previous decade. To take as a reference, the USA and Germany increased their international patent applications by 2.37% and 1.42%, respectively, during the last decade and 3.86% and 4.79% during the last 20 years. Of course, China offers a spectacular growth of 22.27% and 39.85% averages, respectively, for each of the two periods. This leaves us with the innovation core change presented in Figure 4. In 1999, Europe and the USA were sharing, practically, the total of the international applications, with almost 45% each and Asia barely reached 8%. Currently, the picture is different. Asia already accounts for half of the international applications, while Europe and the USA share the remaining. No less surprising is the fact that the exhaustion of this dynamic is not yet observed, due to the differential growth of recent years, so we still cannot know how far Asian technological dominance will reach.

## VI. ACCELERATION OF THE DIGITAL ECONOMY DUE TO COVID19 AND NECESSITY OF 5G CONNECTIVITY

To protect themselves from the Covid19 pandemic, many countries recommended confinement during 2020, depending on the evolution of the epidemic in the respective country. This generated an unprecedented growth in the digital economy. Thus, for example, in February 2020, the average daily online time in China increased by 36.4% compared to 2019, and the number of people who teleworked multiplied by more than ten times. Data traffic in Italy increased by 70% in that same month. The reduction of human contact has led to the use of 5G robots and drones, temperature image processing in airports, analysis of the movement of people and contacts to delimit sources of contagion. Also, the use of video communication platforms with multiple

participants or online games require more data usage. In China, policies for the use of technologies in combating the epidemic were promoted, such as the *Fully Leveraging Artificial Intelligence to Fight Covid19* of the MIIT or the *Notice on Organizing Efforts to Implement New Infrastructure Projects (Broadband Network and 5G) in 2020*. In countries such as Germany, the United Kingdom, Switzerland, or France, measures were taken to manage traffic, revealing the inability of current networks to absorb the increase. As a timely intervention, it is worth highlighting the effort of China Telecom and Huawei to improve communication in various hospitals and a 5G network at Wuhan Union Hospital. This allowed the use of robots, sharing images and diagnoses with other hospitals to accelerate joint learning, as well as offering consultations by videoconferences to those who were at home. Notice that a large bandwidth is necessary to transmit High Resolution Computed Tomography scans that have a size of 200 Mb to 1 Gb. Last but not least, videoconference communication allows offering accompaniment to patients who had to remain isolated (Huawei, 2020).

Tracking applications, which are based on a high number of connections and usage of big data, have been created in several countries. They have been helpful to reduce sources of infection such as Self-Quarantine Safety Protection (South Korea), Trace Together (Singapore), or Health Check (China). The acceptance of these applications is an example of how a more open vision when sharing data can be acceptable to citizens, depending on the efficiency of the intervention with said data.

The greater closeness and the intensification of commercial relations and other types of exchanges will bring more challenges. For example, it would not be strange that the expansion of the Covid19 is superior in cities, which are most intensely connected with the rest of the world. Likewise, the arrival of the black plague to Europe was linked to the greater commercial integration facilitated by the Mongol empire. Similarly, the greater connectivity of computer equipment makes them more vulnerable to security attacks. More connectivity implies greater vulnerability, which requires better governance. International governance that exceeds and respects different forms of national and cultural government is needed. It is evident that there are differences in the understanding of the world, and it mutates between East and West. An initiative like the BRI, open to collaboration under the mutual respect of different forms of government, is a necessary mean of communication in the face of common challenges. In the same way that a pandemic is a global challenge, the governance of the digital economy is necessary to deal with technologies with the ability to cross physical borders.

The pandemic has given us a test, an experiment that implies an acceleration of the digital economy. Surely, when the confinement ends, many activities will be recovered in person. However, some activities will be found to be more convenient or convenient to do through apps, such as shopping. To that extent, digital change may accelerate permanently. Therefore, what happens during confinement regarding the digital economy must inform a discussion of what we want the digital economy of the future to be. Those countries that have found themselves in need of better connectivity should face its improvement in the near future to overcome the challenges of the new digital economy.

## VII. ON THE SPREAD OF 5G AND GEOPOLITICAL TENSIONS

Understanding the technological leadership of Chinese companies in 5G networks, notably Huawei, is essential to assess the repercussions of the US ban. The US has blocked China Mobile from offering communication services and Huawei and ZTE from selling equipment in its territory, as well as it has put pressure on other countries to imitate them. The ban has generated notable costs, which have driven its delay. Beyond determining if the American companies will finally be able to materialize the intended substitution, the truth is that it can only be done at a high cost. In this line, on March 13th, 2020, US President Donald Trump enacted the law offering a billion dollars in aid to replace equipment from ZTE and Huawei. Note that the approval of these grants has not avoided postponing the dates for the end of the collaborations. It seems evident that the Chinese advantage is too much to be overcome by a legislative change.

According to an estimate by the GSMA, which incorporates 750 mobile operators, a ban on Chinese providers would make it more expensive to create a 5G network in Europe by \$ 62 billion and delay technology by 18 months (GSMA, 2019). Such delay would have an aggregate effect on the European economy that would increase the productivity gap between this region and the United States.

Faced with the conflict between the USA and China and the tensions between the USA and Europe, and taking into account that the European productive fabric is not alien to the needs of technological development posed by Industry 4.0, the European strategic alliances may be rethought toward flexible schemes. The call for the US ban on the use of Huawei technology does not appear to have received the intended European response. The European approach to the digital economy can be analyzed from the

*Digital Single Market* and *Digital 4 Development* strategies. These underline efforts to improve accessibility and establish a level competition environment for all participants (Okano-Heijmans, 2019). Under this scheme, it would be strange if the prohibition of important participants was adopted. From the European side, there is some concern with regarding compliance of the *General Data Protection Regulations*, from a more protectionist perspective of personal data compared to that adopted by Asian countries. This barrier is not insurmountable and does not bring Europe closer to the USA since the latter's data marketing approaches have also been rejected.

It seems clear that neither the European Union nor the United Kingdom will yield to US pressures denying entry to its market to any specific participant, in the absence of conclusive evidence. While there may be security concerns, these will be addressed with all participants. The 5G security criteria have been detailed in the Network and Information Security (NIS) Cooperation Group report *EU coordinated risk assessment of the cybersecurity of 5G networks*. It states the will of international cooperation for the establishment of standards through the 3rd Generation Partnership Project in which they participate, in addition to Europe: USA, China, Japan, Korea, and India. In particular, the European vision of becoming a dynamic technological power, also vis-à-vis the USA, makes it look for the best infrastructure, looking for partners in the USA, in China or other countries, at its convenience.

One of the concerns that have arisen from the Western media (Halpern, 2019) is that the close collaboration between private companies and the Chinese State may jeopardize clients' data. In particular, this concern has to do with their data being used for surveillance contrary to their legitimate interests. It is complex to establish a clear border regarding this type of surveillance. On the one hand, Western citizens value greater protection of their privacy. On the other hand, several examples can be mentioned in which Western countries themselves have carried out surveillance to reduce exposure to common problems such as terrorism or those in which Eastern countries have done better, such as monitoring the movements of people to combat the contagion of the Covid19. The greater collaboration in Asian countries between the State and private companies to share this type of information may generate suspicions in the West, but that should not prevent the agreements from being of a different nature in each region. In any case, it must be remembered that the market is not immune to the dangers of sharing this type of information, as it happened with Cambridge Analytica. In general, we should agree that the commercialization of this data and collaboration agreements with public authorities are issues that must

be treated with transparency and understanding that different societies will reach unlike agreements.

The security concerns should be constant and addressed to all distributors in all countries because perverse incentives for the inappropriate use of data could be found anywhere. It would seem that it is the first time that Chinese manufacturers participate in the installation of equipment on the cellular telephone network. However, the participation of, for example, Huawei in this matter comes from several years ago. Its 3G distributed base stations reduced the costs of this type of installation, and the SingleRan allowed 2G, 3G, and 4G to share infrastructure. These solutions constitute the technological advantages under which Huawei has become a strong player in the market of communications.

## VIII. CONCLUSION

First, the present chapter does not offer a strict definition of the DSR. Like the BRI itself, into which it is inserted, the DSR is flexible. This flexibility is necessary insofar as the participating subjects are very diverse. On the one hand, the BRI participating countries come from different traditions, based on which they have built very different societies. As it has been observed during the development of the BRI, from the experiences of international collaborations that incorporate a considerable number of countries, particularly when these countries have different philosophical roots, a rigid structure can discourage the participation of some agents. A flexible perspective, which China has understood through facing and solving the difficulties of adapting to the internationalization schemes that the West has dictated, can more successfully incorporate countries that belong to a region which, very gradually, bring the West and the East closer.

One of the dimensions that are structured through the DSR is the collaboration between the State and the private initiative, made up of the company and civil organizations aimed at research. China has reinterpreted a collaboration model under the leadership of the State that, based on its past success, promotes a continuous productive transformation along with current and potential technological progress, making it real. The alignment of divergent interests is complex and does not always offer the same results under similar schemes. Industrial policy, a classic benchmark for this type of cooperation, must always be subject to evaluation and change. For this reason, an approach to transforming the digital economy must be flexible, depending on its results.

Furthermore, the digital economy is constantly changing due to the acceleration of technology itself and how it may be affecting the economy as a whole. The transformation towards the digital economy may be one of the fastest productive changes that many societies have ever faced. For this reason, the possibilities, benefits, and dangers of technological advances are still not fully understood. Similarly, Chinese companies themselves are leading flexible production models to cater to rapidly changing mass consumption.

The initiative needs to be flexible since many social realities are trying to adapt to a changing technological circumstance that will transform our societies. The DSR, integrated into the BRI, complements the productive leap with a geopolitical change that surpasses that of a particular shift in leadership, such as when, for example, the USA replaced the United Kingdom after WWI. The shift from West to East will require new visions to be combined with the technological revolution. This technological revolution is a matter of the present. The Covid19 epidemic has, by forcing us into confinement, given a boost to the advancement of the digital economy and a vision of what the near future will look like.

Digital connectivity is an essential infrastructure for this productive and social transformation. Therefore, the installation of 5G networks that, as we have seen, enables many of the necessary technical elements of this productive transformation is a crucial element. China leads this model of technological change with public features, such as industrial policy, as well as private, with the leadership of the companies that have been winners in this enormous market. For anyone who wants to keep pace with this productive transformation, collaboration with these actors is inevitable, and learning from their experience would be desirable.

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## 2025-30. A HISTORY OF TWO WORLDS: LATIN AMERICA IN THE FACE OF “THE BELT AND ROAD INITIATIVE”

Carlos Juan MONETA\*

*SUMMARY: I. Introduction: the growing role of the Economic Corridors in the new global geoeconomic system. II. The development of “The Belt and Road” in the frame of the Chinese foreign policy. III. OBOR: a multidimensional construction model. IV. What geographic and economic configuration might OBOR assume in 2025-30? V. OBOR and Latin America. Processes and conceptual links. VI. Corollary. VII. References.*

### I. INTRODUCTION: THE GROWING ROLE OF THE ECONOMIC CORRIDORS IN THE NEW GLOBAL GEOECONOMIC SYSTEM

In its transformation and modification processes, the global economy is characterized by the emergence of maritime and land transport corridors which are connected through hubs. The accessibility conditions that they can create have great influence on the possibilities and strategies of economic insertion in the markets.

Six Economic Corridors: China-Mongolia-Russia; China-Central Asia-West Asia; China-Pakistan; Bangladesh-China-India-Myanmar; China-Southeast Asia and the “New Eurasian Bridge” articulate the most important contemporary infrastructure project in the world: “One Belt, One Road” (OBOR). OBOR’s maritime dimension reaches Europe and Mediterranean Africa through the South China Sea, the Indian Ocean and the Red Sea. To the opposite direction, it connects the South China Sea with the South Pacific Ocean.

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In sum, these land and maritime corridors will link the less developed Chinese hinterland to Central Asia, India, Southeast Asia, Russia, and Central, Atlantic and Baltic Europe.

By means of this project, the PR China aims to move forward in the configuration of a Eurasian economic and commercial space that also includes part of Africa and the Arab countries of the Persian Gulf.

OBOR. It is set on a modern conception of geoeconomics, which can be understood as the analysis of national policies influenced by the interaction of economic and political determinants.

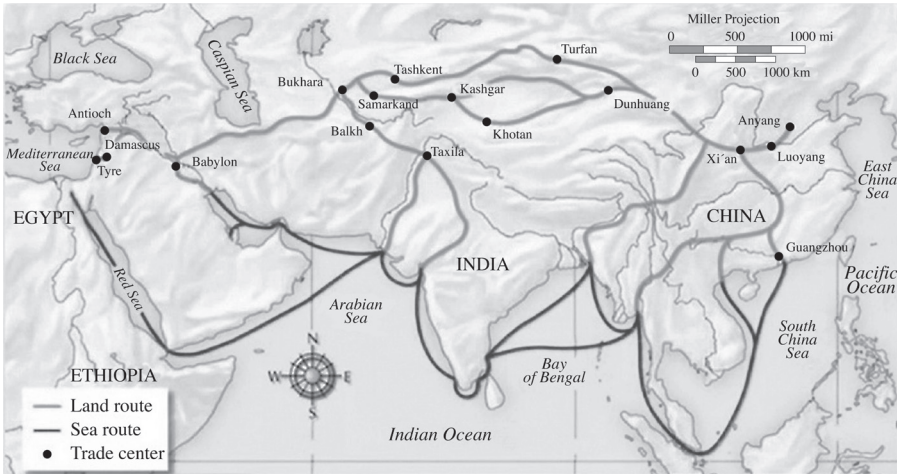
Its operational expression is based on infrastructure and connectivity as well as in the economic interests of investors and consumers. It takes into account economic, demographic and environmental interests in the configuration of the world and regional orders particularly, those related to space, natural resources and climate. It is oriented towards the construction of global networks that emanate from the new trends of interdependence, cooperation and competition between multiple partners.

Connectivity—in all of its dimensions—is currently gaining more importance. It is recognized as a key factor in fostering growth in the countries and regions' economic and commercial activities, both at the domestic and international levels.

In that context, President Xi Jinping introduces a giant project of intercontinental connectivity between Asia, Europe and part of Africa and the Middle East—One Belt, One Road—in Indonesia and Kazakhstan in October 2013.

Approximately 4.5 billion people are located in this part of the world; it is rich in natural resources, food and more than half of the operations in the global commerce and finances are carried out where OBOR is set.

Launched officially during the “Asia-Pacific Economic Cooperation Forum” (APEC) in Beijing towards the end of the following year, it already boasts a large number of ports; logistics platforms; roads; trains and hydraulic installations already in construction all over OBOR. With the support of an enormous promotion campaign driven by the Chinese government—on May 14<sup>th</sup>, 2017 Xi Jinping organized a “Belt and Road Forum” in which 29 government leaders and representatives from 100 countries participated—it rapidly obtained ample international recognition, generating numerous debates relative to its implementation possibilities and potential impacts on global geoeconomics and geopolitics. The following map shows the orientation and the central layout of the land and maritime routs included in OBOR.



SOURCE: <http://www.ladocumentationfrançaise.fr/> (s. f.)

In short, it is a tri-continental project that will require several decades to materialize, which represents a whole new development model. Based on the construction of physical and digital infrastructure, it incorporates interacting political and economic dimensions. Although it grants salience to the role of the markets by applying the guidelines of neoliberal economics, it also aims to establish new game rules with “Chinese characteristics” in the public-private and State-transnational dimensions, that revolve around development and cooperation in international relations.

Its realization would represent the equivalent to a profound shift in the tectonic plates of the global economy and politics. In particular, the movement towards an integration dimension in Asia and Europe, which today is barely noticeable, will take on special incidence on the evolution of the economic and trade relations of Latin America with both continents (Moneta, 2016b).

OBOR’s processes will substantially modify the relative situations of various countries and regions in their economic interactions with the rest of the world. In that context, it is worth mentioning that the Latin American countries have not been able except—for a small number of cases—to set in motion coordinated strategies in their links with Asia Pacific and India that take into account the profound changes that the international-transnational economic system presents, despite the efforts to correct this situation.

