

CHINA HEADS WEST:
“ONE BELT, ONE ROAD” INITIATIVE

The vision of Xi Jinping’s concept of “One Belt, One Road”

With the fall of the Soviet Union, the economic landscape of central Eurasia fell into disconnected shards. However as soon as the Soviet Union disintegrated, the countries of Central Asia and especially the Caucasus started considering new strategies to reconnect. An inspiration was quickly taken from history – from the “Silk Road”. During the days of the “Silk Road” countries of Central Asia acted as land bridges that connected China with those countries in Europe to strengthen trade. Ancient cities like Aleppo, Baghdad and Xi’an became major transshipment and manufacturing hubs. Now, Eurasia stretches from the west of Europe to the east-coast of China, making it a huge market with 60 countries covering 60% of the world’s population, 30% of GDP and 75% of the world’s energy sources.¹

There have been numerous initiatives to strengthen the interconnectedness of this region. The most notable initiative is the “New Silk Road” vision or the so called “One Belt, One Road” (OBOR) initiative introduced by China. Our lives are ever more dependent from China. According to the Royal Geographical Society, by the year 2040, China is expected to have the largest economy in the world.² China has transformed itself and its role in the world at a great pace, however, reports show that China is facing a slowdown, by which leaders are now evaluating solutions and searching for new channels to sustain the country’s growth and development.³ In 2013, China’s president Xi Jinping therefore announced several series of both local and international foreign policy initiatives.

¹ W. Shepard, *The Countries Building the New Silk Road – And What They’re Winning in The Process*, “Forbes”, 22 November 2016, <http://www.forbes.com/sites/wadeshepard/2016/11/22/what-win-win-along-the-new-silk-road-really-means/#61c6b1595ab3> (accessed: 28.12.2016).

² Royal Geographical Society, *China Today*, 2016, <https://www.rgs.org/NR/exeres/08AE5CEC-16CE-479C-8268-580A4EC1030A.htm> (accessed: 20.12.2016).

³ CLSA, *A brilliant plan One Belt, One Road*, 2015, <https://www.clsa.com/special/onebeltoneroad/> (accessed: 20.12.2016).

The objectives of these policies include assurance of political stability and continuous economic growth and development to increase international links.⁴

The OBOR initiative aims to provide strategic concepts in terms of political, economic and cultural realms. Though this initiative has various challenges and uncertainties, it is China's seal and hallmark in terms of foreign and economic policies.⁵ Xi Jinping's vision is to connect China globally by constructing infrastructural links through the allocation of multi-billion-dollar financing projects.⁶ The Chinese government wants to ensure its political and economic stability by creating a strategy to continuously safeguard its economic growth and expansion globally. However, geopolitical impacts and circumspect intervention from neighboring countries have become a challenge for the One Belt, One Road initiative.⁷

The concepts and principles of "One Belt One Road"

OBOR concentrates on creating and improving business endeavors with countries across Asia, the Middle East, Europe and Africa. To do so, China has committed money to the new Asian Infrastructure Investment Bank (AIIB) and the New Silk Road Fund (NSRF) as well as bilateral arrangements with countries involved. The two main elements of the OBOR initiative include the One Belt: The Silk Road Economic Belt and One Road: The 21st Century Maritime Silk Road initiative.⁸

The first element aims to enhance and create routes, by developing a land bridge from China to Western Europe. This initiative also aims to build several economic corridors that connect China to Mongolia, Russia and most parts of Asia. The Silk Road initiative is significant in the sense that it would connect through Central Asia, which is considered Russia's "backyard."

Consequently, this initiative is considered the greatest strategy of the Xi Jinping administration, since China is positioned as the principal locomotive with respect to the global economic development.⁹ The Silk Road Economic Belt initiative will

⁴ S. Aris, *One Belt, One Road: China's Vision of "Connectivity"*, CSS Analyses in Security Policy, no. 195, September 2016, p. 1.

⁵ M. Swaine, *Chinese Views and Commentary on the "One Belt, One Road"*, "China Leadership Monitor, Hoover Institution" Summer 2015, Issue 47.

⁶ ETH Zurich, *"One Belt, One Road". China's Vision of Connectivity*, Department of Humanities, Social and Political Sciences Center for Security Studies, 2016, <http://www.css.ethz.ch/en/center/CSS-news/2016/09/one-belt-one-road-chinas-vision-of-connectivity.html> (accessed: 20.12.2016).

⁷ *Ibidem*.

