

Global Insight: China's One Belt One Road Initiative

Introduction

China has experienced remarkable economic and social development over the last three decades, making it the second largest economy in the world. It continues ramping up efforts to augment its global position and the 'One Belt, One Road' (OBOR), initiative is a development strategy and framework in that direction. This initiative aims to rejuvenate ancient trade routes, Silk routes.

OBOR as the name indicates has two main components, One Belt - the land-based belt, 'Silk Road Economic Belt', and One Road refers to the ocean going 21st century 'Maritime Silk Road', which aim to connect the East Asian economic region with the European economic circle and runs across the continents of Asia, Europe and Africa. The Silk Road Economic Belt is a network of road and rail routes, oil & natural gas pipelines, optic fibre cables and other infrastructure projects that extends from Central China through Central and West Asia to Europe. The road, its maritime counterpart, would be network of planned ports and coastal infrastructure projects that would extend 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.

China's One Belt One Road Map



Source: Xinhua Finance Agency ¹

¹ <http://en.xinfinance.com/html/OBAOR/>

OBOR is China's most important strategic initiative and is grandiose in nature, covering around 60 countries accounting for 65% of the world population, around 50% of the world GDP (economic aggregation of \$21 trillion) and a 29% share in global trade².

OBOR initiative focuses on building six economic corridors spanning across the continents of Asia, Europe and Africa, thus enabling China strengthen its presence/influence in these regions and to integrate itself into world economy. The economic corridors planned/proposed are:

- The new Eurasia Land Bridge Economic corridor
- China-Mongolia-Russia Economic corridor
- China-Central Asia-West Asia Economic corridor
- China-Indochina Peninsula Economic corridor
- China-Pakistan Economic corridor
- Bangladesh-China-India-Myanmar Economic corridor

Vision/ Objectives of OBOR

The official document, 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road' released in March 2015 mentions that the initiative is designed to uphold the global free trade regime and the open world economy in the spirit of open regional cooperation. The OBOR initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realizes diversified, independent, balanced and sustainable development in these countries. The initiative aims to promote co-operation among countries in policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds as their five major goals.

Financial Institutions aiding financing of OBOR

The One Belt and One Road Initiative given its mammoth scale would require massive amount of investment, forecasted to be in excess of US\$ 1 trillion. Financing is projected to be largely through Chinese state-owned banks and a series of government and multilateral funds, including a Silk Road Fund, the AIIB, and the BRICS New Development Bank. China in 2014 launched two new financial institutions, the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF) to bridge the financing gap for infrastructure investment in Asia.

The US\$ 100 bn AIIB, a new multilateral development bank (MDB), set up with a view to complementing and cooperating with the existing MDBs in order to address infrastructure needs in Asia commenced operations in January 2016. AIIB has 57 prospective founding members including India. The US\$ 40 bn Silk Road Fund established in December 2014 is jointly funded by China's State Administration of Foreign Exchange, the China Investment Corporation, the Export Import Bank of China and the China Development

² EPW

Bank. It would largely invest in infrastructure and resources as well as in industrial and financial cooperation.

AIB and SRF along with the New Development Bank and the US\$ 100 billion Contingent Reserve Arrangement (CRA) represent Chinese backed new financial institutions that would aid in funding projects in OBOR and are not part of the existing financial architecture. A financial institution would be established in the Shanghai Cooperation Organisation to provide an additional funding stream for OBOR projects and Chinese companies and financial institutions with good credit ratings would be permitted to issue Renminbi bonds in China for their financing needs. China is also expecting further financial integration with European economies, and has signed an agreement with European Union to this effect³. China has inked trade and investment deals with numerous countries along the initiative's twin trade routes.

China's gain from OBOR

OBOR can enable China strengthen its geo-political influence and it also stands to gain substantially in economic and financial position. In addition to the outlined objectives mentioned in the vision document, the initiative has various implicit objectives for China. These include an outlet for the excess production capacity currently being faced by China, overseas investment, improvement in trade, gaining foothold/market access in the developed European markets, utilisation of foreign exchange reserves, amongst others.

China has developed huge infrastructure development capacities over the years; however the recent slower economic growth and lower investments in the country has led to excess production capacities, higher debt burdens and associated financial risks. OBOR will require enormous amount of construction materials, capital equipment, skilled and semi-skilled labour, and technical expertise. It will provide an outlet for China's excess production capacity in various industries/sectors as also Chinese expertise in developing infrastructure projects overseas rendered surplus due to slower economic growth in the country. It indicates higher domestic production leading to job creation and revenue generation, while exports of goods & services would lead to higher foreign exchange earnings. It would also lead to greater integration between China and its neighbouring countries and the oil and gas transportation lines would enable China diversify its energy import sources.

