China’s ‘one belt, one road’ strategy and its implications for the global world order

The paper is an analysis of China’s New Silk Road (‘one belt, one road’, OBOR) cooperation strategy and its implications for the global world order. It discusses whether the OBOR project may be a win-win concept for all the parties engaged in the economic aspect, yet unequally beneficial in geopolitical sense, giving China primacy in the Eastern hemisphere. In the absence of scientific studies due to the initial phase of the project, the article analyses the available press releases in English. The first part provides the genesis of the OBOR project and China’s insofar achievements. Then, the expected benefits for both China and its partner countries are enumerated altogether with their consequences for the world order. The final part contains conclusion remarks and references.

Keywords: China, Asia, New Silk Road, ‘one belt, one road’ cooperation

JEL classification: F50, F59, F63, F15, F13

Chińszka strategia „jeden pas, jedna droga” i jej implikacje dla globalnego ładu światowego

W artykule przedstawiono analizę Nowego Jedwabnego Szlaku (OBOR) – chińskiej strategii współpracy i jego możliwych konsekwencji dla ładu światowego. Autor zastanawia się, czy współpraca w ramach OBOR może być korzystna w aspekcie gospodarczym dla wszystkich zaangażowanych stron, czy też w sensie geopolitycznym dla Chinom prymat na wschodniej półkuli. Artykuł oparty został na analizie dostępnych informacji prasowych w języku angielskim, w związku z brakiem opracowań naukowych ze względu na wstępną fazę projektu. Pierwsza część opracowania zawiera genezę strategii i dotychczasowe rezultaty współpracy. W kolejnej przedstawione są spodziewane korzyści dla Chin i krajów partnerskich wraz z prawdopodobnymi konsekwencjami dla ładu światowego. Opracowanie zamykają wnioski końcowe i bibliografia.

Słowa kluczowe: Chiny, Azja, Nowy Jedwabny Szlak, „jeden pas, jedna droga”

Klasyfikacja JEL: F50, F59, F63, F15, F13
Introduction

The recent economic rise has inevitably upgraded the People’s Republic of China to the rank of the world’s most powerful states. Within a few decades China has improved its economy and from a poor, underdeveloped country transformed into a global player. In 2016, it had over US$ 3 trillion in foreign currency reserves, its foreign direct investment is second behind the US and it’s the first trading partner for the growing number of countries [WTO, 2015]. China is also the second largest oil importer, which makes Beijing a global energy decision-maker [IEA, 2015]. Its currency, the renminbi (RMB), has just been accepted by the IMF as a global reserve currency, putting it in line with the US dollar, the euro, the yen, and the British pound [Krauss, Bradsher, 2015; IMF, 2015]. Moreover, China has the biggest world population and enormous economic capacity backed by its historic sense of superiority as the Middle Kingdom.

Yet the recent economic slowdown has forced Beijing to introduce a new foreign economic policy based on extending its cooperation with abroad. The ‘one belt, one road’ (OBOR) strategy is built on the ancient Silk Road and enhances trade and cultural exchanges of Asian, European, and African countries, giving China a tempting opportunity of further improving its regional and global position.

1. Genesis of the OBOR strategy

In 2013, in a speech at the Kazakhstan University in Astana, president Xi Jinping launched an ambitious plan of revitalising the ancient Silk Road in order to boost international economic and cultural cooperation in Eurasia. To reassure regional partners about Beijing’s good intentions, the president assured that China would respect the development paths and policies chosen by other nations and never interfere in their domestic affairs. Furthermore, Xi stressed that ‘China will never seek a dominant role in regional affairs, nor try to nurture a sphere of influence’ [Xi Suggests China..., 2013].

