Strengths and Challenges of China’s “One belt, One road” Initiative

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Executive Summary

China’s “One Belt, One Road” (OBOR) initiative, formally presented on 28 March 2015, is not just another “new Silk Road project”. Rather it is a consistent and ambitious Eurasian strategy of an emergent power. The OBOR initiative is based on existing and planned linkages from various regions of China towards the outside world. Supported by large financial contributions, it seems to be better articulated than other similar projects. Therefore, this paper aims to present the strengths and implementation challenges of China’s OBOR initiative. We took into account several levels on analysis: national, regional and international. In this sense, we focused on domestic constraints, tensions in China’s neighbourhood, and great power rivalries. Finally, we tried to offer several suggestions regarding the improvement of China’s initiative. The suggestions concern the initiative’s planning and implementation, the means to improve its bilateral relations with neighbours and great powers, in order to be perceived as a responsible power on the international arena.
Introduction

China has dominated economically for eighteen out of the last twenty centuries. James Fairgrieve, Homer Lea, George Bernard Cressey, and others have identified the potential of China as a great power. Today, China seems ready to translate its economic performance into political leverage. China’s “One Belt, One Road” (OBOR) initiative, formally presented on 28 March 2015, is not just another “new Silk Road project”, but a consistent and ambitious Eurasian strategy.

This paper will analyse the OBOR initiative, emphasizing its strengths and implementation challenges. The latter result from domestic constraints, tensions in China’s neighborhood, and great power rivalries.

Key features of China’s OBOR initiative

Most foreign analysts have hailed China’s “One Belt, One Road” initiative as a “comprehensive strategy” or a “geopolitical and diplomatic offensive.” Meanwhile, Chinese officials consider it “an ambitious economic vision of the opening-up and cooperation”, a “systematic project”, governed by the “Silk Road Spirit”, that seeks to build “a community of shared interests, destiny and responsibility” (National Development and Reform Commission (NDRC), 2015). However, the OBOR initiative is the most ambitious effort by China since the new leadership was elected at the 18th Congress of the Communist Party of China in November 2012.

The ancient Silk Road was a peaceful means to conduct interstate commercial activities and cultural exchanges. The Overland Silk Road, more than 10 000 km long from China to Rome, can be traced back to the Han Dynasty (206 BC-220 AD), when imperial envoy Zhang Qian was sent to China’s Far West to develop friendly relations. The Maritime Silk Road started when the Chinese ventured into Southeast Asia, traditionally called Nanyang. By the Song Dynasty (960-1279), Imperial China had established tributary relations with many states in Nanyang. (Wong, 2014: 3).

In October 2012, Professor Wang Jisi was the first Chinese scholar to speak about the need for China to revitalize three Silk Roads, to Southeast Asia, to South Asia and to Central Asia (Bondaz, 2015: 7). One year later, China’s “One Belt, One Road” initiative came to prominence. President Xi Jinping, in a September 2013 speech at Kazakhstan’s Nazarbayev University, called for the reviving of the ancient “Silk Road” by establishing the “Silk Road Economic Belt”. On 10 October 2013, Premier Li Keqiang spoke about the new “Maritime Silk Road” at the 16th ASEAN-China Summit in Brunei (Wong, 2014: 2). Finally, on 28 March 2015, the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce published the first document, titled “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”.

“The OBOR Initiative is the most ambitious initiative by China since the new leadership was established”

According to the text, the Belt and Road traverse the continents of Asia, Europe and Africa, connecting the vibrant East Asian economies to developed European economies, and encompassing countries with rising Gross Domestic Product (GDP) over the next 15 years.

The Silk Road Economic Belt seeks to bring together China, Central Asia, Russia and the Baltic states; linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st-Century Maritime Silk Road will connect China’s coast to Europe through the South China Sea and the Indian Ocean, and China’s coast via the South China Sea to the South Pacific” (NDRC, 2015).

The OBOR initiative is not about singular routes. The text mentions: a new Eurasian Land Bridge: China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors, as well as a China-Pakistan Economic Corridor and a Bangladesh-China-India-Myanmar Economic Corridor.
The text also emphasizes the idea of “connectivity”: “connectivity of Asian, European and African continents and their adjacent seas”, “all-dimensional, multi-tiered and composite connectivity networks”, “connectivity projects”. Connectivity is about more than economic, financial and legal integration, it is also about interrelationships between cultures, and the connections that bind communities together.