It can be noted, among other elements, that there is a set of “blank spaces” in the knowledge of the Asian processes that require the application of

comprehensive and multidimensional approaches. In the same way, there are important deficiencies in the Latin American systems, equipment and means of transport. Beside it is well known the persistence of an inter-industrial trade modality that does not favor our region, as well as low competitiveness; insufficient development of the transnational Latin American businesses and an asymmetric scientific/technological evolution. All the aforementioned factors seriously affect our capacity and range of external linkage.

In this context, the purpose of this presentation is to contribute to the exploration of the possibilities offered by OBOR for Latin America to deeply expand, redirect and modify the current spectrum of economic scientific/technological and political interactions that link our region with the main public and private players included in said project.

Some aspects that also deserve highlighting are the necessity of moving towards the resolution of the connectivity and infrastructural deficits in our region and the need of its external financing; favoring the productive transformation of Latin America, and implementing new ways of insertion in the economic-commercial dimension, with the capability of taking advantage of the transformations that emerge in the realm of the Belt and Road.

The emphasis will be set on the identification of the promising opportunities of cooperation and economic relations that the project opens up, without dismissing the obstacles and challenges that might emerge.

Within the first section, we will identify the concepts and guidelines of the Chinese foreign policy that are concretely applied in the materialization of the project. In the second, we will analyze the model of construction that OBOR represents.

In the third section, we will examine the geographical and economic configuration of the Belt and Road, in order to determine the various areas and paths of insertion. Lastly, in the fourth section we will examine —from the Latin American perspective— the possibilities of insertion and cooperative bonding that OBOR presents, considering them as potential spaces for Latin American public and private action.

## II. THE DEVELOPMENT OF “THE BELT AND ROAD” IN THE FRAME OF THE CHINESE FOREIGN POLICY<sup>1</sup>

OBOR is included in the first range of the political and economic priorities established by the Chinese leadership. Taking into account the needs that

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<sup>1</sup> The contents of this subsection are based on the document: National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the

arise from the evolution of the domestic economic context (“New Normal”) and different situations that loom in the international frame, it can be said that since the beginnings of the preparation of OBOR (2012-2013) a deep shift is introduced in the conception and praxis of the Chinese foreign policy.

An earlier phase of opening up and international insertion was comprised by the large Chinese state-owned enterprises (SOEs) towards the late 1990’s, which were in charge of establishing concrete trade relations with the rest of the world: the “go out policy” (Moneta & Cesarin, 2012).

Little over a decade later, their primary function was replaced by infrastructure, in its role of enabling instrument for the connection of the less developed Chinese regions and the bordering countries and, later on, with Europe.

Among the elements of the “vision” and the objectives that the different Chinese leaders imprint on OBOR, the following are worth mentioning (NDRC, 2015 and Wang Yiwei, 2016).

Vision:

- Emphasis on cooperation, opening up and inclusion, mutual benefits and learning.
- Expanding and improving communication and cooperation between the East and the West.
- OBOR as an initiative open to all countries and not limited by geography.
- Objectives:<sup>2</sup>
- Advancing connectivity in Asia, Europe, Africa, and their adjacent seas through the creation of networks in every dimension and in multiple levels.
- Coordinating the development strategies and the markets of the participating countries, with a free and organized flow of the economic factors.
- Achieving a deep integration of the markets and establishing a network of Free Trade Areas with high standards.

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People’s Republic of China, 2015, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road” (pp. 3-5). Beijing, China.

<sup>2</sup> In this chapter, we will not reference the strategic and security-related objectives linked to the competitive interactions between USA and China in Asia (for example, USA’s “pivot”, the Chinese “rebalancing” and those related to strategic and territorial disputes with Japan, India and South-East Asia; the protection of the maritime boundaries and the creation of new land paths for energy and trade flux that have also been taken into account in the formulation and implementation of OBOR).

In summary, the purpose of the “Silk Road Economic Belt” is to tightly link the Asia Pacific economic area in the East with the European economic area in the West.

Meanwhile, the “21st-century Maritime Silk Road” ought to generate an economic area of strategic cooperation geared towards the South China Sea, the Pacific Ocean and the Indian Ocean.

Among the guidelines for the strengthening of the world economy’s opening up —a new role that Xi Jinping assumes in the face of Trump’s withdrawal— the necessity arises of boosting economic globalization towards situations of equilibrium, through general and shared benefit and gains; seeking adequate ways of driving the capital towards rational and concerted options; creating new institutions and expanding the already existing ones<sup>3</sup> for the construction of bilateral, regional and multilateral economic and trade relations that contribute to world governance.

The roadmap requires the identification and expansion of new spaces and of driving forces for growth. In that context, after the symbolic recognition of China as a world power (“a big and strong country”) there is a desire to strengthen its leadership, by the development of an active multilateralism, geared to the creation of a favorable environment for the achievement of the “Chinese dream”.<sup>4</sup>

Moreover, the active and ample adhesion to free trade and the construction of a “community of shared destiny” between China and its neighbors might be reached by a new type of international relations that are centered in mutual benefits and balanced perspectives with regards to the principles and interests of the parts involved. The circle of friends is enlarged, but alliances are avoided in search of a global network of associations encompassing as many countries as possible.

It is required to obtain the diversification of external trade and the structures of its markets, focused on the developing countries and based on exchanges with the neighboring countries. However, there is a need to be flexible. In order to reach its goal of becoming a global economic power (Moneta, 2016c), the country must gradually adjust to the changes in the world economic and political structure. Furthermore, there is a need for

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<sup>3</sup> E.g.: Shanghai Cooperation Organization; APEC; Asia–Europe Meeting (ASEM); China-Gulf Cooperation Council (GCC) Strategic Dialogue; Central Asia Regional Economic Cooperation (CAREC).

<sup>4</sup> Stated briefly, the “Chinese dream” is the concept that synthesizes the project, promoted by Xi Jinping, of turning China into a developed, big and strong country, with a satisfied, harmonious and happy society, and that said purpose can benefit the world, creating a peaceful context, with development and international cooperation.

China to actively participate in the construction of bilateral, regional and multilateral systems of economic and trade relations.

It is precisely this new concept of shared development—which favors innovation, openness, coordination and sustainability—that is assumed in this new stage of transition from a “moderately prosperous society”, proposed by Deng Xiaoping in 1978, to China’s transformation into a “modern socialist, prosperous, powerful, democratic, civilized and harmonious” country that Xi Jinping and the leadership of the CPC<sup>5</sup> proposed to reach by 2049, the 100<sup>th</sup> anniversary of the PRC’s foundation.

One of its goals is the elimination of the existing growth asymmetries in the different Chinese regions, as well as a greater opening up in economic terms; strengthening the country’s competitiveness in the international arena; the prevailing dual urban-rural structure; advancing in a new production model and finding solutions for the problems arising from an industrial overcapacity that goes unused (e.g.: steel). In a similar way, it contributes to supply the energy and natural resources needed for its growth.

It also aims to offer new and broader geographical horizons for the action of the large State Owned Enterprises (SOE’s); smartly locating its financing capability for projects and acquisitions abroad; completely inserting itself in OBOR’s markets and establishing a vast and effective network of political and economic ties with the countries that are involved in the project.

In summary, the search for a concerted and balanced co-protagonism between the domestic dimension of development and the actions carried out abroad for the established goals. An immense and effective design of how, according to the Chinese vision, may its need of development be met; actively taking on its international responsibilities and obligations and contributing to the governance of the world economy.

### III. OBOR: A MULTIDIMENSIONAL CONSTRUCTION MODEL

Archimedes noted that, if one has a place to stand, one could move the Earth. OBOR, starting from infrastructure and connectivity, is building a multidimensional project steered to advancing in that direction.

In that way, for example, it is expected to create digital and financial “Silk Roads”; gradually advancing towards the establishment of trade and investment agreements that allow the participation of Sovereign Wealth

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<sup>5</sup> It was proposed within the Party Report during the XVIII Congress (November 2013).

Funds and the elimination of barriers for foreign direct investment (FDI). The establishment of bonds in renminbi, of anti-cyclical risk mechanisms and the regulation of the financial sector are also contemplated.

The management of the project includes “green development”; customs cooperation; advancement in cross-border regulations; standards certification and statistical information. It privileges e-commerce and new trade models and support services.

Within the production scope, the emphasis is on cooperation in the agricultural, food and manufacturing sectors, as well as in the creation of labs and research centers.

Furthermore, particular importance is given to OBOR’s governance, the construction of intergovernmental mechanisms of the highest level for the establishment of common goals and macroeconomic policies. The adoption of political and economic policies, necessary for an adequate leadership, is a key part of the project.

Lastly, a vital consideration. What we previously stated corresponds to objectives and means, but the deepest dimension of the project may have been relatively overlooked. OBOR constitutes a complex and sophisticated mechanism that, should it be successful, will eventually allow a transforming breakthrough in the dimension, depth and orientation of the relationships and links established between people and societies in the different member countries, by introducing economic growth as a variable and development as a prevailing value.

### *1. Challenges Faced by OBOR and Feasibility Conditions*

There is an intense debate both in the Chinese domestic context<sup>6</sup> and at the international level about the risks OBOR may face in its realization. Among them, it is worth mentioning: i) tension with countries that feel threatened by China’s strides (e.g.: Japan, India, USA, some South-East Asian and Central Asian countries and, in the future, possibly Russia); ii) shortfalls in terms of financial availability and its project distribution (benefit inequality); iii) ethnic tensions in the Xinjian province; iv) problems related to differences in the legal systems and business cultures; v) competitiveness conditions between SOEs and foreign enterprises.

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<sup>6</sup> Among the myriad of examples in this matter, see Antoine Bondaz, 2015, “Rebalancing China’s Geopolitics”, in European Council on Foreign Relations “One Belt, One Road: China’s Great Leap Outward” China Analysis (pp. 6-8), which presents the stance of many Chinese academics and government officials on the subject.



However, the big successes represented by social, economic, commercial, financial, technological and foreign policy accomplishments obtained by China since the beginning of Deng Xiao Ping's opening up, overcoming large obstacles in the external (e.g.: the 2008 financial crisis) and domestic dimensions, offer, as we understand, an auspicious bedrock for this new challenge.

## *2. Financial Feasibility of OBOR and The Chinese Banks: An Opportunity for Latin America?*

In order to finance the OBOR project, the Asian Infrastructure Investment Bank (AIIB) was created, open to international participation, with an authorized capital of 100 billion USD, to which China initially contributed 50 billion USD. The Bank currently has 43 member countries (i.e.: Chile, in South America) and an equal number of countries in the process of becoming members and/or seriously considering the possibility. Among them, Brazil, Argentina, Peru, Ecuador, Bolivia and Venezuela.

The AIIB was joined by another organism: The Silk Road Fund, with a capital of 40 billion USD, also provided by China. Moreover, there are other important sources of financing of domestic (several Chinese banks), regional (e.g.: Asian Development Bank) and international (e.g.: New Development Bank, BRICS) nature.

The AIIB holds a predominant place in the structure of the financial networks that are progressively being created in order to cover OBOR's expenses, in the context of the funding necessities for infrastructure in Asia, which climb to 750 billion USD (ADB, 2009).

AIIB's 100 billion USD capital is divided in 20% in pledged shares and 20% in demanded shares not disbursed. The capital subscribed by the Asian and Oceanic countries cannot be less than 75% of the total capital. In consequence, 75% of the entire amount of the authorized capital is distributed among the regional countries, setting aside 25% for non-regional members.

In terms of voting rights, the PR China had 29,780.4 votes in the year 2015, which means that it is the country with the most relative decision-making power (power of vetoing) in the Bank's resolutions. Nevertheless, the entry of new members will gradually modify that share.

It is worth mentioning that China played a relevant role in the creation of the New Development Bank (formerly known as the BRICS Development Bank) in Fortaleza, Brazil, in mid-2014. Its members are: China,

Brazil, India, Russia and the South African Republic. It will be located in Shanghai and it will possess a 100 billion USD capital and a Common Reserve Fund worth the same amount (NDB, 2014). The Bank will offer financing for infrastructure and other projects for the member States, emerging markets and several developing countries. It is expected that by 2020, it will be able to provide 5 to 7 billion USD destined for funding operations.

Fortunately, the funding supply is not limited to these players; it is far wider. Concerning OBOR, the China Development Bank (CDB) has announced its intention to invest about 890 billion USD in more than 900 projects to be developed in 60 countries (China Daily a., 2015). The CDB has launched a cooperation plan in stages that places the South-East Asian and Central Asian countries in a first stage; the Central and Eastern European countries in a second stage; the Western Asian States in a third stage; and lastly, in a fourth stage, it includes “other countries” (UIBE, 2017).

At the regional level, there is the Shanghai Cooperation Organization (SCO),<sup>7</sup> its new Development Bank and Interbank Consortium, which is integrated with several other banks from the member countries. Furthermore, the Bank of China; the Exim Bank and the Industrial and Commercial Bank of China have announced their predisposition to incorporate around 140 billion USD towards operations related to OBOR (UE-China, 2017). Significant investments from European banks might also be available.

Although the flows of mutual investment with China represent relatively small amounts if compared with those of commercial exchange,<sup>8</sup> the European Union banks have a rich experience in Asia, as sizeable cross-border lenders in more than 60 of OBOR’s members. An example is the Deutsche Bank, which informed about a 2.7 million Renminbi in the Belt and Road (Eu-China 2025, as referred in Garcia Herrero, 2017).

The AIIB will cover a wide spectrum of financing modes. It comprehends loans, as well as participation in the enterprises and institution’s capital; securities; technical assistance and every other measure the Board of Governors considers convenient.

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<sup>7</sup> The SCO is formed by the PR China, the Russian Federation, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

<sup>8</sup> 515 billion Euros in goods exchange EU-28-China in 2016 against FDI stocks of 168 billion Euros (228 billion if Hong Kong is considered) and an investment stock of China in the European Union of 35 billion Euros (115 billion if Hong Kong is taken into account) (EU, 2017 “EU-China Economic Relations to 2025 Building a Common Future” pp. 8-16).

In its efforts to attract new members to the Bank, China has paid particular attention to the necessity of presenting it as an entity with adequate social and environmental protection standards, one that applies international best practices and transparency in the management of the funds.

In the same way, positive links with other multilateral banks have been established. For example, the AIIB settled an agreement with the European Investment Bank (EIB) and with the European Bank for Reconstruction and Development (EBRD) in order to jointly finance strategically relevant projects, widening its cooperation to those countries in which both institutions function (AIIB, 2016) and developing joint operations with various institutions (e.g.: ADB, World Bank).

One of the first projects with the EIB and the EBRD was the improvement of connectivity and mobility in Tajikistan, in the route that connects Dushanbe with Uzbekistan, within the Central Asia Regional Economic Cooperation Corridor (AIIB, 2016).

In that way, an ample space for OBOR's financial cooperation is opened, which incorporates, among other areas, Asian and European territories.

Finally, although during the first stages of the operations those projects relative to transport, energy, rural and urban development, and logistics will be the most favored (China Daily b, 2016), according to Vice Premier Zhang Gaoli, the concept of "connectivity" comprises not only physical infrastructure, but also interactions between peoples, coordination of policies and capital and trade flows (China Daily c, 2015). In the later stages, ICTs; sustainability; agricultural and hydraulics development will be incorporated.

What we have noted here shows the wide range of cooperation projects that may be financed by the AIIB and other Chinese and associated multilateral banks. This diversity must be considered by the Latin American countries that are incorporating themselves into the Bank, as well as by the rest of the region.

It is important to highlight, in the light of possible operations with Latin America, that the infrastructure funding by the AIIB has not been limited to Asia.

Beyond its members, it can extend its operations to other financial and international organizations linked to the economic development of Asia or areas covered by the Bank, provided they are useful for the fulfillment of its objectives (AIIB, 2015). Such might be the case of the AIIB's investments in ICTs, infrastructure, energy and industrial production in Latin America, if they are properly negotiated according to our region in the frame of the AIIB.

### *3. Infrastructure/Connectivity: A Road Now Privileged for Growth and Economic Development*<sup>9</sup>

According to the estimates made by the McKinsey Global Institute, 2.5 billion USD are invested annually in equipment and transport initiatives, hydraulic energy and telecommunications. However, if the current investments are not raised to an average 3.3 billion USD per year, a gap of approximately 11% will emerge in the financing (about 350 billion USD) by the end of the 2016-2030 period (McKinsey, 2016a).

These deficit in infrastructure investment arise both in developed and emerging countries, the latter being the ones that will concentrate the most investments (60%) by 2030.