Within a month Xi revealed even further-going ideas in the speech to the Indonesian Parliament in Jakarta. The president argued that China and the ASEAN countries should work for win-win cooperation on the basis of equality and mutual benefit. Xi declared that China was ready to upgrade the China–ASEAN Free Trade Area and build greater connectivity within the region, and announced two big projects: the establishment of an Asian investment bank which would give priority to the need of the ASEAN countries and the creation of the Maritime Silk Road of the 21st century ‘for the benefit of common development and prosperity’ [ASEAN, 2013].
The OBOR initiative is based on the old Chinese Peaceful Development framework from the mid-1990s, according to which China’s own development and stability is contingent on shared prosperity with its international economic partners, especially those in the developing world [Ferchen, 2016]. The old rule was reaffirmed in 2015, when Xi underlined that ‘peaceful development is in China’s interest and also in the interest of Asia and the world’ [Shi, Pearson, 2015]. It is also the fulfilment of Xi’s new foreign policy outlook known as striving for achievement (SFA) which aims at engaging its neighbouring countries to align their interests with China’s rise. According to Yan Xuetong [2014], Xi specifically stressed the significance of friendship and loyalty between China and its neighbours.

Since 2013, the idea has started to gain momentum. The New Silk Road will have two routes: overland and maritime, leading from China westwards, to Europe, through Central and Southern Asia and the Indian Ocean. The simultaneous development of land (the Silk Road Economic Belt) and maritime (the 21st Century Maritime Silk Road) routes will offer various transportation possibilities between China and Europe. Nowadays, the ‘one belt, one road’ project involves more than 60 countries and international organisations [Xinhua, 2015a] and the area covered produces almost 50% of the world’s GDP and global trade. The OBOR strategy is strengthened by other economic initiatives, such as the Asian Infrastructure Investment Bank (AIIB) or the Shanghai Cooperation Organisation (SCO), to mention only two. In 2014, to support the cooperation projects, China established a US$ 40 billion Silk Road Fund. Multilateral cooperation is based on Chinese financing in the form of grants and low-interest loans with a high probability of cancellation. There are also resource-backed loans, though not as popular as presumed. Contracts are usually realised by state-owned enterprises, with preferential financing supplied by Export Import (Exim) Bank of China and the China Development Bank.

2. Most important investments

The historic examples of an extended cooperation between distant territories showed that transportation infrastructure is crucial for the development of the initiative. The Asian Development Bank estimates infrastructure needs for the region at US$ 750 billion a year up till 2020 [Orlik, Chen, 2015]. Due to infrastructure backlogs in developing countries and China’s strong competitive edge in railways, electricity, telecommunications, mechanical engineering, metallurgy, and construction materials, Beijing constitutes a perfect business partner [Xinhua, 2016b]. Therefore, the insofar Chinese investments concentrate on modernising and con-
struction of transportation network linking Chinese, Asian, and European transportation hubs, ports, or simply important cities in order to allow fast and undisturbed trade.

Due to relatively recent history of the project, the majority of investments are still in the initial phase. Among many examples, of the utmost importance for Beijing is the connection with oil exporting countries through the 3,000-kilometre China–Pakistan Economic Corridor, linking the city of Kashgar and the Arabian Sea port of Gwadar [Shi, Pearson, 2015]. All infrastructure projects are worth US$ 42 billion and include a 1,810-kilometre-long super-highway, high-speed railway, and oil-pipeline, as well as a Karot dam [Ingram, 2015]. In February 2016, the first freight train from Yiwu arrived at Bandar Abbas in Iran, travelling the distance of 10,399 kilometres. The journey led through Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan and was about 30 days shorter than the maritime route. China also plans to further extend the railway line to Europe and the Arabian Sea as the trade supposedly grows [Xinhua, 2016a]. If Turkey joins the initiative, the line may even challenge the Suez Canal as the route to Europe [Joining the Dots, 2016].

The Maritime Silk Road will lead directly to the Port of Piraeus, Greece, already expanded by China at the total cost of US$ 260 million. In the future, Beijing plans to upgrade ports in Duisburg and Lisbon. Since 2013, there is a railway connection between Chengdu and Łódź, shortening the travel to 11 days. To get the overland connection with the interior of Europe, China has agreed to finance a 400-kilometre railway line from Budapest to Belgrade at the cost of US$ 3 billion with possible extensions to Thessaloniki and Athens.
China’s investments are spreading not only towards Europe but also in Asia and Africa. In Central Asia, Beijing develops energy cooperation with Russia, Turkmenistan, Kazakhstan, and Uzbekistan, buying oil fields (Kazakhstan) and building pipelines (Russia), thanks to which China will surpass Germany as Russia’s biggest gas market [Paton, Guo, 2014]. China also plans to build a US$ 242 billion, almost 7,000-kilometre long high-speed railway from Beijing to Moscow. To improve regional transportation system, China wants to build a China–India–Myanmar–Bangladesh Economic Corridor [Bo, 2014], including a high-speed rail network from Kunming, the capital of Yunnan province, to Singapore, through Laos, Cambodia, Malaysia, Myanmar, Thailand, and Vietnam.