Another important aspect is that most of the OBOR routes start from the western and southern provinces/regions of China, which have been largely undeveloped unlike the eastern region of China. The OBOR initiative is expected to lead to development of the western and southern provinces/regions aiding China correct the lop-sided/uneven development among its regions.

OBOR aims to connect China with the European economic circle, giving it access to the European markets where it has not been able to make a strong foothold. Investments in infrastructure would require significant financial flows, providing opportunities/investment avenues to China to invest its huge foreign exchange reserves. Financing of a major number of projects under the OBOR initiative in the initial stages would be through Chinese financial institutions.

³ <http://www.icsin.org/uploads/2015/10/14/f77433badb66acab7e3250a389c2a0fd.pdf>

The OBOR is being viewed as an effort by China to counter Trade agreements (US-driven) such as Trans Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), both of which does not include China.

The increase in international trade with other participating countries, increasing foreign investment and expansion of Chinese companies further in the global market will also aid in internationalisation of the Chinese Yuan. Increased demand for the Chinese Yuan would aid in increase in its weightage in the IMF and Special Drawing Rights.

China is leaving no stone unturned to ensure that OBOR attains its desired objectives. Talks, country visits and diplomatic efforts are being undertaken to secure assurances of cooperation with the OBOR initiative. Long term bilateral deals and financial contracts are being finalised between China and OBOR countries. Within the country also, construction of logistics centres and cultural expos are gaining momentum in anticipation of growing/rising trade and interaction with OBOR countries.

Implications of OBOR for India

India has a pivotal role to play in OBOR, given its geographical location, size of economy in the South Asian region. India has been invited to join the OBOR; however the country has been noncommittal so far with regards to support and participation in China's OBOR. Opinion in the country on participation in OBOR remains divided, with supporters viewing it as a project wherein India could reap huge benefits, while the other faction views the plans with suspicion.

Access to finance, technology, logistics and infrastructure development, connectivity with major markets for both inputs and exports (including oil & gas transport pipelines, optic fibre cable network, amongst others), amongst others are some of the benefits which India could derive with participation from OBOR.

Security, lack of transparency and non-inclusiveness are the major concerns for India not being part of the OBOR initiative. Lack of transparency and inclusiveness is a major concern with China yet to provide the complete details of sources of funding, participating countries and the potential stakeholders in OBOR, even though some amount of progress has been made on that front. Also, most of the agreements signed with respect to OBOR have been bilateral agreements between China and the other countries concerned and not trilateral or multilateral agreements⁴. Though different regions of Asia are designed to have a role to play in OBOR, the participating nations have never met together to discuss on the project, indicating a lack of openness/inclusiveness. A transparent and open policy would allay some of India's concerns.

Security is the biggest concern with respect to China's OBOR. India is very strategically located with respect to OBOR, with the belt (SREB) and road routes (MSR) slated to pass through India's periphery. In fact, Kolkata is marked as a link in MSR. India has a long standing boundary dispute with China which has not been resolved. India has been objecting to China's involvement in development in PoK (CPEC), China's road construction on land frontiers and building of ports in the Indian Ocean as strategic encirclement.

⁴ <http://niasindiainchina.in/2016-01-06/rahul-mishra-india-firmly-supports-asian-infrastructure-investment-bank-but-opposed-to-one-belt-one-road-why/>

China-Pakistan Economic Corridor



Source: The Economist

One major security concern for India is the China-Pakistan Economic Corridor (CPEC), which is an important component of China's OBOR which would connect China's SREB and MSR⁵. The US\$ 46 bn corridor comprising of a network of roads, railway lines, energy pipelines and fibre optics will link Kashgar (a trading hub) in China's Xinjiang province with Gwadar port (deep water port) in Baluchistan province of Pakistan.

India has concerns about the CPEC corridor as it will pass through Pakistan-occupied Kashmir and the Gilgit Baltistan regions and it has reportedly expressed the same to China¹. Also, the geo-strategic location of the Gwadar port makes it a gateway for China to the Arabian Sea.

The other major concern is that OBOR initiative may strengthen China's position while weakening India's strategic influence and security interests in the South Asian and Indian Ocean region (IOR). Around 90% of India's trade and oil imports are through the sea route (Arabian Sea and Indian Ocean).

There are concerns of a Chinese 'String of Pearls' encircling India, a security threat. China is building a military base at Djibouti and in the last two years, there have been increased sightings of Chinese submarines in the IOR, which has accentuated the fears. There are worries that China may seek naval access to the maritime (port) infrastructure it is developing in the Indian Ocean region (may serve as security/military base).