⁸ China-Britain Business Council, *One Belt One Road. A role for UK companies in developing China's new initiative*, Foreign and Commonwealth Office, 2016.

⁹ R. Pantucci, *Central Asia: The View from China*, EUISS Alert, p. 3; A. Ekman, *China: Setting the Agenda(s)?*, EUISS Brief, 2015, p. 4.

also increase growth in the area and will strengthen the geostrategic position of the Chinese government, which will boost businesses and enterprises in China.¹⁰

The 21st-century Maritime Silk Road is a sea route that connects the east coast of China to Europe through the Indian Ocean and the South China Sea (China-Britain Business Council 2016). The main objective of the OBOR in terms of this element is to improve the underdeveloped regions of China, specifically the west part of the country. Furthermore, the Maritime Silk Road aims to develop better opportunities by partnership and collaboration with different countries along the routes.¹¹ Principles involved in the OBOR initiative uphold the UN charter standard, which upholds the Peaceful Coexistence Principles, which include: 1) the respect for territorial and sovereignty, 2) mutual non-aggression, 3) mutual non-interference in terms of internal affairs, 4) mutual advantage and equality, and 5) a peaceful co-existence. The initiative is open to all nations and both international and regional organizations. This principle is conceptualized to benefit extensive zones and regions. OBOR initiates harmony and inclusion of countries all over the world, since it advocates respect, tolerance and co-existence.¹²

The countries benefitting from China's "One Belt, One Road" initiative

China's approach in its Silk Road initiative is very business-oriented and practical. The country considers Central Asia as a vital region to promote economic growth through infrastructure investments that benefit the country. In a 2012 trade expo, the Chinese prime minister Wen Jiabao stated that "the ancient Silk Road regained its past vigor and vitality."¹³ China has been pushing its government in multilateral relationships with central countries in various sectors such as energy, trade and transportation.

¹⁰ Clingendael, "One Belt, One Road" An Opportunity for the EU's Security Strategy, Netherlands Institute of International Relations, December 2015.

¹¹ *Ibidem*.

¹² *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. 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, 1st ed., March 2015.

¹³ R. Olsen, *Arabia-Asia: China Builds New Silk Road, But is the Middle East Ready?*, "Forbes", October 2012, <http://www.forbes.com/sites/robertolsen/2012/10/21/arabia-asia-china-builds-newsilk-road-but-is-the-middle-east-ready/> (accessed: 27.12.2016).

Azerbaijan and Kazakhstan

Azerbaijan and Kazakhstan are extremely resource dependent as they heavily rely on oil and gas. According to reports, Azerbaijan's oil reserves are continuously decreasing and it has been estimated that Azerbaijan has only 30 years of potential oil dependency left.¹⁴ Together with Kazakhstan, Azerbaijan is now looking for strategies to diversify its economy. By connecting with China and Europe, it would leverage its country's position in the world and also link its transportation hubs with the west. Kazakhstan for instance received a loan in 2009 by China of 10 billion USD including 5 billion USD to Kaz Munai Gas Company. This strategy is incorporated since China wants to be involved in energy supplies globally and aims to offer better opportunities than western lenders.¹⁵

Russia

During the Soviet period, Russia did not join any Silk Road strategy and the country's views of China's involvement in Central Asia were considered an intrusion.¹⁶ However, when Russia was affected by low oil prices and sanctions given by the United States and the European Union over the Ukraine conflict, the country began looking for possible strategies to sustain the growth of its economy and this led to its association with China.¹⁷ Due to Russia's geography that stretches from one side of Eurasia to the other, its role in the OBOR initiative is vital for its success. In the last years, Russia and China have agreed on various economic projects including cooperation in the aerospace, science and financial industries. In 2015 Russia and China settled an agreement for the Moscow-Kazan high speed rail line where China offered a 6 billion USD loan with a proposal to extend the line to Beijing.¹⁸

Europe

The OBOR initiative's objectives also greatly impact upon the economic model of the European Union, since it can prolong EU's strategies in promoting European values and interests. In the last 3 years, the EU's economy has become stagnant and with

¹⁴ S. Pirani, *Central Asian Energy: The Turning Point*, "Emerging Markets", February 2010, <http://www.emergingmarkets.org/Article/2478245/CENTRALASIAN-ENERGY-The-turning-point.html> (accessed: 27.12.2016).

¹⁵ *Ibidem*.

¹⁶ *Ibidem*.