Thirdly, the OBOR initiative identifies five major areas of interest: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people to people bonds. Policy coordination means that the countries involved will jointly formulate “development strategies and policies, work out plans and measures for regional cooperation”, will resolve problems arising from cooperation through consultation, and will jointly provide policy support to practical cooperation and large-scale projects implementation. Facilities connectivity includes infrastructure construction plans - railways, highways, air routes, telecommunications, oil and natural gas pipelines and ports: technical standard systems, international trunk passageways, in order to form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe, and Africa.

In order to facilitate unimpeded trade, steps will be taken to resolve investment and trade facilitation issues, to reduce investment and trade barriers, to lower trade and investment costs, as well as to promote regional economic integration. Regarding financial integration, actions will be taken to enhance coordination in monetary policy, expand the scope of local currency settlement and currency exchange in trade and investment between countries along the route, deepen multilateral and bilateral financial cooperation, set up regional development financial institutions, strengthen cooperation in monitoring financial risks, and enhance the ability of managing financial risks through regional arrangements. In terms of people to people bonds, efforts will be made to promote extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services.

The Silk Road Fund, announced by President Xi Jinping in November 2014, has started operating in February 2015, with resources of $40 billion dollars. Its founding shareholders include China’s State Administration of Foreign Exchange, the China Investment Corp, the Export-Import Bank of China, and the China Development Bank. It finances investments in

Figure 1: “One Belt, One Road”
infrastructure, resources and industrial and financial cooperation across Asia.

The Asian Infrastructure Investment Bank offers an alternative vision of global governance and development. It will focus on the development of infrastructure and other productive sectors in Asia, including energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development, and logistics. Recently, it took a major step toward becoming operational, when 17 of its founding members ratified the bank’s Articles of Agreement.

China’s "One Belt, One Road" initiative boasts several strengths: it uses existing mechanisms; it relies on the attractiveness of its own development model; it allows investment of its $3.33 trillion dollars foreign reserves and secures contracts for Chinese firms; and it promotes its Five Principles of Peaceful Coexistence unlike other Eurasian projects. However, there are many challenges as well. These will be discussed in the following sections: domestic constraints, tensions in the neighborhood, and great power rivalries.

**Domestic constraints**

China has enjoyed impressive economic growth since the 1980s. But it has been very unevenly spread, with investments concentrated in the eastern and southern coastal belt of the country.

**Figure 2: China’s income by province**

![China’s income by province](image)

Napoleon said that “the history of a country lies in its geography”. “Coastal or Maritime China” represents the most dynamic part of the country, with the most impressive economic growth rates. It has several strengths such as: openness to the world market, concentrated investments, advanced technologies and management skills, public infrastructures, higher urbanization and density of population, and educated work force. But its provinces do not have the much needed raw materials.

“Continental China” is less developed - the state sector still has a much stronger presence here than in the coastal regions. The radical SOEs reforms resulted in a massive number of laid-off workers, worsening the disparity between them.

The regional inequality has very important social and economic consequences. It has caused a rural-urban migration as well as a massive inter-regional migration towards the Chinese coast. In rural areas, the government expenditures on water, transport and energy infrastructures per capita are lower than in urban areas. On the other hand, migrant families suffer from discrimination in terms of both wage offers and occupational...
attainment, they have limited access to unemployment insurance, health insurance and pension and higher costs for their children's education.

“The regional inequality has very important social and economic consequences. It has caused a rural-urban migration as well as a massive inter-regional migration towards the Chinese coast.”

Finally, “North and Western China” (Xingjian, Tibet, Inner Mongolia) is the least developed part of the country. Per capita income in these provinces is between 30 and 50 percent lower than the median income in the rest of China. Their disadvantages lie inclusively in their mountains and plateaus, in their less suitable climate for agriculture, and in the considerable distance to the coast.

Additionally, “North and Western China” is not dominated by ethnic Han Chinese. George Friedman recently observed that: “Xingjian is predominantly Muslim, and an insurgency and terrorist movement is particularly active there. Tibet is less active but no less opposed to Chinese domination. Inner Mongolia and Manchuria are generally content at the moment” (Friedman, 2016). In spite of its many national minorities, “North and Western China” has the richest natural resources (oil, gas, and minerals).

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Figure 3: China’s ethno linguistic groups

In the early stages of reform (1979-present), the Chinese government gave preferential policy treatment to coastal regions, promoting their development. Later, in order to control rising regional inequality, China focused more on the interior regions. The central government launched several regional development programs: the “western development strategy”, the “north-east revival strategy”, or the “rise of central China” strategy. Towards the end of 2014, the central leadership decided to expand the Shanghai Free Trade Zone’s (FTZ) geographical scope and approved the creation of similar FTZs in three other provinces (Guangdong, Fujian, and Tianjin) in order to promote closer international cooperation.