The proponents believe that being part of OBOR would be beneficial to India, which has expressed its desire to attract Chinese investments in the country. Being associated with OBOR will ensure investment flow into the country at a time when infrastructure sector in India needs huge investments. It would also allow India access to finance, technology and expertise in infrastructure development. India's Act East Policy, based on strengthening India's relations with countries in East Asia could gain traction by being associated with OBOR and India would also be able to develop its North Eastern regions. Also, India's investments in its neighbouring countries could aid in reducing China's sphere of influence and dominance in South Asia to a certain extent.

Suggestions are that India should participate selectively in OBOR, while developing its own strategy, which will ensure her overall development while addressing security issues. It could support development of BCIM corridor while opposing the CPEC corridor. One another supporting belief is that India's power/ability to influence the project would be greater if it is associated with the project than being away from it and may have less to lose by being associated with OBOR. India may stand isolated in the region, if she stays away from OBOR, while the other South Asian and ASEAN countries join OBOR. The proponents also believe that if India can sign up for the AIIB, then they can also be part of OBOR.

⁵ http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1256093.shtml

India's response to OBOR

India is undertaking steps which are a combination of diplomacy, strategic investments and increasing military strength in the Indo-Pacific region in response to OBOR. To counter China's development of Gwadar Port in Pakistan as per CPEC, India is considering investments in various infrastructure projects in Iran's Chabahar port and is fast tracking bilateral negotiations between the two countries⁶. Though the port development was initially agreed upon in 2003, the venture made little progress due to western curbs on Iran. However, with western curbs on Iran being lifted now, the project could see acceleration in execution. The Chabahar port would aid India circumvent Pakistan and aid in boosting India's ties with Afghanistan and Central Asia by providing it a transit route to the region.

India's maritime initiative to maintain its position in the Indian Ocean Region and at the same time blunt the impact of China's OBOR is through various programmes such as SAGAR (Security and Growth for All in the Region), Mausam, Spice Route, Cotton Route, Sagarmala. India's own route projects, 'Mausam', 'Spice Route' and 'Cotton Route', focus on re-connecting and re-establishing partnerships (economic, strategic, and cultural) with countries that have been India's historical trade partners. The idea is to engage with IOR countries for stepping up maritime and strategic ties.

Project Mausam is an initiative to revive India's ancient maritime routes (based on monsoon winds) and cultural linkages with countries in its extended neighbourhood extending from South East Asia to Middle East. The spice route refers to revival of ancient links with 31 countries in Asia and Europe with India, particularly Kerala, while the Cotton Route would focus on reviving the ancient Indian Ocean pathways through which the fabric was exported. It aims to deepen cultural bonding between countries, ensure maritime security and broaden economic connectivity with nations in the Indo-Pacific region.

India has been holding high level diplomatic meetings with a number of South Asian countries in recent times to assess and harness the potential economic cooperation between India and these countries. India is working with nations surrounding the South China Sea and has also asserted the "Right to free navigation through the South China Sea", through which almost a quarter of India's trade is routed. India's Act East policy focuses on greater involvement in East Asia. India is also considering investments in its Andaman and Nicobar Islands, which lie at the centre of the Bay of Bengal to strengthen its position in the region.

In addition to connectivity with other nations in the IOR region, adequate port infrastructure and port connectivity is essential to be able to emerge as an important player in the international trade scenario. Indian ports are currently not well equipped and need infrastructure development and a network of hinterland transportation connectivity. The revival of the Sagarmala project is a step towards addressing these issues. The Sagarmala project focuses on capacity augmentation and modernisation of major Indian ports, along with development of coastal economic regions and port-led infrastructure development. It is likely to witness investments to the tune of Rs. 700 bn.

⁶ <http://indianexpress.com/article/business/business-others/chabahar-port-india-in-a-hurry-to-clear-150-mn-iran-credit-line/>

Conclusion

China's OBOR is an economic initiative seeking to enhance its trade routes and also an initiative to expand its geopolitical influence in the world. The sheer size of the initiative and the diversity and different economic and political situations of different countries along both the routes presents various inherent risks for the program. These include fundamental, legal, financial challenges of accessing new markets to local bureaucratic and security-related obstacles, amongst others. OBOR is a long drawn program and expected to be completed by 2049 and could also face challenges in individual country's stance towards the program due to change in overall economic and political environment.

From India's perspective there are both opportunities as well as challenges that this ambitious program offers. Our engagement strategy must therefore be thought through and in a manner that the nation benefit.