¹⁷ W. Shepard, *The Countries Building...*

¹⁸ J. Farchy, *The New Trade Routes: Silk Road Corridor. One belt, one road*, "Financial Times", 14 September 2016, <https://ig.ft.com/sites/special-reports/one-belt-one-road/> (accessed: 28.12.2016).

only 1.6% GDP growth, the EU is demanding an economic stimulation.¹⁹ As the EU is the western endpoint of all New Silk Road routes it will undoubtedly benefit from its initiative. Export opportunities for Poland, Serbia and the Czech Republic have already opened through trade pacts between China and entrepreneurs and traders of these countries. Dutch veal, Polish apples as well as French wines are only examples of products that the rising middle class in China is looking for. With the largest consumer market in the world, the OBOR initiative could bring trade between China and Europe to the next level and result in a positive economic impact. It is estimated that, European trade may increase by approximately 6%, due to the infrastructural enhancement taking place because of the OBOR initiative.²⁰ Another important benefit of the initiative is an increased allocation of money infused into Europe. By the year 2020, it is estimated that China will triple its assets by approximately 20 trillion USD, which will likely help the EU's economy through the OBOR initiative. China's FDI and M&A activities in Europe are developing enormously in the last 3 years and this process will be more likely to continue growing as OBOR develops further.²¹

The impact of China's economic downdraft on "One Belt, One Road"

After its formal announcement by China's President Xi Jinping in 2013, the OBOR initiative was heavily endorsed and supported by different countries because of its visions and clear-cut objectives. However, it is unfortunate that a downdraft in China's economy has significantly affected the goals of the initiative. Reports show that due to economic fluctuations, several countries are not assured if China's goals are achieved. Based on statistics, China's trade flows are declining, causing widespread deflation. During the year of 2016, the country's GDP remained moderate at only 6.7%. The growth engines are downshifting; the countries wage advantage is disappearing.²² In the area of infrastructure, China's National Audit Office has revealed that about 2.23 billion USD of the funds allocated are not yet utilized, and

¹⁹ B. Macaes, *China's Belt and Road: Destination Europe*, "Carnegie Europe", 9 November 2016, <http://carnegieeurope.eu/2016/11/09/china-s-belt-and-road-destination-europe-pub-65075> (accessed: 29.12.2016).

²⁰ A. Garcia-Herrero, J. Xu, *China's Belt and Road initiative: can Europe expect trade gains?*, "Bruegel", 5 September 2016, <http://bruegel.org/2016/09/chinas-belt-and-road-initiative-can-europe-expect-trade-gains/> (accessed: 29.12.2016).

²¹ T. Hanemann, M. Huotari, *Chinese FDI in Europe and Germany. Preparing for a New Era of Chinese Capital*, "Mercator Institute for China Studies and Rhodium Group", June 2015.

²² H. Broadman, *Will China's "One Belt, One Road" Become a Bridge to Nowhere?*, "Forbes", 6 January 2016, <http://www.forbes.com/sites/harrybroadman/2016/01/06/will-chinas-one-belt-one-road-become-a-bridge-to-nowhere/#70c5756d1de8> (accessed: 29.12.2016).

this is a sign of constraints in terms of investment absorptive capacity.²³ China's OBOR strategy can therefore be more effective if significant risks are resolved. China is also not sensitive enough in its integration of neomercantilism, specifically when resolving challenges in host countries. China has moreover implemented an authoritarian approach, which may cause conflicts especially with democratic countries.²⁴ With China's recent economic status, the objectives of the OBOR initiative can, in the author's point of view, be achieved but only within a modest result, due to China shelling out enormous investments. In terms of medium- to long-term projects, the effects of the OBOR initiative can be hardly predicted because of several factors that can impede continuous implementation of this strategy, such as challenges both in the external and internal environment.

According to the Fitch rating agency, the total overseas loans by Chinese banks related to OBOR during the first half of 2016 totaled 1.2 trillion USD. What is interesting in this number is the fact that commercial banks provided two-thirds of the funding. Fitch warned that it is uncertain whether project returns will be sufficient to cover the repayments to Chinese creditors. As already stated the OBOR strategy of China is more like a political gamble than a calculated commercial venture. It showed that commercial banks might have been enforced to put political interests before profitable commercial activities. Unfortunately, detailed numbers of the loans are not public. However it can be said that the success of OBOR depends heavily on the stability of the Chinese banking system.²⁵

The role of the Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) celebrated its first anniversary in January 2017. AIIB plays a vital role in financing OBOR as they have already invested in nine projects across Europe, Asia and the Middle East with total loans of 1.7 billion USD in 2016. At the time the AIIB was announced, critics feared that it would be used to advance China's national interests while lowering environmental and human rights standards. However this was not the case. AIIB funded projects like the Pakistan motorway which is part of the China-Pakistan Economic Corridor – a key aspect of OBOR. This investment allows China to gain access to

²³ J. Zhang, *What's driving China's One Belt, One Road initiative?*, "East Asia Forum", 7 September 2016, <http://www.eastasiaforum.org/2016/09/02/whats-driving-chinas-one-belt-one-road-initiative/> (accessed: 29.12.2016).