Li Wei emphasized, in February 2014, that “if measures to crimp energy consumption are not taken, 75 percent of China’s petroleum will depend on imports by 2030. In the next two decades, around 300 million peasants will likely flow into urban areas […]” so China needs to secure access to energy and raw materials while developing new markets […]” (Zhao, 2015:3). In spite of its economic growth, there are a number of challenges regarding the maintenance of this trend: the need to assure access to resources, to reallocate industrial overcapacity, to deleverage key sectors, or to deploy its huge foreign exchange reserves productively.

The OBOR initiative is based on building on the existing and planned linkages from various regions of China. The “Vision and Actions” document asserts that, “in advancing the Belt and Road Initiative, China will fully leverage the comparative advantages of its various regions, adopt a proactive strategy of further opening-up, and strengthen interaction and cooperation among the eastern, western and central regions” (NDRC, 2015).

In this sense, the Initiative especially mentions:

- Inner Mongolia’s proximity to Mongolia and Russia as well as the cooperation between China’s Heilongjiang, Jilin and Liaoning provinces and Russia’s Far East region;
- the unique advantage of Guangxi Zhuang Autonomous Region as a neighbor of ASEAN countries;
- the geographic advantage of Yunnan Province and the need to develop cooperation in the Mekong sub-region;
- the border trade, tourism and culture cooperation between Tibet Autonomous Region and neighboring countries;
- Fujian Province as a core area of the 21st-Century Maritime Silk Road;
- Hainan and Henan provinces, and the Hong Kong and Macao Special Administrative Regions (NDRC, 2015).
October 2015 was the deadline for the provincial-level governments to have published their integration plans. The next months will detail how these plans will be implemented, and whether there will be a duplication of effort or wastage of funds. However, the Chinese leadership is thinking strategically, establishing systemic long term goals. Given the preferences of the elites and their pragmatism, the chance to realize many of the established goals is high.

**Tensions in the neighbourhood**

The OBOR Initiative covers 65 countries from Asia and Europe. The Silk Road project will connect countries that represent 55 percent of world Gross National Product (GNP), 70 percent of global population, and 75 percent of known energy reserves (Li, 2014). In July 2015, the Chinese Ministry of Commerce announced that in the first half of the year Chinese companies signed 1401 contracts for projects in countries included in the OBOR framework. These are worth $37.6 billion dollars and representing 43, 3 percent of all overseas contracts signed during that period (Zimmerman, 2015: 7).

China has offered no clear definition of “periphery”, but it does not seem limited to the simple geographic meaning of its immediate neighbors. 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 counterterrorism and economic cooperation, and trying to form new international frameworks where China can play a central role.

The rising role of Asia in the global order is praised at regional forums organized in China - the so-called “hosting diplomacy approach”. In May 2014, during the Conference on Interaction and Confidence-Building Measures in Asia (CICA), held in Shanghai, President Xi announced a “New Asian Security Concept” and the “Asian Community of Destiny” slogans. Both emphasized that Asia is strong and wise enough to take care of its security.

China ties the neighborhood to its own development. China’s “economic diplomacy” in Asia focuses on: free trade areas (South Korea, Australia), economic agreements (Regional Comprehensive Economic Partnership, the Free Trade Area for the Asia-Pacific), regional projects (the Bangladesh-China-India-Myanmar and China-Pakistan Economic Corridors), and special “Silk Road” economic zones. It looks to avoid double taxation and to expand the scope of economic cooperation in areas such as agriculture, maritime industries, energy, and green technologies (Szczudlik-Tatar, 2015: 2).

Presently, China is the largest trading partner of more than 120 countries. China’s trade with ASEAN countries is projected to overtake that with the European Union (EU) in the 2020s (Summers, 2015: 20). China is already the ASEAN countries leading trade partner and increasingly also an important source of foreign direct investment.

But China’s “peaceful rise” has not been embraced by all its neighbors. This is partly due to the lack of trust between them and partly due to China’s outstanding bilateral tensions with certain Asian states. In fact, Chinese officials have recognized that the New Silk Road is a useful economic carrot to deal with the majority of security problems China has with its neighbors.

In late 2013 the PRC established its first Air Defense Identification Zone (ADIZ) in the East China Sea, including the Diaoyu/Senkaku Islands, claimed by both Beijing and Tokyo. Also, in late 2014, China began construction of a military base on Nanji Island in Zhejiang Province, close to Diaoyu/Senkaku. The threat from China made Prime Minister Abe Shinzo to modify Japan’s security policy.