Although Western Europe and the USA and Canada will each have infrastructural requirements of around 12% and 22% of the total in the previously mentioned period, for China it will be of 29%; India, 6% along with other emerging countries of Asia, which will have the same shares, and 7% for Latin America (McKinsey, 2016b: 6).

Since the early 1990's, China has stood out globally for its infrastructure expenditure, which included investments in airports, railroads, ports, roads, energy, water resources and telecommunications. Between 1992-2013, China represented 8.3% of the total global investment, surpassing, among other regions and countries, India (4.9%); Western Europe and USA/Canada (2.5% each) and Africa (3.1%). Latin America was positioned in the last place, with 2.4% of the world total (McKinsey, 2016c: 4).

In that context, corporate financing represents roughly two thirds of the private funding, while the public-private association assumes a progressively bigger role in infrastructure investments. However, even though it is now estimated that it will constitute an important funding source in the future, its current participation covers between 5% and 10% of the total investments in the sector. Accordingly, the institutional investors and the banks continue to find themselves in the best conditions to cover the greatest part of the global needs (McKinsey, 2016d, in Brief).

Regarding Asia, reports of the ADB about the future investment needs in infrastructure (Inderst, 2016, referring to a paper by Bhattacharyay, 2012) point that the developing economies from 32 countries of the region will need an investment of 8.2 trillion USD for the term 2011-2020, 2.7 trillion of which correspond to transport, most of it belonging to China and India.

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<sup>9</sup> The content of this subsection is based on the document: McKinsey Global Institute, June 2016 "Bridging Global Infrastructure Gaps", pp. 1-8.

Another document by the ADB (ADB 2017) estimates an annual investment of 1.7 trillion USD for 2016-2030. In this context, the AIIB carried out financing operations for 1.7 billion USD in 2016, calculating that they may rise to 10-14 billion USD in 2030 (EU-China 2025, 2017).

In this setting, with a total trade value of nearly 1 trillion USD in 2016, the foreseeable infrastructure investments for OBOR's materialization, in an undefined time frame, is between 4 and 8 trillion USD. Currently, the investments in 2017 have been between 3-5 billion USD and are expected to rise to 10 billion USD in 2018 (Heiduk, 2017).

#### 4. *The Role of Cities in OBOR'S Conception: Relevant Players.* *A Different View: The Global System of Cities*

Designing and operating OBOR based on its cities constitutes a different way to perceive the already prominent players in the global markets and which could see their future incidence expand.

In Latin America, it would be convenient to incorporate a vision of the international economic system different to the traditional one, parting from the configuration of a global system of cities.

McKinsey (McKinsey e, 2011) organized a report that included an analysis of the total contribution to global growth by 2025 of six hundred medium and megacities. Four hundred and seven of them will be located in emerging countries and will contribute 40% of the global growth.

In this context, 310 million people in active age (35% of the world expansion of the Economically Active Population, EAP) will incorporate in 2025. Two thirds will live in Chinese and South-East Asian cities.

It is worth mentioning, in order to identify specific sectors of the market, that the main two hundred and sixteen cities in China will have 80 million senior citizens. Additionally, of the 13 million new children in the 600 mentioned cities, 7 million will be in Chinese cities.

It seems necessary in our region to incorporate new approaches and instruments in the development of strategic intelligence of economic-commercial nature.

By instance, Japan has been conducting, for many years, comprehensive and sophisticated studies on which will be the characteristics of the middle-class markets in Asia between 2025-2030. Australia, Singapore, New Zealand, India and other countries, as well as regional institutions and research centers, also carry out this type of investigations (e.g.: Unit-

ed Nations Economic and Social Commission for Asia and the Pacific, ESCAP).<sup>10</sup>

##### *5. The Cities and The Proliferation of Relevant Players in The International Trade of The Belt and Road*

OBOR's success fundamentally depends of the trade flows and exchanges generated and developed along the corridors between “pivot cities”, small and medium cities and their respective areas of influence.

The “pivot cities” are geographically located along the Belt and Road. Generally, each “pivot city” is linked to several roads and transit lines. They connect international trade hubs with medium and small cities, contributing to their growth and external relations. Similarly to main veins that connect to minor arteries, interactive sub-networks emerge.

Therefore, more than one OBOR will be built in the context of this project. It is foreseeable that a transition occurs from “one OBOR” to “many OBORs” (Moneta, 2017e). Indeed, initially, those OBOR of internal and cross-border nature emerge, encompassed in the geographical limits of the project, while the new infrastructure that is built represents the possibility of fostering posterior economic development (sub-networks of economic-commercial linkage).

But the OBOR phenomenon, given its dimension and incidence, has reinvigorated the interest in setting in motion —avoiding evaluating whether its motivations were based on reasons of strategic competition or cooperation— a large number of projects in Asia/Europe of similar nature, although more limited in their instruments and objectives (e.g.: transport, energy).

Among them, it is worth mentioning: a) the Asia-Africa Growth Corridor, agreed by the Prime Ministers Abe (Japan) and Modi (India) in 2017. It aims to expand and strengthen growth and connectivity between Africa and Asia, through a corridor that would cover Africa, India, South Asia, East and South-East Asia and Oceania; b) in 2011, the USA's “New Silk Road”, centered in Afghanistan, linking Central Asia with South Asia; c) the “New Russian Silk Road” (corresponding to the Chinese “New Eurasian Land Bridge”; and d) in 2004, Japan's “Silk Road Diplomacy”. It includes 5 Central Asian countries and 3 neighboring countries, with energy as its focus (Wang Yiwei, 2016 and Moneta, 2017f).

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<sup>10</sup> See, for example, ESCAP, “The state of Asian and Pacific Cities”, 2015.

## 6. *First Conclusions*

It is of great importance for Latin America to continuously follow up on these developments. A large gate is being opened to our knowledge of intra-Asian processes, which is essential to explore if we truly wish to develop economic-commercial insertion policies and strategies adequate to the ongoing transformation processes.

In this context, it must be taken into account that even in a scenario where China fails to reach part of its objectives, OBOR's dimension predicts that everything will contribute to transcendental changes both in the economic and political Eurasian configuration, as well as in the orientation and composition of the future trade flows at the regional and global level.

Regarding the projects that aim to compete with OBOR —despite some of them not reaching their materialization, for diverse reasons— they confirm the relevance and continuity of a progressively larger process: the growth, through multiple paths, of connectivity and integration between the European and Asian continent, with great incidence in other developing areas (e.g.: South Asia and Africa).

These offer new, broader and more diverse insertion opportunities in dimensions that include, but also exceed, trade. From a Latin American point of view, these changing geoeconomic configurations are associated to more complex scenarios for a commercial approach. These must not be limited to OBOR, but they should be extended to “various OBOR”, particularly the “mini OBOR”.

We are referring to the way in which, selecting those of accessible dimension and characteristics, new and unknown markets may be exploited. It is about attempting to use the most adequate ways to access them in an innovative manner, starting from our limited capabilities.

Identifying possible partners and clients among the research centers, enterprises, regional organizations and Banks; discovering that it is possible to access different and more competitive technologies and production methods, if the content and forms of these associations are intelligently created, and the public-private political and economic paths necessary to reach them are established.

To this effect, it is required to count with a broad use of strategic intelligence and planning for the medium and long term, one that includes a spectrum of relevant variables, such as the ones that OBOR's challenge presents.

In that sense, the following sections constitute an attempt to present the broader aspects of a tentative scenario for the Belt and Road in 2025/30

and of different possibilities that might be explored for future Latin American insertions. A space-time that stays too far in the future in the frame of the short-term visions that usually prevail in our region, but one that solely represents a mere instant in the long-term Asian vision.

#### IV. WHAT GEOGRAPHIC AND ECONOMIC CONFIGURATION MIGHT OBOR ASSUME IN 2025-30?

##### 1. *Asia-Europe: Towards A New Continent?*

The Belt and Road will allow for an increase in the economic and political links between Europe and Asia in multiple dimensions.

A large growth in trade will be noticed, as well as the participation and presence of European enterprises in Asian territory and of Chinese businesses counterparts in Europe. This will be facilitated by the materialization of at least a substantial part of the enormous plan that includes land roads, railroads and maritime routes, which, from now on, will also count with the participation of the European Fund for Strategic Investments. In this way, the time —and consequently, the costs of cargo shipments— will be reduced, facilitating larger trade flows.

For example, during the last three years approximately 2,500 cargo trains have circulated between China and 12 European destinations, in spite of the still big obstacles of technical, logistical and administrative nature (e.g.: different gauges, systems and norms).

Furthermore, the financial links and the joint investment operations will be facilitated. Such is the case of the “Juncker Plan” (European Commission, 2017), an investment plan launched by the European Commission in 2014 that has attracted sizeable Chinese funds; the launch of the “EU-China Connectivity Platform”, destined to providing investment opportunities and facilitating the trade flow and contact between the diverse societies; the admission of said country as a member of the European Bank for Reconstruction and Development and the European commitment to increasing their investment in OBOR. Hence, the already important Sino-German strategic alliance is being strengthened in the financial, commercial and technological fields.

In the same way, the sophisticated Chinese diplomatic action, supported by large investments and cooperation agreements, has been reinforced and has broadened its presence in all of Europe. A relevant example, as



an instrument for trade promotion and investments between Central/Eastern Europe (CEEC) and China, is the “16+1 Cooperation Agreement”.<sup>11</sup> This Agreement, focused on trade and investment promotion, also includes cooperation in science, technology, agriculture, culture and exchanges between societies.

These strides in Eurasian integration will create an extensive spectrum of impacts on the Latin America-Europe relations. Among them, it is worth mentioning its influence on the orientation and magnitude of the trade and investment flows with the EU, which may present substantial differences in favor of the Asian players. In this context, it seems convenient to propose our region’s necessity to create scenarios and conduct economic-commercial research on possible futures.

## 2. *South-East Asia: A New Competition for Latin America in The European Markets?*

In the Asian context, the Association of Southeast Asian Nations (ASEAN), has also launched the “Master Plan on ASEAN Connectivity 2025” (ASEAN Secretariat, 2016), which is to be coordinated with OBOR.

ASEAN needs approximately 1 trillion USD for infrastructure development between 2014 and 2020. For this reason, the funds stemming from OBOR and from China’s competition, Japan, will be welcomed, despite the tensions between both countries. Tokyo has created, in the frame of its cooperation programs with ASEAN, a Fund for the development of its “high quality” infrastructure, worth 110 billion USD (Reuters, 2015).

ASEAN, in the context of its plans for reaching an “ASEAN Economic Community” (AEC), has managed to reduce tariffs in its internal trade and to remove obstacles for FDI, in their strides towards the concretion of a “Common Platform off Investments” (Moneta, 2014g).

In this situation, the cost reduction in transportation acquires greater importance in order to facilitate trade. Agreements with Chinese enterprises for the construction of railroads and the provision of equipment are already in force, for example, in Thailand and Laos.

Given its privileged strategic location and its relevance to China as a market, situated in the value chains and providers of natural resources, the

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<sup>11</sup> The “16+1 Cooperation Agreement” (China-CEEC) includes the following countries: Albania, Bosnia and Herzegovina; Bulgaria; Croatia; Czechia; Estonia; Hungary; Latvia; Lithuania; Macedonia; Montenegro; Poland; Romania; Serbia; Slovakia and Slovenia.

ASEAN countries might optimize their funding options via OBOR. In sum, these developments will allow ASEAN to reach a long-awaited goal: being able to reduce their transportation costs and gain access to the European Union markets. It is estimated that the cost reduction due to OBOR might raise ASEAN's external trade by 2-6%. Latin America will then be caught in a new commercial competition in the European Union.

### *3. Central Asia: Uncharted Territories, But Explorable? For Our Region*

In the past few decades, Central Asia has transitioned from a little known and developed area, isolated from the international trade and investment flows, to a “bridge” between Asia, Europe and the Pacific. It emerges as a rapidly developing market with growing international insertion that attracts sizeable investments due to its mineral and energy resources. Enterprises from Russia, India, China, the European countries and a reduced number of Latin American countries, are competing for the exploitation of those resources.

The business intensity and magnitude that the region is experiencing—so detached from Latin America's knowledge and presence—greatly depends on obtaining large reduction in transportation costs. The Belt and Road has begun to conduct a construction pace of roads, railroads, logistic platforms, and oil and gas pipelines in order to connect Central Asia with its neighbors. Along with trade-facilitating measures that are also being gradually introduced, it is expected to help overcome the “disconnected markets” barrier and the lack of knowledge of the markets that many companies identify as obstacles for their development (ABDI, 2014).

Up to now, the most important international trade and investment flows exhibit a high degree of geographic clustering. China, the European Union and the Russian Federation constitute the main sources and destinations of commerce and investment. However, these Asian countries—such as South Korea, the ASEAN States and the Persian Gulf States—are starting to gain relevance, although still relatively not as important.

OBOR will increase and accelerate these processes. New necessities will emerge in terms of food and services in the Central Asian societies, as they see their income boosted. Initially, it would be feasible that some Latin American countries, working in a coordinated way, could begin to forge a presence in Central Asia's “entry to the world”.

#### 4. *India and South Asia: Another “South” Awaiting*

With a different pace, and greater difficulties than their neighbors in Asia Pacific, India and South Asia have also started their path to growth. They are committed to modify old patterns and to undertake new ways and processes for their development. Due to varying economic reasons (different development levels), policies (particularly, reluctance in India to incorporate to OBOR) and the existence of “empty spaces” in terms of infrastructural absences or insufficiencies, this region finds serious difficulties in their linking to the processes occurring in Asia Pacific.

Nevertheless, advancing in the commercial integration and the investment flows between the regions is one of the goals of the governments and enterprises from both parts. Everyone —India, China and South-East Asia in particular— wishes to overcome the barriers that the absence of infrastructure presents.

OBOR must set itself in this context. The economic and political reforms being adopted in Myanmar —key area, since it is a land bridge between both regions— will facilitate the establishment of connectivity and economic links. China promotes its vision of a continent united by roads and economic corridors, while India, with Prime Minister Modi, continues to deepen its “Looking East Policy”, destined to strengthening its links with ASEAN. It establishes, additionally, industrial corridors between Delhi-Bombay; Bombay-Bangalore; Chennai-Bangalore; Vizag-Chennai and Amritsar-Delhi-Kolkata.

In this context, both the Asian Development Bank and the AIIB aim to improve the conditions of physical connectivity and infrastructure necessary to create adequate bonds with South and South-East Asia (ADBI, 2015).

Like in the previous cases, thanks to these ventures, our region might find new access possibilities, trade opportunities and cooperation in large-volume markets with varying levels of development and different goods and services requirements.

Both access and insertion in the “Eurasian Asia” present very limited possibilities in unilateral approaches. Latin America needs to join forces, working together at the bilateral, sub-regional and regional levels.

Furthermore, there are other ways, the ones provided by associations with countries, enterprises and institutions from other regions that, by being members or having worked for a long time in those markets, already possess the knowledge, presence and links with the key local players necessary for a successful development in Asia-Europe.

## V. OBOR AND LATIN AMERICA. PROCESSES AND CONCEPTUAL LINKS

To the effects of this paper, the LATAM-OBOR links may be situated in three interacting dimensions. The following sections will present some examples related to these dimensions:

1. *Economic-commercial, industrial and scientific-technological*: spaces for Latin American participation in the Belt and Road's construction.
2. *Geopolitics and geoeconomics*: the emergence of a highly integrated Eurasia by 2025-30.
3. *Infrastructure and connectivity in LATAM*: infrastructure, selected in this case as a key sector for our development, where financial cooperation and technical assistance from OBOR can be localized, integrating new funding possibilities from Chinese and other investors for the projects to be carried out in our region.

### 1. *A General Approach: Trade and Business Opportunities in The Belt and Road*

In the next few years, OBOR will gain growing incidence on the configuration and the content of the axis of economic-commercial linking between Latin America and the countries that integrate OBOR.

In that frame, as we previously mentioned, the admission of various Latin American countries to the AIIB —one of the fundamental financial sources of the project— acquires particular relevance. It will allow our enterprises, banks, think tanks and public and private institutions to obtain direct knowledge of the projects in multiple areas of large magnitude and complexity, in particular the financial, productive and commercial ones, eventually facilitating their operations in those fields.

In general, the Belt and Road offers multiple opportunities for economic insertion, be it through equipment exports, services, financing, construction, transport and logistics and food, goods and support services.