Africa, as an important raw materials supplier, is also included in this project. In January 2015, China agreed with the African Union to help build railroads, roads, and airports to link all 54 African countries at the cost of over US$ 26 billion. The plans include a 1,400-kilometre-long coastal railway in Nigeria, a 800-kilometre-long railway in Kenya, a 740-kilometre railway linking Djibouti and Addis Ababa, and a 1,400-kilometre network of rail lines in Chad [LeVine, 2015]. Other Beijing’s maritime plans include modernisation of the ports in Tanzania (Bagamoyo) and Mozambique. Due to the wide scope of China’s plans, we may expect new investments soon.

3. The benefits of cooperation

The consequences of the OBOR project are various. First and foremost, the network of maritime and overland investments secures the undisturbed transportation of people, natural resources (especially oil) and other cargo to China, with the bypass of the sensitive narrows: the Malacca Strait, Bab-el-Mandeb, and Hormuz. The new transportation lines not only make the supplies available in case of a maritime conflict, but also substantially shorten the delivery time. High-speed railways, transportation corridors, the establishment of economic cooperation zones, increased technology exchanges, and employment opportunities will contribute to the development of all transition countries, fostering economic and social changes [Xinhua, 2015b].

China’s economic gains include the access to new markets to keep the rate of development, of crucial importance due to the recent economic slowdown and industrial overcapacity. In exchange for low-cost loans and investments, partner countries secure long-term supplies of raw materials and access to transportation hubs. Multilateral cooperation has given China the opportunity to move up the value chain, while partner countries may take over lower-value-added activities. New investment will promote economic cooperation of the countries involved,
strengthen trade, investment, and people-to-people exchanges, and increase mutual understanding to overcome historic resentment.

In all countries involved increased investment minimises the threat of internal unrest by offering the possibility of hinterland development (e.g. Xinjiang). The construction of transportation and infrastructure networks linking those provinces with the industrial centres and neighbouring countries will hopefully give impetus to development and lead to merging them with the rest of the state. In China, this economic fusion should be helpful in the integration of the Muslim Uighur population and the containment of the separatist tendencies. Close regional cooperation (e.g. with Pakistan) may additionally eliminate the separatist facilities and bases located abroad.

Yet fast economic changes altogether with the presence of Chinese investors may cause social unrest and therefore increase political risks. Due to high religious tensions in the region, all projects may be endangered by the risk of terrorist attacks. However, China’s engagement is crucial for many countries, as they lack financial resources to improve investment environment and are banned by Western financial institutions due to corruption and insufficient structural reform. The scope is significant: in 2015, China signed a set of investment agreements with Pakistan nearly equal to the amount of foreign aid provided by the US over the past decade [Shi, Pearson, 2015].

Equally important are political gains. Continued economic development will strengthen the government and China’s position abroad, as well as other governments in the countries concerned. The New Silk Road implicates China’s higher diplomatic activity which, backed by intense economic cooperation, shall improve bilateral relations with partner countries. To promote the initiative, president Xi Jinping has recently undertaken many foreign trips to the countries along the route. In 2015, he visited Pakistan (April), Kazakhstan, Russia, and Belarus (May), UK (October), Vietnam and Singapore (November), and South Africa (December). In 2016, Xi’s first visit overseas led to Saudi Arabia, Egypt, and Iran (January), followed by the Czech Republic (March). The unusual diplomatic activity of the Chinese president is very symptomatic, as it allows to improve China’s image abroad. Following the example of Western leaders, the ‘globe-trotting president’ [Brown, 2015] attends numerous international gatherings accompanied by Chinese businessmen in search of deals.