In recent years, Beijing has been more active in the South China Sea. There it is involved in disputes with Vietnam, the Philippines, Brunei, and Malaysia over the Spratly and Paracel Islands, the Macclesfield Bank and Scarborough Shoal.

In May 2014, China established an oil rig near the Paracels, declared a three-mile exclusion zone around the rig, and started drilling. Moreover, since mid-2014 the PRC has been conducting land reclamation on disputed islets, generating speculation that it is going to establish a South China Sea ADIZ. For example, on the Paracels, China is expanding its runway and refurbishing a harbor on Yongxing Island, while on Spratly, it is building new artificial islands near Fiery Cross Reef, Johnson South Reef and Gaven Reef. Beijing plans to construct airstrips and aprons for military aircraft and harbors capable of hosting military and fishing vessels.

China has good relations with each of the five Central Asian countries -Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan, especially compared to its relationships with its neighbors to the east and south. Even though China shares over 3 000 km of borders with three of the Central Asian states, the last border normalization was resolved in April 2010.
Figure 4: Tensions in the Neighbourhood

Ethnic tensions. The people of Xinjiang, like those of Tibet, have called for more autonomy. With the opening of China in the last several decades, the people of Xinjiang, mostly Muslim Uighurs, have become more vocal about their demands, resulting in numerous outbreaks of violence.

India-China border. Aksai Chin, an uninhabited section of the Tibetan Plateau, is claimed by India but controlled by China.

Occupied Tibet. The region of Tibet was first occupied by China during the Manchu Dynasty and was virtually independent from 1913 to 1950. China invaded and reoccupied the territory in 1959 and has refused Tibetans’ calls for more autonomy since. Tibet’s spiritual leader, the Dalai Lama, went into exile in India following the 1959 invasion.

China-India border tensions. The McMahon line was proposed in 1913 at the watershed of the Himalayas and is the current boundary between China and India. China has never accepted this boundary and unsuccessfully invaded across this border into India in 1956 before being pushed back. Tensions are now easing in this area.


Island claims. The Paracel Islands are claimed by China, Taiwan, Vietnam, Malaysia, and the Philippines. The Paracel Islands, potentially hold petroleum reserves beneath the sea.

Spratly Islands. The Spratly Islands are claimed by China, Taiwan, Vietnam, Malaysia, and the Philippines. These islands, as well as the Paracel Islands, potentially hold petroleum reserves beneath the sea.

Hong Kong. The former British colony of Hong Kong was returned to China on July 1, 1997, and China has promised no change with Hong Kong’s capitalist economic system.

Territorial claims. Japan claims the four southernmost Kuril Islands, which were annexed by Russia at the end of World War II.

Border dispute. The 1991 Russia-China Border Agreement established the Amur and Ussuri rivers as the official border, but the two countries have squabbled over the possession of islands in the rivers.

The Korean DMZ. The 146-mile-long border between North and South Korea was established in 1953 following the Korean conflict. Though there was no formal agreement concluding the war and officially creating the boundary, it is well guarded and is ringed by a 2.2-mile-wide demilitarized zone.

U.S. military bases. The United States has maintained several large military bases on the island of Okinawa, causing much resentment among many islanders who wish to see them closed.

Other great powers, which have their own geopolitical, geo-economic and geostrategic projects for Eurasia, perceive China’s “One Belt, One Road” initiative as a security threat. Russia, the U.S., India, and Japan are all important players in the OBOR countries and could use their power to block China’s plans.

Russia considers Central Asia as its backyard, and it has been promoting its own plans for a Eurasian Economic Union. Secondly, Russia feels threatened in Siberia and the Far East by the Chinese migration. In December 2013 Russian President Vladimir Putin declared that the development of these regions is a national priority for the 21st century.

For the moment, Russia and China are partners in the Shanghai Cooperation Organization, the BRICS group, and the UN Security Council. They have common gas projects, such as The Power of Siberia and the Altai pipelines. They signed many other agreements to facilitate Chinese trade and investments in Russia, and held common naval exercises in the Mediterranean Sea and the Asian Pacific region, which is a serious geopolitical challenge to the US naval dominance in these regions.

Great power rivalries

Professor Wang Yiwei, at Renmin University, quoted Halford Mackinder and called for a revival of Eurasia as a “world island”, thanks to China’s “One Belt, One Road”, which would sideline the United States (Fallon, 2015: 142). The Chinese elites more often assert that China’s economic power should be in equilibrium with the political, military and moral powers (Leonard, 2008: 86). The truth is that, besides the U.S., China is the only power capable of realizing a synthesis between its maritime and continental dimensions.