In that context, related the characteristics that the countries participating in OBOR present, we can find import and export markets, relevant for their dimension and high participation of technology in goods and services. Such is the case, for example, of Germany, Japan, South Korea and the Western Europe States.

As the main export products of Latin America are not found in these sectors, it is worth identifying those countries that are food, natural re-

sources and energy providers. For example, Australia, New Zealand, Central Asian countries, some from ASEAN, Iran, Angola and Nigeria. In this realm is where Brazil, Argentina, Chile, Peru, and possibly, Ecuador, Bolivia and Venezuela shall position themselves. In the following sections, we will present some ideas that might be useful to these effects.

## 2. *Basis of China's Strategic Concept For OBOR*

In the beginning of this paper, we noted that the Belt and Road falls within a modern conception of geoeconomics, presenting a definition of this concept.

If we could apply a metaphor, the Chinese planners have conceived OBOR as an enormous, dynamic and interactive Lego set. The central pieces in that set are the “Pivot Cities”.

OBOR's success fundamentally depends on the trade flows and the exchanges carried out and developed along the corridors between “pivot cities”, small and medium cities and their respective hinterlands.

These cities encompass a spectrum that covers: a) cities that constitute international trade hubs; b) others that, even though they play a part in external trade, do not reach the importance of the first ones; and c) medium and small cities connected (or yet to be linked) to the previously mentioned ones, considered to have possibilities of growth and play an active role or boost commerce in the future.

They are geographically located along the Belt and Road. Usually, each “pivot city” is connected to numerous roads and transit lines. Thus, they link international commerce hubs with small and medium cities, contributing to their growth and external relations, creating a network of integral nature.

Therefore, as we previously mentioned, more than one OBOR will be generated in the context of this project.

Some examples of international hubs are: Shanghai, Beijing and Shenzhen, while some of the cities considered potential pivots for international trade are, among many others, Chengdu (the capital of Sichuan, located in the Belt and Road of the Yangtze River); Xi'an (capital of Shaanxi and has a privileged spot in the “Eurasian Bridge”) and Harbin (capital of Heilongjiang, in the center of China's North-East area).

In the maritime dimension, the “pivot cities” are those that have adequate ports and connect the domestic market with the international one. Among the main cities, there is Xiamen, in the Fujian province, on the

South-East coast of China and facing Taiwan, and Qingdao, in the East coast, where Eurasia meets the Pacific, and which can redirect traffic both to the Yangtze River delta and to Amsterdam (Moneta, 2017h).

This deconstruction of OBOR's constituting entities answers to a strategic vision presented in section II of this paper, which changes the focus from the conception of an international system based on the interaction of Nation-State, to a "International System of Cities" and networks that encompasses every kind of linking between them.

If their growth and demographic profile, market structure, trade and investment flows, competitiveness, geographic situation, and other elements are analyzed in this dimension, we can identify those cities that might constitute markets and/or logistic, financial, institutional and political support bases from where to explore new markets. In that sense, OBOR represents an enormous, very rich and varied universe of possibilities.

For example, there are studies for South East Asia —conducted by ESCAP (2011) and other institutions— where basic living expenses and their cost have been identified in different cities.

### 3. *Infrastructure in OBOR And Latin America*

Latin America's share in the world exports has increased from 4% to 6% in the 1990s, but it has been practically stationary since then. Experts agree that one of the main factors is the absence of high-quality transport infrastructure, both at the national and the regional levels. The investment in this sector has been progressively diminishing since the 1980's until today. In the early 1980's the average expenditure was 4% of the GDP, while it is currently of 2.5-3% (BID, 2016).

Unfortunately, the region presents a distressing underdevelopment in transport infrastructure and logistic services provision. The situation differs in each country, but all of them share a standard that separates them from the development level achieved in South East Asia.

The diagnosis points that the insufficiencies are distributed in different components of the system: i) elevated costs of internal transportation, due to the lack of infrastructure and associated services; ii) slow processes in the customs and commercial facilitation, iii) difficulties to report the official procedures related to foreign trade (SELA, 2014).

In this context, Latin America requires the adoption of decisions regarding the role it assigns to transport and logistics within its model of global insertion.

Taking into account OBOR's emergence, there is the possibility of developing negotiations that allow the utilization of AIIB and other institution's funds for the financing of programs in the context of the "Initiative for the Integration of the South American Regional Infrastructure" (IIRSA in Spanish) and the integral development of the sector.

To these effects, it is a priority for the region to effectively devise and agree on a "Strategic Plan of Intra-Regional Connectivity and External Insertion". This plan could constitute a foundation on which to negotiate China's participation and of the remaining OBOR countries that wish to join. Concerted action in this area would allow for the regional and national interests to be brought together, greatly facilitating financial linking and external operations.

## VI. COROLLARY

The 21<sup>st</sup> century Latin America is facing profound transformations in the international-transnational system. The task to comprehend and incorporate those changes is a necessary and unavoidable condition if we are to adjust to new demands and opportunities.

Thus, the necessity emerges to adopt positions in the light of developments such as OBOR, which defines new global economic structures and power processes. The criteria, categories and courses of action have transformed and the global dynamic of competition is now far more complex than in the past.

This paper has attempted to grasp the evolving sequence of OBOR, identify its driving forces and its interactions, in order to discover future occurrences in the field of the international economic relations. It is not a simple task, but it is essential to define vectors, tendencies and projections that Latin America needs to incorporate as resources for the adoption of public-private decisions.

In this frame, the action coordination between Latin American governments, business sectors, unions, and economic and academic players is indispensable. Public-private interest coalitions must be promoted, as well as the coordination of actions of negotiation.

In particular, China has proven its capacity of establishing strong elements for its commerce in transnational operations; along with production bases and a coordinated external action of its enterprises. This is an approach that deserves consideration in order to shape the future external economic policy of our region.

Finally, the beginnings of suitable lines of action emerge from a root: knowledge and reflection. As an ancient Chinese proverb says: “The one who studies but does not reflect, sinks into confusion, the one who reflects but does not study, cannot overcome complexity”.

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## LEGAL RISKS IN FINANCING “ONE BELT AND ONE ROAD”: CHINA’S DILEMMA

DongSheng ZANG\*

SUMMARY: I. *Introduction*. II. *How to finance OBOR: Changing patterns*. III. *Legal risks in capital markets*. IV. *Conclusion: China’s dilemma*. V. *References*.

### I. INTRODUCTION

In May 2017, the “One Belt One Road” (“OBOR”) international summit in Beijing drew leaders from more than 30 countries, the United Nations, the World Bank, and the International Monetary Fund (RMRB, 2017a). The *New York Times* editorial in May 2017 commented: “While Mr. Trump pushes an America First agenda of isolationism and protectionism and embroils himself in controversies that raise doubts about his competence, President Xi Jinping of China exudes purpose and confidence as he tries to remake the global economic and political order and lure nations into Beijing’s orbit” (NYT, 2017a).

While its concerns of President Trump’s policy are well justified, the *New York Times* nevertheless expresses a perspective in the United States that is closer to that of an empire looking at its emerging rival with fear and envy, but little sense of history. If OBOR is China’s strategy to build an empire with itself at the center on the one hand, and Eurasia, Africa, Latin America, and Southeast Asia on the other, as the periphery (Tom Miller, 2017), China will face the same problems that past empires had faced. However powerful and ambitious they may be, empires ultimately have to face the

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constraint of resources they could allocate (Paul Kennedy, 1988). In other words, empires are inescapably caught in the dilemma where they have to choose between discipline and ambition.

This chapter aims to examine such a dilemma that China is currently locked in, as a consequence of the tension between its global ambition and the financial constraints imposed by market forces. The starting question raised here is a practical one: how does China finance the enormous OBOR projects that will cost trillions of dollars? To answer this question, the chapter first examines changing patterns of financing in OBOR's recent history in Section II. Here I argue that China's policymakers are trying to shift the financing via banks (indirect financing), to financing via capital market (direct financing). This is necessary because Chinese investors in OBOR projects need to (a) control their exposure to financial risks from overdependence on commercial banks, and (b) access to more capital in order to meet their insatiable demand. Legally, this is a significant change because the latter requires China to step out of its comfort zone and increasingly out of its border. If China decides to raise funding for its OBOR projects through capital markets, because it will face different regulatory frameworks that can be translated into legal risks. Such legal risks are the focus of Section III. Here the question becomes: what happens if China uses sovereign wealth funds (SWFs) as the vehicle to raise money in capital markets in world's major financial centers such as Hong Kong, London, New York. For this purpose, this Section will look into the sovereign immunity laws in China, Hong Kong, United Kingdom and the United States, in order to explain their differences and as a consequence, the legal risks for China's SWFs. Section IV summarizes the findings and concludes with a general statement of China's dilemma.

## II. HOW TO FINANCE OBOR: CHANGING PATTERNS

The official narrative of OBOR in China is that it all started with President Xi Jinping's speeches in 2013. The first speech was on September 7, 2013, in Astana, Kazakhstan, when President Xi spoke at Nazarbayev University. It was here that President Xi referred to the ancient "silk road" and talked about the "silk-road economic belt" for the new era. The second speech was in Jakarta, Indonesia, on October 3, 2013, when President Xi spoke at the Indonesian Parliament, proposing "the Twentieth-first-Century Maritime Silk Road." In less than two years, in March 2015, the ideas of reviving the "silk road" became a national strategy when the National Development and

Reform Commission (NDRC), Ministry of Foreign Affairs, and Ministry of Commerce jointly issued a joint statement titled “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” (NDRC, 2015).

The official narrative, which gives exclusive credit to President Xi Jinping for OBOR, clearly suggests that President Xi himself has invested “great personal capital” in OBOR, as Nadège Rolland has noted (Rolland, 2017: 43). The narrative, however, obscures the policy continuity with his predecessors (Rolland, 2017: Chapter 2). More importantly, the official narrative also obscures a significant change that President Xi brought to OBOR between 2013 and 2015, and the more consequential changes afterwards. One such change is in financing patterns of OBOR projects. As will be shown, many of the projects in OBOR have been started before Xi’s OBOR announcement, but they were financed by Chinese investors and Chinese state-owned banks, which was characterized as “indirect financing” by Chinese policymakers. Between 2013 and 2015, Xi made the first change to this financing pattern by setting up development banks in China and in the international arena. Between 2015 and 2017, there was a clear move by Chinese policymakers that China needed to go further in the direction of direct financing, i.e., financing of OBOR projects via capital market.

### 1. *Indirect financing via banks*

It is interesting to note that on the same day he gave the speech in Astana, September 7, 2013, President Xi and Kazakhstan President Nazarbayev attended a ceremony marking the official completion of a natural gas pipeline connecting Kazakhstan and China, known as the South line. This was part of a much bigger Central Asia-China Gas Pipeline that aimed to bring Turkmenistan natural gas to China via Uzbekistan and Kazakhstan. The Pipeline consists of parallel lines. The ceremony that President Xi attended was for line C, the construction of which has been started in September 2012. Lines A and B, each measuring 1,833 km in length, had been completed in December 2009 and October 2010, respectively. A fourth line, Line D, was announced in March 2014, but was cancelled in March 2017. Another project, the Kazakhstan–China Oil Pipeline aimed at bringing crude oil from Kazakhstan’s Atyrau on the Caspian Sea to China. In November 2005, the 962-km Atasu-Alashankou section was completed. Thus, by the time President Xi Jinping delivered the OBOR speech at Nazarbayev University, China’s ambitious plans and strategies to secure energy supply

from Kazakhstan as well as the Central Asian area have been laid out and many parts had been completed.

In fact, China turned its attention to Central Asia shortly after the collapse of the Soviet Union in 1991 (Sheives, 2006). Kazakhstan became independent in December 1991, and shortly after, in January 1992, China and Kazakhstan established diplomatic relations. In August 1992, the two countries entered into a bilateral agreement on investment protection. By early 2000s, China also has started construction of a railway line connecting Kashgar with Kyrgyzstan, Uzbekistan, a highway line connecting Kashgar with Bishkek, Kyrgyzstan, and Almaty, Kazakhstan (Garver, 2006: 3-5). Construction of the Karakorum Highway, the highway line connecting China and Pakistan was resumed in 2001 (Garver, 2006: 7). A deep-water port at Gwadar, Pakistan, was announced during Premier Zhu Rongji's visit to Pakistan in May 2001 (Garver, 2006: 7-8). John W. Garver, an American specialist who followed China's policy in the Eurasia region made the observation in 2006 that "[w]e are witnessing a quantum leap in China's western oriented transportation infrastructure" (Garver, 2006: 18).

Prior to 2015, financing of the OBOR projects was largely bilateral. Though the Asian Development Bank (ADB), for example, provided funding for some of the highway, railway projects in Kyrgyzstan and Kazakhstan; the World Bank and European Bank for Reconstruction and Development were involved in funding some parts of the ports, railway and roads related to the European Union's Transport Corridor Europe Caucasus Asia projects (Garver, 2006), their role was more exceptional. In most cases China had to come up with funding for the massive projects. Who were the Chinese investors? The State-owned Asset Supervision and Administration Commission ("SASAC")—a government agency acting on behalf of public assets—reported that state-owned enterprises under the central government ("CSOEs") are the major driving force in OBOR projects (Rmrb 2017a). Xiao Yaqing, Commissioner of SASAC, disclosed in May 2017 that since OBOR became official in 2015, 47 CSOEs were involved in 1,676 projects in OBOR countries. In Kazakhstan, for example, it was CSOEs like China National Petroleum Corporation ("CNPC"), CITIC group and China Guangdong Nuclear Power Co. as the main players on the ground (O'Neill, 2014). The *People's Daily* reported in 2017 that in the past twenty years, CNPC has invested US\$42 billion in Kazakhstan (Rmrb 2017c). These CSOEs worked with policy banks such as Export-Import Bank of China (EXIM Bank China), China Development Bank (CDB), as well as sovereign wealth fund such as China Investment Corporation (CIC) (O'Neill, 2014).

## 2. *Development banks & sovereign funds*

In the official narrative, it was during President Xi Jinping’s visit to Indonesia in October 2013 when China first proposed the idea that eventually led to the establishment of the Asian Infrastructure Investment Bank (AIIB). One month later, in November 2013, the first consultation conference was held, with China’s promise of holding up the principle of “open and inclusive”. About one year later, on October 24, 2014, a memorandum was signed in Beijing by twenty-one Asian countries deciding to set up the AIIB. On December 25, 2015, AIIB was officially established. The BRICS bank, the New Development Bank (NDB), was established in July 2015. However, the official narrative does not tell that the notion of development bank was an important innovation. Shortly before the OBOR policy, China was undergoing “Going West” (*xibu da kaijia*) campaigns between 2000 and 2012, when Chinese government invested heavily in inner-land and Western underdeveloped areas. The State Council found it desirable to have a “long-term, stable and dedicated financing channel” to support the inner-land areas, like European Union’s Cohesion Fund (State Council, 2013). The notion that China needs to set up “development banks” became clearer in October 2015 at the Party’s Fifth Plenum of the 18th National Congress, when the Party prescribed direction for financial reform as to “improve the division of labor between commercial banks, development banks, and policy banks” (Party, 2015). Between 2013 and 2015, as the country declared its ambitious OBOR strategy, “development bank” was the underlying theme in reforming China’s financial mechanism for the megaprojects—and AIIB and NDB were only a domestic extension of the underlying theme.

As noted earlier, China has been working with development banks Asian Development Bank (ADB) and the World Bank since its 1978 reform and has developed a strong and successful relationship with them. In 2012, ADB noted that China was its second largest sovereign borrower (ADB, 2012); and China continued that position in 2015 (ADB, 2016: 4). From 1986 to the end of 2015, ADB has provided public sector loans to China totaling US\$31.08 billion, and US\$5.68 billion for non-sovereign projects, and US\$460.0 million in grants for technical assistance projects (ADB, 2016: 3). But ADB clearly could not keep the pace of China’s rapidly increased financing needs. As noted earlier, in the last twenty years, CNPC alone has invested US\$42 billion in Kazakhstan (RMRB 2017c). In the year 2017 alone, China new investment in 59 OBOR countries US\$14.36 billion (RMRB 2018). ADB as a general development bank covers a wide range of areas,



and infrastructure is only one of them; not to mention that for ADB, infrastructure is broader than transport and pipelines, “social infrastructure”, for example, means schools and health care, etc. Nor did ADB’s essential task fit China’s needs—ADB looks for “transformative and demonstration projects” and serves as a “catalyst” for bringing other funding sources together, not a substitute as a source of substantive funding. AIIB, with an initial capital contribution of US\$100 billion from 57 members (by the end of 2017, 84 members), two-third the size of ADB and half of the World Bank, but it specializes in infrastructure. Financially, it provides an additional source of funding; politically, it is an alternative international financial institution led by China, so it serves China’s political ambitions well (Wang, H. Y., 2016). It also gives some leverage to China in the Southeast Asian markets in competition with Japan, who leads the ADB.