According to Xi, China ‘welcomes the participation of the U.S. and other countries and international organizations’ and the Belt and Road initiative is ‘open and inclusive’ [Xi’s Focus on Foreign Trips…, 2016]. While the US remains highly sceptical about the engagement, this attitude has gained China many friends among the countries and regimes with poor democratic record but rich in natural resources or other assets. China’s cooperation with Iran, Syria or Russia is not approved in the
West, though very profitable and increasing China’s value in international relations. By engaging so many countries into cooperation, Beijing receives high legitimacy which directly translates into its position in the international system. It may, however, raise doubts about undermining the Western democratising efforts.

Very important for Beijing are military aspects of cooperation. The recent activity in East and South China Seas as well as reforms undertaken by the People’s Liberation Army clearly show that Beijing intends to project its naval power abroad. New ports built for economic reasons may as well be used for military purposes. Of special importance is the Pakistani port of Gwadar, situated strategically on the Strait of Hormuz or the Sri Lankan Colombo Harbour. Furthermore, in November 2015, China announced opening its first overseas outpost in Djibouti [Perlez, Buckley, 2015]. Outposts on the Indian Ocean rim show the rising assertiveness of China, feared by its biggest opponents in the region: India, Japan, and the US.

No doubt, China’s initiative provokes controversy. Opponents raise issues connected with the lack of transparency, human rights abuse, government control, obscure business practices, and a neo-colonial character of trade relationship with developing countries. Chinese investment is often carried out by Chinese companies using Chinese workers, thus limiting the benefits to the host country. China’s financial help is criticised for its approval of authoritarian regimes and reducing positive impacts of Western democracies. Just as the European and American investors decades ago, China has a history in worker safety, environmental standards, and corporate governance. It’s been accused of paying low wages, unfair practices concerning the usage of the Chinese technologies and preferences for its own companies. In business, Beijing has been playing its development status to abuse international standards binding the Western competitors. Usually no-strings-attached aid is accused of steep interests and hidden motives, and the New Silk Road is described as a silk glove for China’s iron fist [Chellaney, 2015], even though in its efforts China uses ostensibly peaceful tactics. Some African states may face a financial crisis due to an increase in recurrent expenditure connected with the Chinese investment. It remains to be seen if these worries are true.

4. Effects for the global world order

Due to its complex nature, the OBOR initiative may have far-reaching consequences. The success of the project will give China the status of the largest regional power. Its influence in the Eastern hemisphere will exceed the influence of both traditional partners: the US and Europe. China’s strength will derive from the possessed economic power, which will be transferred into political influence, solidifying Beijing’s position. However, some conditions must be met. Beijing
must uphold its policy of peaceful development, without inducing unnecessary anxiety among partners. China has to put effort to eliminate all bad practices undermining its positive image abroad and the confidence of partner countries. And, of course, the project must prove profitable for all partner countries, not only China. Upon such terms, as a successful leader, Beijing will get a leverage over the Western competitors in a rising number of closely cooperating countries following its model of development and, most likely, its political choices. China’s influence and economic dominance will spread in Asia, maybe even reach Europe, giving Beijing almost unlimited capabilities in further development. Cooperation with China will generate development in partner countries, making them dependent on the Chinese success. Beijing will be able to build ‘communities of common destinies with some of its key neighbours’ [Xuetong, 2014]. A new Asian core of the global economy will be shaped, with Beijing in the centre and Western countries on the outskirts, unless they engage in the Chinese adventure. As Fukuyama suggests, the success of the strategy will change the world entirely [2016].

The new financial instruments created recently under the auspices of Beijing (the US$ 100 billion Asian Infrastructure Investment Bank, the US$ 50 billion New Development Bank, and the US$ 40 billion Silk Road Fund) may be useful in fulfilling China’s plans of reducing the domination of Western-led financial organisations, such as the WTO or the IMF. With China’s leading role in new institutions, all projects approved by the government are more than likely to receive financing to support China’s regional ambitions. By creating alternative sources of lending, China threatens the present status quo and undermines the post-war efforts of democratic countries, spreading Western values and practices with the help of Western-led banks and institutions. China’s economic expansion is further strengthened by the rising role of the renminbi, in November 2015 included in the SDR basket along with the US dollar, the euro, the Japanese yen, and the British pound [IMF, 2015]. Though for the time being the renminbi cannot threaten the dollar as the dominant global reserve currency, it undermines the ability of the West to impose financial sanctions on countries such as North Korea, who will be able to carry out transactions in renminbi [Bradsher, 2015b]. China’s economic and financial power will necessarily be strengthened by political influence, and possibly security alliances.