90 percent of Mongolia’s exports are to China and 50 percent of its FDI comes from China. But perhaps for that reason, it is Russia that is the most popular neighbor in Mongolia. There are also disputes involving Russia, along the Ussuri River and along the Sino-Russian border west of Mongolia, and involving India, principally in Aksai Chin and in the Indian northeast with respect to the McMahon line and the status of the Indian state of Arunachal Pradesh.

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However, Russia is not an easy partner to work with, as its actions can be unpredictable and could undermine China’s confidence in Russia. Nevertheless, Russia’s spat with the West over Crimea and U.S. engagement in the Asia-Pacific region seems to improve Russian-Chinese relations.

The United States first challenged China through its Trans Pacific Partnership (TPP). The inclusion of Japan in the TPP reinforces suspicion in China about a return of a U.S.-led containment or a roll-back of China’s rise. This seems to be the most powerful trade bloc of the entire Asia-Pacific region. And China is the most notable exclusion from the negotiation process. The TPP is focused on leadership competition, less so than on trade and investments. In response to the Trans Pacific Partnership, China chose the Free Trade Area of the Asia Pacific (FTAAP) as its landmark initiative.

Secondly, in June 2011, then Secretary of State Hillary Clinton announced that, in the post-2014 period, the United States will maintain its interest in Central Asia by launching a “New Silk Road” Initiative. The effort will promote regional cooperation in trade, energy, and transportation between Central Asia and South Asia (Fedorenko, 2013:3).

India sees China’s OBOR initiative as a new ‘string of pearls’ strategy designed to encircle India. Therefore, India proposed its own Project Mauam. Secondly, the border disputes as well as Chinese support for Pakistan make trust between China and India to remain low in the military sphere. However, this year, both India and Pakistan will become full members of the Shanghai Cooperation Organization.

China and India economies have strengthened, so they have new reasons to focus on achieving their own interests. In the long term, this may make competition inevitable. Chinese analysts believe that India aims to become a major power, to play an important international role, and to create an external environment favorable to achieving its aspirations. However, India aims to achieve this objective not by relying on China’s economic power, but by using U.S. military might.

The European Union is heavily courted by China for its project. China’s ambassador to the EU, Yang Yanyi, said that China is looking to increase synergies between the “One Belt, One Road” initiative and the European Fund, especially in the regions between China and Europe (Verlare and der Putten, 2015: 3). In June 2015, Hungary became the first European country to sign a memorandum of understanding with China. Additionally, China and France signed a landmark agreement prioritizing their cooperation in third-party markets. China also has various railways and harbors’ projects with Poland and Greece.

Conclusions

The Confucianist discourse describes China as peaceful, unique, defensive and non-expansionist country. On the other hand, China is presented as a great power, with a historical role on the international arena, given by its size, culture and economy. Finally, China’s foreign policy is described as a sum between the “neighbourhood diplomacy” (zhoubian waijiao) and “great powers diplomacy” (daguowaijiao).  

In this context, the list of China’s goals, in the medium and long term, includes: internal stability, maintained economic growth, deepened reform, and opening to the outside world: enhancement of its soft power, improved relations with its neighbours, energy security, and equilibrated relations with the great powers: rule maker in the global governance institutions and contributor to the global economy.

The “One Belt, One Road” Initiative seems appropriate for the present political and economic development of China, in line with its thinking regarding the international relations. But this strategy is subject to several risks in the partner countries, such as harsh terrain, long distances to the market, high costs, slow customs clearance, corruption, political instability and terrorism, and challenges drifted from its domestic problems, tensions with its neighbours and rivalries with other great powers.

However, until now, China’s “One Belt, One Road” Initiative seems better articulated than other similar projects if we consider its soft power and other diplomatic activities, its strategic and management planning, the financial resources, and the willpower of its elites.

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Recommendations for policy

Finally, we want to offer several suggestions regarding the improvement of China's initiative. The suggestions concern the initiative's planning and implementation, the means to improve its bilateral relations with neighbors and great powers, in order to be perceived as a responsible power on the international arena.

1. Chinese planners should better define the goals, the stakeholders and the projects of the OBOR initiative.

2. China has no guarantee that economic growth will continue. Therefore, China should share investment risks with the partner countries.

3. China should improve its position in the neighborhood by demonstrating its will to resolve existing disputes in a peaceful and legal manner and to pursue joint development.

4. China should improve its relations with the great powers, promoting its national interest in an internationally accepted way and focusing on cooperation.
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