The notion of development bank is also the underlying theme in domestic reform between 2013 and 2015. China Development Bank (CDB) was first established in 1994, but its role as a development bank was not clear. In 2007, for example, CDB was instructed to lend on commercial terms, like other commercial banks (Provaggi 2013). After the 2008 financial crises, it became more necessary for CDB to undertake the role of a development bank. On March 20, 2015, the State Council officially designated the status (State Council, 2015). As part of the change, CDB received capital injection of US\$38 billion from the Chinese Parasol Tree Investment Platform Co., an investment vehicle of Chinese foreign reserve under the State Administration of Foreign Exchange (SAFE)—China’s government agency in charge of foreign reserves (Wang, Y. Z. 2016). On the same day, the State Council also approved the general reform of the Export-Import Bank of China (EXIM Bank China) towards a policy bank (State Council, 2015); and in December 2014, the State Council just designated the Agricultural Development Bank of China (State Council, 2014).

In the mid of redefining the tasks of the three major development banks, new sovereign wealth funds (SWFs) were set up to support OBOR projects. The most prominent among them is perhaps the Silk Road Fund (*silu jijin*),<sup>1</sup> established in December 29, 2014, with US\$40 billion, with investments from the SAFE (65%), China Investment Corporation (15%), CDB (5%), and EXIM Bank China (15%). At its initial stage, the Silk Road Fund was managed by China’s central bank—People’s Bank of China (PBOC); once it becomes fully operational, it will be independent, according to PBOC Governor Zhou Xiaochun (Zhou 2015a). Another powerful SWF was CIC Capital, established in January 2015, which received US\$100 billion capi-

tal infusion from China’s Ministry of Finance through a bond issue (China Daily, 2015). CIC is China Investment Corporation, a sovereign wealth fund company set up on September 29, 2007, with the task to control and manage China’s megabanks such as the Industrial and Commercial Bank of China, the Bank of China, and China Construction Bank (Guo, 2010).

Thus, between 2013 and 2015, China has sought to establish multiple sources of financing for its OBOR projects, and this multiple-source strategy is centered on the notion of development bank, both inside China and outside. While NDB and AIIB both serve China’s political ambitions well (Wang, H. Y., 2016); they may be a welcome addition to financing need, but clearly neither NDB nor AIIB has enough capital to serve as a substitute for financing by commercial means (D. Dollar 2015). 2015 saw a significant rise of SWFs as a funding source for the OBOR projects. This not only opens more channels for financing, but also signals a gradual shift to the capital markets.

### 3. *Direct financing via capital markets*

In November 2015, one month after the Party’s Fifth Plenum of the 18th National Congress, PBOC Governor Zhou Xiaochuan published an article on the *People’s Daily* (Zhou, 2015). Zhou highlighted the Party’s policy on division of labor between commercial and development banks. He emphasized the need to further reform policy banks, so that they facilitate growth (Zhou, 2015). So far, he was merely repeating what the Party has decided. But as the key official in charge of China’s financial system, he clearly had concerns and worries about financing OBOR projects and the enormous pressure and risks associated with it.

Part of the pressure came from the state-owned commercial banks. In March 2015, OECD (Organization of Economic Cooperation and Development) has warned that Chinese bank’s “rapid credit growth has raised financial stability concerns” (OECD 2015: 19). IMF (International Monetary Fund) gave a similar warning one year earlier (IMF, 2014). Credit growth was the result of a stimulus policy in response to the global financial crisis, which is translated to increase lending to SOEs and local governments. Thus, as the top regulator of the Chinese financial market, Governor Zhou was caught in between two competing demands: the insatiable appetite for more financing and the increasing vulnerability of the banks. In his article, Governor Zhou made several suggestions: one specific measure was to open financial service market to private firms; the other specific measure was to

allow online financial services. However, his more fundamental policy suggestion was to stress the general direction of financial reform—that is to increase use of capital market as the channel to raise capital—what he called direct financing (Zhou, 2015). He argued that a well-developed financial market is based on both direct financing via the capital market and indirect financing via banks (Zhou, 2015).

Governor Zhou again made a similar suggestion at a high-level conference in March 2016 (Zhou, 2016). The idea gradually gained more support. In September 2017, Fan Gang, Peking University professor, and member of the Currency Policy Committee under the PBOC, expressed concerns of OBOR financing needs: infrastructure are long-term projects, they cannot rely on bank loans, but rather on financing through the capital market, which means bonds (Fan, 2017). On October 26, 2017, China's Ministry of Finance issued sovereign debt bonds worth of US\$2 billion in Hong Kong; and two months later, on December 20, CDB, China's policy bank, raised US\$350 million for private equity in a five-year fixed-term OBOR fund (Xinhua 2017).

### III. LEGAL RISKS IN CAPITAL MARKETS

The rise of sovereign wealth funds (SWFs) became a global phenomenon in the last decade, when countries put their cash earned from once-booming commodity prices and trade surplus together and use the SWFs as a vehicle to invest in financial institutions such as Citigroup, UBS and Morgan Stanley (Gordon & Niles, 2012). China became part of this new phenomenon thanks to its sizable foreign exchange reserves as a consequence of the large amount of foreign investment and trade surplus. However, for its OBOR projects, China also needs its SWFs to raise funds in capital markets. If this is the case, what would be legal risks for China's SWFs?

For legal analysis purposes, we will use a hypothetical case and then analyze the laws in mainland China, Hong Kong Special Administrative Region, United Kingdom, and the United States, the laws that govern the financial centers in Hong Kong, London and New York. The following facts of the hypothetical case are derived from a 2016 decision by the United States Court of Appeals for the Second Circuit:<sup>2</sup>

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<sup>2</sup> *Atlantica Holdings v. Sovereign Wealth Fund*, 813 F.3d 98 (2d Cir. 2016).

Defendant is a sovereign wealth fund (the “SWF”), majority shareholder of a bank incorporated under Kazakhstan law (“Kazakh Bank”). In 2010, Kazakh Bank issued debt securities on the Kazakh and Luxembourg Stock Exchanges in connection with restructuring of Kazakh Bank’s debt. Plaintiffs include domestic (“Forum Country”) investors as well as institutional investors registered in foreign country (Panama). They brought action in domestic court, seeking to hold Defendant liable for alleged misrepresentations under domestic securities law. Though the securities in question were only listed on foreign (Kazakh and Luxembourg) stock exchanges, Plaintiffs alleged that the Defendant marketed the securities extensively in Forum Country. In particular, Plaintiffs alleged and Defendant did not dispute that the Defendant sent representatives to the Forum Country to meet with investors and assured them of the health of the Kazakh Bank’s balance sheet in the wake of the 2010 debt restructuring. Defendant argues in court that the court has no subject-matter jurisdiction because as a sovereign wealth fund wholly owned by Kazakh government, it is entitled to sovereign immunity under the Forum Country’s Foreign Sovereign Immunity Act. The key question for the court to decide: is Defendant entitled to such immunity?

Around the world, it is recognized that foreign sovereign state is immune from the jurisdiction of domestic courts. In England, since *Blad v. Bamfield* (1674),<sup>3</sup> and in the United States, since *Schooner Exchange* (1812),<sup>4</sup> sovereign immunity has been considered absolute or complete, i.e., no exception was recognized. Gradually, a distinction between *acta jure imperii* (public act), and *acta jure gestionis* (commercial act) was made and different treatment was urged.<sup>5</sup> Since the 1970s, statutes in the Commonwealth Countries and the United States started to recognize the distinction by adopting a more limited sovereign immunity doctrine known as the “restrictive theory”. The restrictive theory treats a sovereign state just as a private entity when the latter is engaged in commercial transactions. Thus, Kazakh SWF’s exposure to legal risk depends on forum country’s choice absolute or restrictive theory of immunity.

### 1. China

Since this chapter’s main interest is to explore to legal risks for Chinese SWFs when they try to raise funds in international capital markets, the

<sup>3</sup> *Blad v. Bamfield*, 3 Swans. 604, 36 Eng. Rep. 992 (1674).

<sup>4</sup> *The Schooner Exchange v. McFaddon*, 7 Cranch 116 (1812).

<sup>5</sup> *The Charkieh*, [L.R.] 4 A. & E. 59 (1873) (High Court of Admiralty).

purpose of the following discussion is to provide some foundation for comparison. An additional reason is that China's position on foreign sovereign immunity may be a good indicator of its position on sovereign immunity in domestic context, which may be of direct interests for investors inside China.

With some ambiguities to be explained below, it is most likely that the SWF (if it is a foreign SWF) enjoys sovereign immunity in Chinese court because China—the Forum Country—adopts absolute theory of sovereign immunity. That means the SWF faces little exposure to the legal risks, while Chinese investors may have to deal with the legal risks. However, in a competitive capital market, investors have their choice of tools. They may either choose not to buy securities from the SWF, which undermines the SWF's ability to raise funds; or, they may have enough bargaining power to request a waiver of sovereign immunity by contract—which neutralizes the protection from absolute sovereign immunity.

There is no general statute on sovereign immunity in China as of today. China does have a specific statute, passed on October 25, 2005, “Law on Judicial Immunity from Compulsory Measures Concerning the Property of Foreign Central Banks”. China's Ministry of Foreign Affairs considers the statute as “China's first statute on immunity of state assets” (MFA, 2006). The statute provides absolute immunity to the property of a sovereign nation's central bank, though central banks only enjoy restrictive sovereign immunity in Europe and the United States (Zhu, 2007).<sup>6</sup> On September 14, 2005, about two weeks before the above statute was passed, China signed an international treaty entitled the “United Nations Convention on Jurisdictional Immunities of States and Their Property” (U.N., 2004).<sup>7</sup> The U.N. Convention is commonly understood as an international treaty that adopts “restrictive theory” of immunity (e.g., Qi, 2008). David P. Stewart of the United States Department of State who participated the negotiations, made the observation that the U.N. Convention shows that restrictive theory “has gained worldwide acceptance” (Stewart, 2005). Shortly after signing of the UN Convention, the *Legal Daily*, a newspaper owned by the Communist Party's Central Committee on Law and Political Affairs, published an article

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<sup>6</sup> *AIG Capital v. Kazakhstan*, [2005] EWHC 2239 (Comm) (High Court, Queen's Bench); *Trendtex Trading Corporation v. Central Bank of Nigeria*, [1977] 1 QB 529, [1976] 3 All ER 437, [1976] 1 W.L.R. 868 (). In the United States, *Verlinden B.V. v. Central Bank of Nigeria*, 461 U.S. 480 (1983); *Republic of Argentina v. Weltover, Inc.*, 504 U.S. 607 (1992).

<sup>7</sup> As of January 31, 2018, there are 35 states that have signed the Convention, 21 of them have ratified it, [https://treaties.un.org/Pages/ShowMTDMSGDetails.aspx?src=UNTSO&tabid=2&mtmsg\\_no=III-13&chapter=3&lang=en](https://treaties.un.org/Pages/ShowMTDMSGDetails.aspx?src=UNTSO&tabid=2&mtmsg_no=III-13&chapter=3&lang=en) (last retrieved on January 31, 2018).

praising the UN Convention as a “milestone” and regarded it as an international law in which China has material interests (Fazhi Ribao, 2005). After explaining that the Convention was based on sovereign equality, it reported that the Convention also contained certain restrictions of immunity. As if to comfort its readers, it quickly added that “those restrictions also set limits on continued expansion of restrictions”. For example, the article reasoned, the Convention would recognize and protect a state’s sovereign immunity even if state-owned enterprises of that state are involved in civil suits. The article also explained that signing the Convention was only a “preliminary consent” given by a country; still, ratification would be required for it to take effect. It suggested that “before the Convention is ratified, we need further reviews, so as to make the final decision whether to accept it as binding on us”. The article concluded by a forward-looking statement that signing of the Convention meant that China had had a much “clear” position on the issue now, thus it urged domestic legislation be followed as a priority.

If the *Legal Daily* newspaper article explains China’s concerns of the UN Convention, it nevertheless reflects the general direction at the time. However, more than ten years after the signing of UN Convention, no ratification has happened; nor any legislation on state immunity has been made. The China Society of Private International Law (CSPIL), an association of China’s scholars, judges and practitioners, had suggested state immunity legislation in 2002 at its annual meeting (Liu, 2003). Despite the fact that some of its academic members were in favor of a gradual transition to restrictive theory of immunity and continued writing about the issue, the topic has disappeared from CSPIL’s agenda in its annual meetings from 2006. In fact, China is stepping back from its position of 2005 and returning to its absolute theory of immunity. An unofficial hint of this position lies in a draft document titled “Principles of Foreign-related Civil Procedure” proposed by CSPIL in 2015 (He, 2016). The first principle on its list is “sovereignty principle”, which requires that plaintiffs obtain consent in a civil suit against a foreign state, unless statutes or international treaties or conventions that China has entered into provide otherwise. The authors of the proposal explained that they have “taken into consideration of the absolute immunity position adopted by the foreign affairs authorities and the judiciary”.

## 2. *Hong Kóng*

In the hypothetical case, if the Forum Country is Hong Kong, it is most likely that the SWF enjoys sovereign immunity in court because Hong Kong

recently adopted absolute theory of sovereign immunity. The current law of Hong Kong on sovereign immunity is reflected in a decision by the Hong Kong Court of Final Appeal (CFA) in *Congo v. FG Hemisphere* (2011).<sup>8</sup> By a majority of 3:2, the Court ruled that absolute sovereign immunity applies in Hong Kong, with no exception for commercial transactions. Hong Kong has no general statute on sovereign immunity; the only statute on sovereign immunity is “Law on Judicial Immunity from Compulsory Measures Concerning the Property of Foreign Central Banks”, the Chinese statute passed on October 25, 2005. The NPC Standing Committee, the Chinese lawmaker, has decided to add this statute in Annex III under the Basic Law of the Hong Kong Special Administrative Region.

The CFA majority opinion in *Congo v. FG Hemisphere* (2011) represents a radical departure from the Hong Kong law prior to the 1997 handover from the Great Britain. When Hong Kong was under British rule, there were a body of case law as well as the State Immunity Act of 1978 (“SIA”),<sup>9</sup> that provided Hong Kong courts clear and solid foundation to adopt a restrictive theory of sovereign immunity. SIA represents a movement towards restrictive theory along with the United States, Australia, the United States (De-laume, 1979). Hong Kong was part of that movement. In 1975, the Privy Council’s decision in *Philippine Admiral v. Wallem Shipping (Hong Kong) Ltd.* (1975),<sup>10</sup> was appealed from Hong Kong. In that case, the vessel Philippine Admiral, operated by a private company, was ordered to be sold in order to pay damages to contractors, even though it was later found that the vessel was owned by the government of the Republic of Philippines. The Privy Council held that sovereign immunity cannot be claimed when the vessel was engaged in ordinary commercial transactions. This was followed by the Court of Appeal’s decision in *Trendtex* (1976),<sup>11</sup> and the House of Lords’ decision in *Playa Larga* (1981).<sup>12</sup>

While the CFA majority may agree with the minority view on the history of Hong Kong law,<sup>13</sup> they were more caught by the question of consisten-

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<sup>8</sup> *Democratic Republic of the Congo v. FG Hemisphere*, [2011] 4 HKC 151 (Court of Final Appeal, CFA) (June 8, 2011).

<sup>9</sup> The State Immunity Act of 1978 (1978 c. 33).

<sup>10</sup> *Philippine Admiral v. Wallem Shipping (Hong Kong) Ltd.*, [1977] A.C. 3873 (Privy Council, PC), [1976] 1 All E.R. 78; [1976] HKLR 512 (November 1975).

<sup>11</sup> *Trendtex Trading Corporation v. Central Bank of Nigeria*, [1977] 1 QB 529, [1976] 3 All ER 437, [1976] 1 W.L.R. 868.