The OBOR strategy has already stimulated changes in the status quo in the region. Some countries embraced the cooperation in the hope of future economic profits, others try to balance the power of China by other alliances. By initiating economic and military cooperation with Beijing, Turkey tried to balance its dependence on NATO; Kyrgyzstan, on the other hand, pursued warmer relations with Moscow. Some countries turn to China to fill the financial gap left by low oil prices and Western sanctions (e.g. Russia) [Bradsher, 2015a], others in fear of Rus-
Asia’s expansion or the fundamentalist threat. Most Asian developing countries are
tired of the role of pawns in the continuous games between the US and Russia;
China offers understanding of their internal problems, immediate financial help,
political backup, and speedy development. Yet, no matter how much Beijing
wants to be regarded as a safe heaven, it still induces mixed feelings in the region
due to complicated history, present economic strength, and recent assertive for-
egn policy in the East and South China Seas. Therefore, its new foreign policy
must be very cautious and smart.

While Washington remains highly suspicious of Beijing’s cooperation plans,
European countries decided to join both initiatives (OBOR, AIIB), causing clashes
between Brussels and Washington, and undermining the traditional transatlantic
alliance. In its cooperation with the EU members, China uses the old imperial
maxim *divide et impera* to reach its goals, causing internal friction and undermining
the organisation. Still, both Europe and China are valuable partners for each other
and it’s very unlikely that the EU turns its back on such a profitable cooperation.
China also values its European secure investments with significant returns and,
most of all, access to new technologies and weakening the American influence.
Therefore, Sino-European rapprochement will strengthen China’s global position
in its strive for power.

To secure its interests in Asia and Europe, Washington announced two proj-
icts: the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Invest-
ment Partnership (TTIP), gathering many European and Asian countries, with the
exception of China. The American reaction may be belated, as the rising activity in
the region is a direct consequence of not only Beijing’s entrepreneurship, but also
the decades of negligence of Washington and Brussels. With the EU constantly di-
vided, unable to work out a comprehensive foreign policy of cooperation with
developing countries, coping with the financial crisis, and the US losing its inter-
national importance under the Obama administration, China – again – appears as
the most reliable and stable partner, willing to engage, capable of facing risky proj-
ects. A growing circle of partner countries indicates a growing sphere of interest,
useful in international organisations. Strategic partnerships established for the
needs of the OBOR initiative may also prove useful in crisis situations, when
China will be a valuable mediator.

However, the success may not be easy. Due to its extent, China will face many
problems and downturns, such as bureaucracy or local unrest. The OBOR initia-
tive may challenge China’s economic stability, exposing it to external risks that
cannot be controlled or minimised by the government in Beijing. Many of its part-
ner countries are politically unstable, with volatile markets and extreme financial
insufficiency, and Beijing’s efforts may not be sufficient to prevent serious finan-
cial consequences perceptible in other countries. China’s stock market troubles in
summer 2015 prove that its role in the financial market is already crucial. Therefore, to succeed, Beijing will have to take good care of its partner countries for mutual benefits, which should stabilise the political situation in the region and secure economic growth.

Conclusions

The New Silk Road was originally intended as an instrument to sustain China’s high economic growth through deepened international interdependence. Other consequences came in time, with the development of the initiative and the changes in international surrounding.

The initiative may be the source of regional integration and empowerment, making Asia an important global player. In new reality, the phrase ‘when China sneezes, the world catches a cold’ takes on new meaning. Just by its size, China is already influencing the global order and the effects of the Chinese internal economic problems are felt everywhere, especially in developing countries heavily dependent on investments and low-cost loans from China. Therefore, one may presume that Beijing’s intentional expansion will have critical effects of unpredictable scale for the regional and global world orders.

Induced by the OBOR initiative, China’s economic and political rise as a regional power with global aspirations undermines the domination of the US and induces further changes in international relations. If both Western partners manage to get involved in the project, they have a chance to maintain their sphere of influence. Otherwise, the Chinese success will equal to Western failure.

References


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