²⁴ *Ibidem*.

²⁵ F. Yu, *China's One Belt, One Road is a Gamble for Banks*, "Epoch Times", 5 February 2017, <http://www.theepochtimes.com/n3/2219092-chinas-one-belt-one-road-is-a-gamble-for-banks/> (accessed: 7.04.2017).

the port of Gwadar which, as a result, shortens the transit time from inland Chinese cities to the Arabian Sea. Another deal worth mentioning is the AIIB loan to Azerbaijan with the aim to develop the China-Central Asia-West Asia economic corridor, which provides a land-based alternative to the mainly maritime-based routes.²⁶

Conclusion and Outlook

The One Road, One Belt initiative by the Xi Jinping administration created greater opportunities for China to connect to Eurasia, an area that consists of 30% of the world's GDP and 60% of global population. This large scale project that consists of the One Belt: The Silk Road Economic Belt and One Road: The 21st Century Maritime Silk Road is a historical project that involves over 60 countries and will enhance trade in the region. OBOR aims to provide strategic concepts with regard to political, economic and cultural realms. Xi Jinping's vision is to connect China globally by constructing infrastructural links through the allocation of multi-billion dollar financing projects. It concentrates on countries across Asia, the Middle East, Europe and Africa. To finance these projects the Asia Infrastructure Bank and the New Silk Road Fund have been established.

However, challenges and significant risks are inevitable, by which various factors such as domestic restructuring and social implications should be considered. The OBOR initiative is a resilient project; however, its global impact cannot be measured yet, due to China's fluctuating economy. Moreover, countries along the Belt and Road initiative are vulnerable. Capital provided by China cannot ensure security and stability of projects because developing countries are troubled with Chinese endeavors due to the local opposition, corruption and legal issues. Additionally, reports have shown low investment return, since foreign investments are coursed through state-owned enterprises and state channels. This means that state financial support is given to shareholders and that Chinese companies receive little incentives, leading to a low return on investments.²⁷ The OBOR initiative has helped China in terms of developing regional and geopolitical influence; however, the chance of economic gains is shortsighted because of economic volatility. It is important for the Chinese government to review the challenges and risks encountered by this initiative and take the necessary actions to resolve these issues to successfully meet world market demand.

²⁶ S. Hsu, *How China's Asian Infrastructure Investment Bank fared its first year*, "Forbes", 14 January 2017, <https://www.forbes.com/sites/sarahsu/2017/01/14/how-chinas-asian-infrastructure-investment-bank-fared-its-first-year/#35a4b8c25a7f> (accessed: 8.04.2017).

²⁷ J. Zhou, *The Trouble with China's One Belt One Road' Strategy*, "The Diplomat", 26 June 2015, <http://thediplomat.com/2015/06/the-trouble-with-the-chinese-marshall-plan-strategy/> (accessed: 29.12.2016).

STRESZCZENIE

CHINY UDERZAJĄ NA ZACHÓD: INICJATYWA “ONE BELT, ONE ROAD”

Inicjatywa „Jednego Pasa i Jednej Drogi” (*One Belt, One Road*), mająca na celu reaktywację Jedwabnego Szlaku i rozwinięcie handlu pomiędzy Eurazją i Chinami, to flagowy projekt przewodniczącego Chińskiej Republiki Ludowej Xi Jinpinga. Twórca planu zakłada, że połączenie w jego ramach 60 krajów doprowadzi do utworzenia strategicznych koncepcji wzmacniających polityczną, ekonomiczną i kulturalną wymianę, a także bezpośrednio wpłynie na wzrost gospodarczy regionu. Główne ryzyko dla inicjatywy stanowi niestabilny kapitał Chin związany z korupcją, problemami na tle prawnym i sprzeciwem władz lokalnych. Rozwiązanie powyższych kwestii jest kluczowe dla sprostania wymaganiom rynku światowego.