<sup>12</sup> *Playa Larga v. I Congreso del Partido*, [1983] 1 A.C. 244 (House of Lords).

<sup>13</sup> *Congo v. FG Hemisphere* (2011), *supra* note 26, paras. 217-22.

cy with China’s views.<sup>14</sup> During the adjudication process, the Office of the Commissioner of the Ministry of Foreign Affairs of China sent three letters to the government of Hong Kong: the first letter, dated November 20, 2008, stated as follows: “The consistent and principled position of China is that a state and its property shall, in foreign courts, enjoy absolute immunity, including absolute immunity from jurisdiction and from execution, and has never applied the so-called principle or theory of “restrictive immunity”.

The second letter, dated May 21, 2009, stated as follows:

China signed the Convention on 14 September 2005, to express China’s support of the above coordination efforts made by the international community. However, until now China has not yet ratified the Convention, and the Convention itself has not yet entered into force. Therefore, the Convention has no binding force on China, and moreover it cannot be the basis of assessing China’s principled position on relevant issues.

The CFA majority decided to adopt the “one voice principle”,<sup>15</sup> and decided to refer the question to China’s National People’s Congress (NPC) Standing Committee.<sup>16</sup> On August 26, 2011, China’s NPC Standing Committee issued its interpretation.

At the time, the decision was questioned in the mid of concerns of Hong Kong’s autonomy, particularly its judicial independence being encroached (Chan, 2012). After the “One Belt One Road” policy declared in 2013, the Hong Kong Bar Association started portraying itself as an ideal partner in China’s ambitious plans. Hong Kong’s common law tradition makes it an ideal choice of site for international commercial disputes; second, Hong Kong as an international financial center. However, *Congo v. FG Hemisphere* (2011) deprives investors of their civil remedy in court.

### 3. London

In the hypothetical case, if the Forum Country is United Kingdom, it is most likely that the SWF is not entitled to sovereign immunity in court

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<sup>14</sup> According to the majority, “The fundamental question which falls to be determined in the present appeal is whether, after China’s resumption of the exercise of sovereignty on 1st July 1997, it is open to the courts of the HKSAR to adopt a legal doctrine of state immunity which recognizes a commercial exception to absolute immunity and therefore a doctrine on state immunity which is different from the principled policy practiced by the PRC”. *Congo v. FG Hemisphere* (2011), *supra* note 26, para. 225.

<sup>15</sup> *Congo v. FG Hemisphere* (2011), *supra* note 26, para. 269.

<sup>16</sup> *Congo v. FG Hemisphere* (2011), *supra* note 26, para. 407.



because UK embraces restrictive theory of sovereign immunity. The State Immunity Act of 1978 (“SIA”) codified the legal doctrines established by cases such as *Philippine Admiral* (1975), along with the European Convention on State Immunity (1972), the United States (1976), Singapore (1979), Canada (1982), Australia (1985), South Africa (1981), and Pakistan (1981).<sup>17</sup> Writing in 1989, Georges R. Delaume noted that these countries include those in which most transnational loans are made and are to be repaid, the developments “appear encouraging” to international lenders (Delaume, 1989).

In the early history of English doctrine of restrictive sovereign immunity, London as the world’s financial center in its background. In *Gladstone v. Musurus Bey* (1862) and *Gladstone v. Ottoman Bank* (1863) by the Court of Chancery.<sup>18</sup> In 1858, plaintiffs submitted proposals to the Turkish Government to form a business to be called Bank of Turkey, which would be granted the exclusive privilege of issuing bank notes to be a legal tender at Constantinople. The Sultan gave his assent, a firman (royal mandate in the Ottoman Empire) was delivered, granting Plaintiffs the privilege of forming the bank. The firman also stipulated that Plaintiffs pay as security for performance of the contract £20,000 to the Turkish Ambassador in London to be deposited in Bank of England. Plaintiffs deposited £20,000 in Ottoman bonds in Bank of England and proceeded to form the bank. However, the contract was halted when the Sultan refused to withdraw the existing paper money, Plaintiffs declined to commence banking business. They filed two lawsuits. The first was filed against the Turkish Ambassador in London when he threatened to withdraw the deposited bonds on the ground of breach of contract. The Court of Chancery recognized the general principle of sovereign immunity: “If the bonds were the absolute unqualified property of the Sultan—that is to say, of the Turkish Government—there might be some difficulty in attempting to enforce any claim against the Sultan by attaching this fund”.<sup>19</sup> The Court, however, found the condition is not met because “this property in the eye of the Court is not the property of the Sultan, that it is a fund *in medio*, which is in one contingent event to become the Sultan’s property, and in another contingency to become the Plaintiffs”.<sup>20</sup> For this reason, the Court issued an interim injunction to the third party—the Bank

<sup>17</sup> Pakistan Supreme Court decision in *Qureshi v. Union of Soviet Socialist Republics* (July 8, 1981), reproduced in 20 *International Legal Materials* 1060 (Sep. 1981, No.5).

<sup>18</sup> *Gladstone v. Musurus Bey*, 1 H. & M. 495, 71 Eng. Rep. 216 (1862); *Gladstone v. Ottoman Bank*, 1 H. & M. 505, 71 Eng. Rep. 221 (1863).

<sup>19</sup> *Gladstone v. Musurus Bey*, 1 H. & M. 495, 500; 71 Eng. Rep. 216, 219 (1862).

<sup>20</sup> *Gladstone v. Musurus Bey*, 1 H. & M. 495, 500; 71 Eng. Rep. 216, 219 (1862).

of England— to restrain it from delivering the bonds to any person pending further hearings of the case.

Gladstone’s second suit was against the Turkish Government and another bank, the Ottoman Bank, when Plaintiffs learned that the latter concerted a scheme for replacing the Bank of Turkey. The Court of Chancery dismissed the suit:

The right of ascertaining what shall be the current coin of the kingdom is vested in the sovereign of the country, but that right, like every other right which he holds *qua* sovereign, is presumed to be exercised for the benefit of the community upon public grounds. This is nota contract for the private benefit of the sovereign, of which this Court might take cognizance, but simply a grant of the sole right of issuing notes as part of the current coin of his realm, made by the Sultan in his public capacity as the sovereign of the country.<sup>21</sup>

The *Gladstone* cases demonstrate that Victorian English courts tried to balance its competing interests as a financial center of the world. Based in part on the *Gladstone* cases, in 1871, Sir Robert Phillimore summarized the jurisprudence of sovereign immunity of the time this way: “[w]hen the ambassador becomes a trader or a merchant in the country to which he is sent, the property embarked by him, or accruing to him, in this capacity, is liable to seizure and condemnation, at the instance of creditors, in the same manner as the property of any other trader or merchant” (Phillimore, 1871: §181). Ten years after the *Gladstone* cases, Sir Robert Phillimore was the judge in *The Charkieh* (1873) case,<sup>22</sup> which was an even clearer and bolder statement of the restrictive theory. Soon the English courts reversed the direction, in *The Parlement Belge* (1880),<sup>23</sup> *The Porto Alexandre* (1919),<sup>24</sup> and *The Cristina* (1938),<sup>25</sup> where an absolute theory of immunity was adopted. English courts had to wait for the Privy Council’s decision in *Philippine Admiral* (1975), discussed earlier, to re-introduce restrictive doctrine of sovereign immunity to UK. Today there is not ambiguity that the United Kingdom adopts restrictive theory.

The question that the Hong Kong CFA struggled with in *Congo v. FG Hemisphere* (2011) would be answered differently in Great Britain. The case

<sup>21</sup> *Gladstone v. Ottoman Bank*, 1 H. & M. 505, 511; 71 Eng. Rep. 221, 223-24 (1863).

<sup>22</sup> *The Charkieh*, L.R. 4 Admiralty and Ecclesiastical Courts 59 (1873).

<sup>23</sup> *The Parlement Belge*, L.R. 5 Probate Division 197 (1880).

<sup>24</sup> *The Porto Alexandre*, [1920] P. 30; 14 Am. J. Int’l L. 273 (1920) (Court of Appeal).

<sup>25</sup> *The Cristina*, [1938] AC 485; 32 Am. J. Int’l L. 824 (1938) (House of Lords).

by the U.K. Court of Appeal in *Svenska v. Lithuania* (2006).<sup>26</sup> Lithuania government entered into an agreement with Svenska Petroleum Exploration AB, a Swedish company in the business of oil exploration and extraction, where Lithuania explicitly waived its sovereign immunity. When a dispute arose, Svenska obtained an arbitral award in Denmark and then sought enforcement of the arbitral award in Great Britain. The Court of Appeal, referring to SIA Article 9(1),<sup>27</sup> affirmed the lower court's decision that Lithuania cannot claim immunity.<sup>28</sup> Similarly, in *NML Capital v. Argentina* (2011),<sup>29</sup> the Supreme Court ruled in favor of enforcing a summary judgment from a federal court in the United States, regarding Argentina. Lord, "Whether a state is immune from such a claim should, under the restrictive doctrine of state immunity, depend upon the nature of the underlying transaction that has given rise to the claim, not upon the nature of the process by which the claimant is seeking to enforce the claim".<sup>30</sup>

The fact pattern in *NML Capital v. Argentina* (2011) contains some similar elements in the hypothetical case stated earlier:<sup>31</sup> Argentina as a sovereign state issued bonds to raise money to finance government expenditure. Its agreement with Bankers Trust Co. contained an immunity waiver clause, and its choice of law was New York law. When Argentina defaulted in 2003, it was found liable for damages by the federal court in New York.

#### 4. *New York*

In the hypothetical case, if the Forum Country is the United States, it is most likely that the SWF is not entitled to sovereign immunity in court because America embraces restrictive theory of sovereign immunity, through the Foreign Sovereign Immunity Act.<sup>32</sup> In U.S. law, the issue in *NML Capital*

<sup>26</sup> *Svenska Petroleum Exploration AB v. Lithuania*, [2006] EWCA Civ 1529; [2007] Q.B. 886; [2007] 1 All ER (Comm) 909; [2007] 2 W.L.R. 876 (November 13, 2006).

<sup>27</sup> Section 9(1) of the State Immunity Act 1978 provides as follows: "Where a State has agreed in writing to submit a dispute which has arisen, or may arise, to arbitration, the State is not immune as respects proceedings in the courts of the United Kingdom which relate to the arbitration".

<sup>28</sup> *Svenska v. Lithuania* (2006), *supra* note 26, para.123.

<sup>29</sup> *NML Capital Ltd. v. Argentina*, [2011] UKSC 31 (July 6, 2011).

<sup>30</sup> *NML Capital Ltd. v. Argentina* (2011), *id.*, para.26.

<sup>31</sup> *NML Capital Ltd. v. Argentina* (2011), *id.*; more facts are stated by the Court of Appeal in *Republic of Argentina v. NML Capital Ltd.*, [2010] EWCA Civ 41, [2010] 3 WLR 874, [2010] 2 All ER (Comm) 1206, [2011] Q.B. 8 (February 4, 2010).

<sup>32</sup> The making of FSIA is thoroughly discussed in *Verlinden B.V. v. Central Bank of Nigeria*, 461 U.S. 480 (1983).

*tal v. Argentina* (2011) is not new. In *Argentina v. Weltover* (1992),<sup>33</sup> the United States Supreme Court ruled in a similar case that arose from Argentina’s default in 1986 on its obligations under bonds known as “Bonods”, when Argentina’s central bank unilaterally extended the time for payment bondholders.

The question for the Court was whether Argentina’s default as part of the plan to stabilize its currency was an act taken “in connection with a commercial activity” that had a “direct effect in the United States” under Section 1605(a)(2) of the Foreign Sovereign Immunity Act (FSIA) of 1976.<sup>34</sup> The Court translated the “direct-effect clause” in Section 1605(a)(2) into three elements:<sup>35</sup> (1) “based upon an act outside the territory of the United States”; (2) that was taken “in connection with a commercial activity” of [the foreign state] outside this country; and (3) that “cause[d] a direct effect in the United States”. Since there was no dispute that the default occurred outside the United States, the second element became the key: how to distinguish a state exercising its sovereign power or acting as a private party in commercial transaction. The Court concluded, “when a foreign government acts, not as regulator of a market, but in the manner of a private player within it, the foreign sovereign’s actions are «commercial» within the meaning of the FSIA”.<sup>36</sup> The Court highlighted that Section 1603(d) provides that the commercial character of an act is to be determined by its “nature” rather than its “purpose”,<sup>37</sup> thus, the Court stated, “the question is not whether the foreign government is acting with a profit motive or instead with the aim of fulfilling uniquely sovereign objectives”.<sup>38</sup> Again, “it is ir-

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<sup>33</sup> *Republic of Argentina v. Weltover, Inc.*, 504 U.S. 607 (1992).

<sup>34</sup> 28 U.S.C. 1605(a) provides:

(a) A foreign state shall not be immune from the jurisdiction of courts of the United States or of the States in any case

(2) in which the action is based upon a commercial activity carried on in the United States by the foreign state; or upon an act performed in the United States in connection with a commercial activity of the foreign state elsewhere; or upon an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States.

<sup>35</sup> *Argentina v. Weltover*, 504 U.S. 607, 611.

<sup>36</sup> *Argentina v. Weltover*, 504 U.S. 607, 614.

<sup>37</sup> 28 U.S.C. 1603(d) provides:

(d) A “commercial activity” means either a regular course of commercial conduct or a particular commercial transaction or act. The commercial character of an activity shall be determined by reference to the nature of the course of conduct or particular transaction or act, rather than by reference to its purpose.

<sup>38</sup> *Argentina v. Weltover*, 504 U.S. 607, 614.

relevant *why* Argentina participated in the bond market in the manner of a private actor; it matters only that it did so”.<sup>39</sup>

The three prongs in *Weltover* provide the framework for the Second Circuit’s decision in *Alantica v. Sovereign Wealth Fund* (2016).<sup>40</sup> The SWF in the case, Sovereign Wealth Fund Samruk–Kazyna JSC (“SK Fund”), was wholly owned by the government of the Republic of Kazakhstan. SK Fund issued bonds on the stock exchanges in both Kazakhstan and Luxembourg, not on any stock exchange in the United States. Some of the Plaintiffs are U.S. citizens who purchased the bonds on the secondary markets, basing their claims on the Securities Exchange Act of 1934.<sup>41</sup> The key part of *Alantica* is the third prong, i.e., “direct effect” in the United States. Applying *Weltover*, “we have no difficulty concluding that Plaintiffs’ loss “follow[ed] as an immediate consequence” of SK Fund’s alleged misrepresentations concerning securities that were marketed in the United States and directed toward United States persons”.<sup>42</sup> Therefore, the Second Circuit came to the conclusion that the sovereign wealth fund cannot claim immunity in the U.S. federal court.

The *Alantica* decision sends a strong signal that even if bonds are not issued on U.S. stock exchange directly, the SWF would still not be able to claim immunity in U.S. courts if “direct effect” test is satisfied. One can imagine this could easily be applied in a scenario that resemble the *Alantica* factual pattern: a Chinese SWF issues bonds on the Hong Kong Stock Exchange, for OBOR projects in Kazakhstan, targeting primarily Hong Kong investors. If the court finds “direct effect”, the Chinese SWF cannot claim immunity in the U.S. court. One additional point in *Alantica* decision is that two of the key plaintiffs, *Alantica* and *Baltica*, are foreign (Panamanian) investment funds. The Second Court:

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<sup>39</sup> *Argentina v. Weltover*, 504 U.S. 607, 617 (emphasis original).

<sup>40</sup> *Alantica Holdings v. Sovereign Wealth Fund*, 813 F.3d 98 (2d Cir. 2016).

<sup>41</sup> Securities Exchange Act of 1934, 15 U.S.C. §§ 78j, 78u. The Supreme Court has ruled in *Morrison v. National Australian Bank Ltd.* (2010) that “in our view only transactions in securities listed on domestic exchanges, and domestic transactions in other securities, to which § 10(b) [of the Exchange Act] applies”. *Morrison v. National Australian Bank Ltd.*, 561 U.S. 247, 130 S.Ct. 2869, 2884, 177 L.E.2d 535 (2010). For application and interpretation of the *Morrison* doctrine in the Second Circuit, see, *Absolute Activist Value Master Fund Ltd. v. Ficeto*, 677 F.3d 60 (2nd Cir. 2012); *In re Petrobras Securities*, 862 F.3d 250 (2nd Cir. 2017). The trial court in *Alantica* ruled that *Morrison* doctrine does not bar the claims, *Alantica Holdings v. Sovereign Wealth Fund*, 2 F.Supp.3d 550, 559-61 (S.D.N.Y. 2014). The Second Circuit denied leave to appeal the *Morrison* issue, 813 F.3d 98, 106 (2d Cir. 2016).

<sup>42</sup> 813 F.3d 98, 110-11.

the FSIA requires only that SK Fund’s alleged misrepresentations had a direct effect *in* the United States. In other words, had all of the Plaintiffs been foreigners, they could have successfully premised FSIA jurisdiction on the effect that SK Fund’s alleged misrepresentations had on non-party United States investors, provided that Plaintiffs could adequately establish the existence of United States investors so affected.<sup>43</sup>

#### IV. CONCLUSION: CHINA’S DILEMMA

From the analysis, it is clear that if the SWF is a Chinese entity, it enjoys sovereign immunity in Hong Kong, but not in London or New York. Continental European financial centers such as Zurich or Frankfurt are governed by laws similar to that in UK and the United States. In 2015, even the Russian Federation adopted restrictive theory of sovereign immunity in its new law, “Law on the Jurisdictional Immunity of Foreign States and the Property of Foreign States” (November 3, 2015, No.297-FZ).

If the analysis in this essay is correct, China faces an inescapable dilemma in its OBOR strategy. Such dilemma can be understood from different dimensions. The first dimension is the dilemma in the financial markets. Even if it has enough of its own capital for the OBOR investments, China cannot afford to do it alone because it would be exposed to all the risks that may undermine its own financial stability and liquidity. If China does not have enough of its own capital, thus it has to raise funds in financial centers outside China (and Hong Kong), they will have to face the sovereign immunity laws in all other major financial centers in the United States and Continental Europe that are based on restrictive theory. China has to choose either to stay within its own border, thus, to give up financial resources outside, or to choose to accept the disciplines of the financial markets in Europe and America. It is a very difficult choice. Second, related to the constraints in the financial markets, China also has to face the tension between its financial interests and its political interests —in particular, its own political commitment to OBOR countries. Not only that OBOR strategy is based on the choice of higher risk countries, but also on the promise that China does not seek to interfere with domestic affairs in hosting countries, that China’s investment has no strings attached. However, if China does not bring more institutional change inside its own market as well as those of OBOR countries, it has no other choice but to live with the legal and financial risks associated with that commitment.

<sup>43</sup> 813 F.3d 98, 111 (emphasis original).

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## THE IMMINENCE OF THE BELT AND ROAD INITIATIVE IN LATIN AMERICA: INITIAL COMMENTARY FROM BRAZIL, CHILE, AND MEXICO

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SUMMARY: I. *Introduction*. II. *The Initiative's Characteristics and Most Important Features*. III. *Challenges and Threats to the BRI*. IV. *Latin America and the BRI*. V. *Latin America and China*. VI. *Chile and China: Lessons learned from a Free Trade Agreement*. VII. *Brazil and China: Assessment through BRICS*. VIII. *Mexico and China: Asymmetries and Unfulfilled Promises*. IX. *Conclusions*. X. *References*.

### I. INTRODUCTION

What is the meaning of the Belt and Road Initiative (BRI)<sup>1</sup>? Academics and internationalists have started to discuss this iteration of the ancient Silk Road proposed by the Chinese government. Although it was officially announced in 2013 by President Xi Jinping, it was not until 2017 that China

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<sup>1</sup> The acronym coined as BRI means *Belt and Road Initiative*. The project is also known by its acronym OBOR, which means *One Belt One Road* in English. Throughout this article, we chose to use the BRI acronym since it is used more frequently in the international literature; however, these terms are fully interchangeable and refer to the same global project.

prioritized this initiative as it gained momentum amidst the geopolitical stridencies of the Trump presidency. Despite this new international attention, the “project of the century” —as called by the Chinese Communist Party— remains ambiguous and subject to increasing speculation complicating an initial analysis and understanding.

In order to decipher the BRI we need to make some of the following questions: What is the true purpose of this new multilateral scheme? Is it a mechanism to replace American influence in Eurasia? Can it be considered as a direct response to the dismissal of the Trans-Pacific Partnership Agreement (TPP)? or, is this merely an industrial plan that seeks to transfer surplus raw materials and labor force? At this moment the answers are far from clear as they depend on several variables, but the magnitude and ambition of this project might suggest that its ultimate goal is to create a new design in which the United States and China compete for global supremacy.

In recent years the balance of international affairs has been subject to significant change. The current US presidency has dismantled the pillars of American influence around the world with unprecedented speed. Today we are witnessing a challenge to the Western-led model that reigned after WWII. The TPP’s cancellation, the Paris Agreement withdrawal, and NATO’s weakening have deteriorated the United States’ and its overseas strategic strongholds. This surprising and voluntary retreat has encountered both an effective and enthusiastic response by China. The speech delivered by President Xi Jinping in Davos in 2017<sup>2</sup> demonstrates China’s interest to occupy the voids that the United States has created in recent months.

Amidst this structural shift, the BRI does not intend to be an isolated strategy. In recent years, China has established a number of institutions aiming to construct an alternative architecture for global organization. The creation of the Asian Infrastructure and Investment Bank (AIIB), the Development Bank of China, the Shanghai International Group, and the BRI Fund are a few examples of the new Chinese development apparatus. Through these institutional arms, China has been able to by-pass the West to materialize new projects that are conceived and executed from Beijing.

As it is usually the case in state projects commanded by China, the legal form of the BRI is still uncertain. Today it is not clear if the project will result in a free-trade agreement, a series of investment treaties, or transition into a multilateral organization. Nevertheless, the lack of clarity in its definition should not lead to its underestimation. In a time when globalization

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<sup>2</sup> The full text of the speech in English can be found in the following link: <https://america.cgtn.com/2017/01/17/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>.

shows signs of fatigue, this initiative should not be disregarded and belittled but instead studied thoroughly.

From a Latin-American standpoint, the BRI emerges as a relevant and novel phenomenon. In this article, we propose that the size and importance of the BRI will have significant repercussions in the way in which China interacts with Latin America. China is already the leading trading partner and one of the largest investors of most Latin-American countries, mostly in extractive industries and infrastructure projects. The BRI, despite of all its vagueness and unpredictability, seeks to impose a new standard for international cooperation and sustainable growth. Latin America needs new theoretical frameworks to cope with and maneuver throughout an ever-growing Chinese presence.

## II. THE INITIATIVE'S CHARACTERISTICS AND MOST IMPORTANT FEATURES

The BRI contemplates a monumental infrastructure plan that seeks to increase terrestrial and economic connectivity between China, Central Asia, the Middle East, Africa and Europe. Additionally, the maritime component of the BRI, also called the new “maritime route of the Silk Road”, aims to create new port departures and routes across the South China Sea, in order to link Southeast Asia with the Arabian Peninsula and Africa’s Eastern Coast. The project is of such magnitude that some commentators have equated it with the successful Marshall Plan that rebuilt Europe after WWII.

The BRI initially identifies two preliminary steps for the development of the project, namely: (i) reaching a wide consensus for international cooperation through diplomatic, cultural and economic ties, and (ii) building a “top-level framework” to define and start the construction of the project’s ambitious economic corridors.

Regarding the consensus for international cooperation, the initiative has been widely successful, with the support of more than 101 countries and active participation of 68.<sup>3</sup> The Chinese government has indicated that any country is welcome to join the initiative, in a new context of mutual benefits for both developed and developing countries. In terms of spatial distribution and geographical routes, the BRI aims to build five different routes connecting six economic corridors —both maritime and terrestrial—

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<sup>3</sup> Ingram, Jennifer (Jun. 2018). B&R China Law Connect and Belt and Road Countries. *China Law Connect, China Guiding Cases Project, Stanford Law School*. Volume I, Issue I., pp. 75-79.

across 3 continents: Europe, Asia, and Africa. This commercial network contemplates the development of railways, highways, ports, airports, free trade zones, among other features.

In addition to the construction of infrastructure, the project seeks the creation of new instruments of cooperation and mutual aid among participating countries. These areas of cooperation will initially include scientific exchange, environmental and ecological collaboration, scholarship programs and academic exchanges, shared cultural agendas, among others. The entire project demonstrates an effort to increase China's political influence and consolidate its *soft power*. The way in which this wide range of cooperation will materialize remains a question; however, its inclusion in the initiative shows the comprehensive approach that the Chinese government is seeking to implement through the BRI.

The initiative has also motivated China to make changes to its domestic policy. During the 19<sup>th</sup> Congress of the Chinese Communist Party held in October 2017, the Party included in its Constitution the “thought of Xi Jinping for a new era” and within this the “development of the One Belt One Road Initiative”. This reform reflects the importance of the BRI as a guiding axis to Chinese foreign policy. Additionally, China is committed to the BRI as one of the essential tools to secure a China-led future. Deriving from this association, it is fair to assert that the success or failure of Xi Jinping's administration will be linked to the success or failure of the BRI.

With respect to its legal form and specifically in the field of dispute resolution, the BRI has already formed three specialized courts to settle disputes that arise out of current and future infrastructure projects. Through the foundation of three special courts in Beijing (headquarters), Xi'an (terrestrial disputes) and Shenzhen (maritime disputes), China seeks to promote neutral commercial fora to refer cases to arbitration, mediation or litigation. While the success of this measure should be evaluated with caution and in consideration of a number of factors its creation underlines the transformation that the State is experiencing with the BRI.

By 2018, and despite some natural skepticism, a new silk road has begun to take shape. The Chinese government has committed more than 900 billion<sup>4</sup> dollars to the BRI, and current projects range from the renovation of the Port of Piraeus in Athens to the start of the Sino-Pakistani corridor with a bullet train linking southern China to the port of Gwadar. Cleverly,

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<sup>4</sup> “Embracing the BRI ecosystem in 2018—Navigating pitfalls and seizing opportunities”. Deloitte Insights. Available at: <https://www2.deloitte.com/cn/en/pages/soe/articles/embracing-the-bri-ecosystem-in-2018.html>.

China has chosen to label various investment projects abroad as “BRI Projects” although initially they were either not considered as part of the initiative or had commenced before the BRI’s official launch. As a result, projects have multiplied across various regions in the world and have indirectly increased investment figures.<sup>5</sup>

### III. CHALLENGES AND THREATS TO THE BRI

The challenges and threats of the BRI are vast and multifaceted, especially considering that the initiative encompasses a massive injection of funds and movement of resources, and that the corridors will be extended across countries accounting for more than 60% of the world population. It is no surprise that such an ambitious project has raised numerous concerns and important criticisms from numerous voices. For instance, *The Economist* published a report indicating that in the process of completion, the BRI will face challenges in at least the following categories: (i) political instability in high-risk regions, (ii) legal risks, especially in countries with a fragile rule of law, and (iii) financing difficulties due to liquidity problems.

In fact, the BRI has encountered financial problems of various kinds. To this day there is no exact figure as to the amount required to carry out the initial stage of the project. This has been evidenced by conflicting official government sources which indicate different investment figures that vary across regions. Also, there is no clarity about the conditions required for the disbursement of funds to the projects. Furthermore, there is lack of transparency regarding the selection of countries and the individual projects, as well as their expected productivity rates and economic returns. Finally, there is the risk that certain countries will be unable to repay funds granted by Chinese companies and banks. This could render the BRI unsustainable; in fact, some studies have pointed out that at least eight countries would not be in a position to repay the credits granted by Chinese agents.<sup>6</sup>

The initiative has also been criticized from a geopolitical angle by actors who see a Chinese attempt to impose its power on less-developed countries, avid recipients of foreign investment. From this perspective, China has been

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<sup>5</sup> This is the case of investment projects in Latin America that are already labeled as “BRI Projects”. See, for example, the hydroelectric projects in Brazil or the Pacific Refinery in Ecuador.

<sup>6</sup> Hurley, John; Morris, Scott & Portelance Gailyin (March, 2018). *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*. Available at: <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>.

called out as a new colonialist nation that aims to dominate the international arena. The presence of China in different regions of the world has caused the suspicion of countries that have maintained such areas under their influence and power. Such is the case of Russia with Central Asia and India with Pakistan, and South East Asia. In particular, there are concerns that the investments and financing are excessively burdensome so that China can acquire the possession of critical and strategic assets for indefinite terms. To illustrate this point, it is worth noting the case of the Hambantota Port in Sri Lanka where a Chinese company obtained the concession of the port for a period of 99 years after a general default by the government.<sup>7</sup>

The quality of Chinese investments has also raised numerous concerns. In theory, these investments are less experienced when compared to the ones of developed countries as they generally disregard sustainability standards. China has been criticized for the consequences of its investments ever since it started to go abroad in search of natural resources. Some studies suggest that Chinese investments have been disrespectful of human rights, harmful to the environment, unfair in the transfer of human capital, and negligent with the rule of law.<sup>8</sup> Given this track record, the BRI provides an opportunity for Chinese companies and government to increase their standards in these new international projects of great significance. Newly created institutions, such as the AIIB, will have a significant role supervising these projects in order to build a new narrative about Chinese influence in different regions of the world.

#### IV. LATIN AMERICA AND THE BRI

Xi Jinping's administration has welcomed new countries into the BRI under the premise that Chinese influence will increase as more countries are linked to the initiative. An open architecture has allowed the BRI to extend beyond the ancient Silk Road through Central Asia, the sea route across Southeast Asia and the Indian Ocean. As the BRI gains momentum speculations increase regarding a BRI crossing the Arctic, capitalizing on the melting Poles, as well as a BRI reaching cyberspace commanded by Chinese technology

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<sup>7</sup> Abi-Habib, Maria. (Jun, 2018). *How China Got Sri Lanka to Cough Up a Port*. Available at: <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

<sup>8</sup> To see a comprehensive study of the characteristics of the Chinese investments in the world: Dollar, David. (May, 2016) *China as a Global Investor*. Asia Working Group. Foreign Policy at Brookings.



companies.<sup>9</sup> Under this encompassing approach, today the BRI also begins to be an increasingly hot topic in Latin America.

Chinese presence in Latin America through BRI has manifested itself on three specific events. First, a large number of South American countries have subscribed as prospective members of the multilateral AIIB, which, as noted above, will play a leading role in the development of projects financed by the Chinese government.<sup>10</sup> Second, several Latin American delegations participated in the BRI Summit organized in Beijing in May 2017, whose visit allowed for a preliminary expansion of the project. Third, in January 2018 at the CELAC<sup>11</sup> meeting in Chile, Foreign Minister Wang Yi formalized the invitation to all Latin American countries to join the BRI promising an era of cooperation and mutual gains. This statement, already known as the “Santiago Declaration”, opens the door for the development of the project to its fullest extent.

The BRI’s arrival into Latin America takes place at a moment in which the United States retreats from its historical and hegemonic role in the area. In contrast, China’s economic presence in the region has increased considerably, thus inviting Latin-American countries to rethink their foreign investment policies and associated commercial objectives. These will need to be evaluated to generate new development synergies for the benefit, rather than the detriment, of regional economies. Therefore, the following questions are pertinent for a deeper and more incisive reflection: What does Latin America want from the BRI? In what way can the initiative change the projects that China has already begun in the region? How should Latin America address the inherent risks of the BRI? How should one face the existing asymmetries between China and Latin America? This assessment must be made taking into account each country’s own characteristics.

## V. LATIN AMERICA AND CHINA

China’s economic engagement with Latin America has increased substantially in recent years. At the CELAC ministerial meeting held in Beijing in 2015, President Xi Jinping announced that China would increase commercial trade

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<sup>9</sup> The Economist (July 2018). *Planet China, what to make of The Belt and Road Initiative*. Vol. 428, No. 9102, p. 7. Online version available at: <https://www.economist.com/print-edition/2018-07-28>.

<sup>10</sup> Among them we currently find Brazil, Chile, Argentina, Peru, Ecuador and Venezuela.

<sup>11</sup> Community of Latin American and Caribbean States. For further information visit: <http://celacinternational.org>.

with the region by up to \$500 billion dollars and to invest \$250 billion dollars, all in a period of 5 years. China has expressed its growing interest in Latin America throughout various official documents and used a new narrative that identifies avenues of cooperation necessary to intensify multilateral relations. Some of the proposed objectives include the promotion of bilateral trade, industrial investment and mutual actions to promote connectivity, the strengthening of financial institutions and collaboration for technological innovation. The Chinese government further highlighted the importance of increased cultural understanding and social development in the context of a mutually beneficial relationship.<sup>12</sup>

The rise of China has had a profound impact on the economies of Latin America, both in cross-border trade and in investment flows. However, the outcome of this relationship has been both positive and negative on different aspects. While energy, raw materials, and agricultural exporters have benefitted from Chinese growth (among which are Brazil and Chile), other countries have been affected, especially those whose manufactured products have been undermined by Chinese competition in major markets such as the United States (a visible trend in Mexico's case).

Perhaps most importantly, China has already replaced the United States as the top export destination for Latin American products. In 2016, the top export destination of Brazil was China, in a total amount of \$35 billion dollars, followed by the United States, in a total amount of \$23 billion. Meanwhile, on that same year, Chile exported \$17 billion to China and \$8 billion to the United States. In the case of Mexico, the United States continues to be the largest recipient of its exports, however, China has increased its prominence by becoming Mexico's second largest trading partner, causing a large deficit in its trade balance.

As China assumes a more prominent position the trade relationship is not without challenges. The exports of the majority of Latin American countries to China consist primarily of raw materials, commodities, and agricultural products, rather than products that comprise greater value. In fact, some studies suggest that in 2016 only 5 products made up 71% of the region's exports to China.<sup>13</sup> The nature of these exports creates a high-risk

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<sup>12</sup> Documento Sobre la Política de China Hacia América Latina y el Caribe. November 2016. Ministry of Foreign Affairs of the People's Republic of China. <http://www.fmprc.gov.cn/esp/zxxx/t1418256.shtml>. For the english version of the Policy Paper visit: [https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/2649\\_665393/t1418254.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1418254.shtml).

<sup>13</sup> Krause, Patricia. February, 2016. *Panorama. China's Role in Latin America is Much More Than a Trade Issue*. COFACE, Economic Publications. Publication available at: <http://coface.com/News-Publications/News/China-s-role-in-Latin-America-is-much-more-than-a-trade-issue>.

dependence and magnifies the region's vulnerability to external shocks due to lack of diversification.

China's strategy in Latin America has not been uniform but rather developed on a case-by-case basis. For example, China has signed free trade agreements with countries that receive a large number of Chinese manufactures, such as Chile, Peru, and Costa Rica. On the other hand, China developed a strategic relationship with Brazil that focuses not only on the economic and trade aspects but also on the creation of a multilateral structure that counterweights the clout of the West. In countries such as Argentina, Venezuela, and Ecuador, China has initiated various investment projects such as the construction of refineries, trains, and nuclear facilities. Conversely, China's relationship with some Central American and Caribbean countries has been strictly diplomatic, where China has promised economic benefits in exchange for the non-recognition of Taiwan as an independent country.

These strategies obligate Latin America to rethink the nature of its relationship with China. On the following sections, we briefly review the experience of our own countries with China in recent years. As previously noted, China did not focus on a multilateral relation with Latin American countries, but instead chose to approach each one of them with individualized agendas. The three different case studies discussed below may bring valuable lessons to our region.

## VI. CHILE AND CHINA: LESSONS LEARNED FROM A FREE TRADE AGREEMENT

Chile was the first Latin American country to establish diplomatic relations with China and to sign a free trade agreement in 2005. Over time, this economic tie was strengthened through the signature of various treaties and instruments, namely: (i) The Supplementary Agreement on Trade in Services in 2008; (ii) the Supplementary Agreement on Investment signed in 2012; and (iii) the elimination of tariffs on almost 100% of the products of Chilean origin in the Chinese market in 2015.<sup>14</sup>

As it stands today, and from a purely commercial standpoint, the outcome of this relationship has been fruitful. In 2017 alone, the commercial

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<sup>14</sup> See: "*La República Popular China y sus vínculos con Chile*" Library of National Congress of Chile (BCN, for its Spanish acronym), Departamento de Estudios, Extensión y Publicaciones, 7 de mayo de 2018. Available at: [https://www.bcn.cl/obtienearchivo?id=repositorio/10221/25270/1/La\\_Republica\\_Popular\\_China\\_y\\_sus\\_vinculos\\_con\\_Chile\\_Mayo\\_2018.pdf](https://www.bcn.cl/obtienearchivo?id=repositorio/10221/25270/1/La_Republica_Popular_China_y_sus_vinculos_con_Chile_Mayo_2018.pdf).

exchange between the two countries was around \$34 billion, representing 26% of Chile's total foreign trade. The success has been of such magnitude that, at the moment, China is Chile's top trade partner. In retrospect, Chile is optimistic about the outcomes of these 13 years of FTA with China. The last Chilean presidential administrations nurtured a solid and lasting commercial relationship through the formalization of strategic commercial commitments.

Despite of this success, the Chilean political leadership must be innovative to avoid the long-standing deficiencies that are intrinsic to a primary-export-led growth model.<sup>15</sup> Today, Chile concentrates a very high percentage of its exports on the mining industry, where copper has been historically the top commodity export. The export of copper to China is one of the main causes of the Chilean positive trade balance and economic growth in recent decades, but the country must try to diversify its trade in order to protect itself from shortages of demand, especially in a globalized world that is increasingly unpredictable and volatile. In fact, the purchase of 24% of SQM, the largest Chilean producer of lithium, by the Chinese company *Tianqi Lithium* might signal that copper will soon be replaced by lithium by Chinese investors in the years to come.

Therefore, the lesson learned from Chile's FTA with China is precisely that both countries can and should diversify their trade to include goods and services, in addition to raw materials and commodities. Cooperation in other areas such as science and technology, and cultural exchanges, should be sought and promoted. In this regard, the Chinese Ministry of Science and Technology has recently partnered with the Chilean Commission for Scientific and Technological Research through the Action Plan on Cooperation in Science and Technology, 2017-2019.<sup>16</sup>

Chile must take advantage of the Chinese government's willingness to cooperate in other areas, and further advance the initiatives for infrastructure deployment. Chile has advanced the possibility of receiving greater investment in other sectors of its economy under the BRI by becoming a member of the AIIB. To mark the occasion, the president of the AIIB mentioned that the new membership of Chile not only makes the country an important recipient of projects sponsored by companies with Chinese capital, but it can be a great opportunity for the opening of new markets

<sup>15</sup> Carol Wise, "Tratados de libre comercio al estilo chino: los TLC Chile-China y Perú-China". Research Center of the Universidad del Pacífico, Vol. XXXIX, N° 71, second semester 2012, p. 184. Available at: <http://revistas.up.edu.pe/index.php/apuntes/article/view/664/663>.

<sup>16</sup> For further information see [http://www.conicyt.cl/wp-content/uploads/2012/11/Plan\\_de\\_accion\\_es\\_2017-2019.pdf](http://www.conicyt.cl/wp-content/uploads/2012/11/Plan_de_accion_es_2017-2019.pdf).

in Asia. Chile's candidacy to join the AIIB must be interpreted as a clear commitment to the BRI as well as a corollary to the success of the bilateral relationship.

However, Chile must welcome new investment projects with careful attention to the employment of appropriate safeguards. This means that Chile must ensure that Chinese investments promote free competition with other domestic and international undertakings, by ensuring that the Chinese investor receives appropriate counsel on commercial and legal (specially antitrust) matters.

## VII. BRAZIL AND CHINA: ASSESSMENT THROUGH BRICS

The opening reform of 1978 under the mandate of Deng Xiaoping spurred Chinese economic growth, and during that period Brazil and China formed a trade partnership for raw materials and agricultural products. Currently, China is Brazil's largest trading partner, and Brazil is the largest Latin American recipient of foreign direct investment inflows from China. Between 2003 and 2017, China invested a total of \$54 billion dollars in 93 projects in Brazil, mostly in the energy, mining, logistics and agricultural sectors.<sup>17</sup> However, the relationship between China and Brazil extends beyond commercial exchanges, and includes the political and diplomatic agreements for trade, financial, and technological cooperation through various initiatives such as the Brazil-China Cooperation Fund for Expansion of Production Capacity and Long-term Financing.

The relationship between Brazil and China has been marked by the emergence of the BRICS group, an acronym coined by an economist from Goldman Sachs (which, in addition to Brazil and China, also includes Russia, India, and South Africa) to identify the emerging economies during the first decade of the 21<sup>st</sup> century. Between 2010 and 2011, the five countries formed a political and diplomatic institution to advance their preeminence in a new scenario of global growth. The cooperation among the BRICS countries comprise areas such as finance, agriculture, trade, science and technology, health, business, and education. Additionally, the BRICS advanced on the creation of the New Development Bank, a multilateral institution that will direct funds for the growth of the member countries and other emerging economies.

<sup>17</sup> Planejamento divulga Boletim de Investimentos Chineses no Brasil. Ministerio do Planejamento do Brasil (January, 2018). <http://www.planejamento.gov.br/noticias/planejamento-divulga-boletim-de-investimentos-chineses-no-brasil>.

In this respect, the BRICS provided Brazil with a solid platform to strengthen its political, commercial, and economic ties with China. In August 2017, Brazil and China signed a memorandum of understanding to diversify the trade between the two countries. This document promises to foster service trade in various areas including engineering, architecture, e-commerce, banking, and tourism. Moreover, the two countries signed agreements to intensify investments in infrastructure, including the energy sector, as well as to exchange the lessons learned from the fight against corruption and the progress in the prevention of global warming. Most importantly, it is worth highlighting that the Sino-Brazilian relationship has not been affected by the political and economic crisis that Brazil has suffered in recent years; the Chinese stakeholders in the country have been stable and the investment prospects are positive. Furthermore, this relationship is expected to strengthen even more, because Brazil has benefited from the trade war initiated by the United States presidency against China, by becoming a natural substitute supplier of agricultural products.

Overall, Brazil has been one of the most successful Latin American countries in its interaction with China. The BRICS has provided opportunities for a greater proximity with China in other strategic areas of cooperation that have not been granted to other countries in the region. Due to its size and importance, Brazil has capitalized on these foundations to advance its commercial, political and diplomatic ambitions with the Asian giant. Thus, the BRI must be welcomed by Brazil as a new opportunity to further strengthen the relationship with China in an ever more coordinated and profitable partnership. This initiative will allow Brazil to continue to advance in important cooperation issues beyond the successful raw materials export trade, to include greater technology transfer, ensure sustainable investments, and advance coordinated agendas.

#### VIII. MEXICO AND CHINA: ASYMMETRIES AND UNFULFILLED PROMISES

Mexico and China like to boast historical ties tracing back to the 16<sup>th</sup> century Manila Galleons navigating from the Philippines through the Pacific Ocean to exchange multiple goods in the New Spain. In modern times, Mexico was one of the first countries to recognize the People's Republic international status and to initiate diplomatic relations supporting its candidacy to the UN in 1971. Regardless of these amicable precedents, the current relationship is characterized by a series of difficulties of economic nature. This situation

has been magnified ever since China joined the World Trade Organization (WTO) in 2001 and the subsequent competition for the North American market. In this regard, China has clearly acted as a competitor to Mexico to the detriment of its privileged position within the NAFTA bloc.

China's economic development after its economic opening transformed it into Mexico's second largest trading partner by the year 2003. After significant growth, in 2018 the trade between the two countries reached the figure of 85 billion dollars. However, this figure has had at least two characteristics: (i) the relationship has brought a high deficit for Mexico in its trade balance, which amounted to 75 billion dollars in 2018,<sup>18</sup> and (ii) the Chinese imports consist mostly of semi-industrial goods, that often are transformed, and then exported over to the United States and Canada.

As indicated in this article, China has led a significant flow of direct investment to Latin America since the first decade of the 21<sup>st</sup> century, bolstering the growth of several countries in the region. However, Mexico has not benefited from this regional phenomenon. Chinese FDI to Mexico has amounted to less than \$400 million dollars between the years of 2000 and 2016, accounting for less than 0.1% of Mexico's total FDI.<sup>19</sup> Likewise, the largest Chinese investment projects in Mexico have been unsuccessful due to various factors, including political instability that turned the projects into unfulfilled promises, to name a few we think of the cancellation of the high-speed train between Mexico City and Querétaro, the failure of the *Dragon Mart* project in Quintana Roo, and the stoppage of the Chicoasén II hydro-electric plant project.

Despite this highly controversial scenario, the election of Donald Trump and the reconfiguration of the North American project forces Mexico to reevaluate its trade and investment policies around the world. Diversification becomes necessary in the face of the hostility shown by the historical partnership with the United States. These series of events has been appreciated and welcomed in Beijing. Since 2016, the Sino-Mexican relationship has shown signs of improvement with the allocation of certain oil fields to Chinese companies after the energy reform and the operation of binational funds for infrastructure projects. Ironically, the isolation of the United States has indirectly motivated the rapprochement between Mexico

<sup>18</sup> El Economista (May 8, 2018). *China y México Estrechan Su Comercio*. <https://www.economista.com.mx/economia/China-y-Mexico-estrechan-su-comercio-hasta-los-85000-mdd-pero-el-saldo-es-a-favor-de-Pekin-20180508-0072.html>.

<sup>19</sup> Dussel, Enrique (October, 2017). *México-China ante la creciente complejidad de su relación. Implicaciones institucionales y agenda para el 2020*. La Nueva Sociedad Global, El Reto de la Diplomacia, La Responsabilidad del Porvenir. IJ-IDIC.

and China for the exploration of new avenues of cooperation. This approach can be deepened through the deployment of the BRI with the aim of reducing the trade deficit and increasing the number of investment projects. To this end, Mexico must establish a strategic agenda that will allow it to join such an initiative that will diversify its growth options in an increasingly complex world. The change of government that occurred in July 2018 provides a historic opportunity to capitalize on the underlying potential of Sino-Mexican relations.

## IX. CONCLUSIONS

The BRI faces serious challenges and it may possibly not meet the excessive expectations created by Chinese authorities. However, and regardless of its level of success, this new project represents a pivotal moment in the world. Its development in diverse regions promotes a new integration scheme that will incorporate, at the very least, Chinese characteristics into the process of globalization, a process that gradually presents fewer Western features.

Today, the initiative has started with investments in infrastructure projects in Southeast Asia, Europe, Central Asia, and Africa. As it appears, the uncertainties about its true scope, legal form, and multilateral impact will be confirmed gradually as Chinese authorities and companies begin to evaluate the results in the short and medium term.

This new silk road entails a different Chinese foreign policy manual. The BRI is an innovative expansion strategy that breaks with the discretion advised by Deng Xiaoping in the 1980's. At the same time, the BRI represents China's acknowledgement of its global importance and the strength it has built in recent years, which provides it with some legitimacy to lead the processes of globalization.

From our regional perspective, the imminence of the BRI is expected to generate new opportunities for Latin American countries. The initiative will most certainly have an impact on the way in which China structures its investments and plans its commercial agendas with the region, thus presenting an opportunity for our countries to redirect their priorities and turn to more favorable scenarios. As noted, the Chinese experience with Latin America is not linear but rather mixed. However, Latin America, as a bloc, has generally benefited from the export of raw materials and commodities, and should continue to expand its trade to guarantee its economic growth resulting from Chinese increasing demands. Most importantly, Latin American countries are challenged to take advantage of the technology transfer



and demand for new products in order to diversify their trade and allow them to gradually make their economies more sophisticated.

Notwithstanding the opportunities for growth, the BRI poses greater competition with regions that offer products similar to those offered by Latin American countries, and that are at the core of the BRI's area of influence. Furthermore, Chinese investments should be received with safeguards to ensure protection of natural resources, national sovereignty, environmental sustainability, the protection of labor and social rights, as well as the respect for different forms of government. The incursions of China into other countries should serve as a guide for Latin America to develop negotiation mechanisms in which it is not subjugated by an asymmetric counterpart.

Finally, Latin American countries should reconsider their potential and capacity to operate as a bloc in order to benefit from the relationship with China. The probability of reaching more beneficial agreements increases if countries operate and negotiate jointly. Existing groups such as the Mercosur and the Pacific Alliance have yet to incorporate chapters and detailed strategies to profit from a new Chinese presence. In this effort, Latin America must define a response to a completely new challenge presented by the BRI.

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