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The Reasons Behind the Belt and Road Initiative from Economic and Political Perspectives

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Abstract

The Belt and Road Initiative (BRI) was launched by Chinese President Xi Jinping in 2013 with the aim to rebuild the Silk Road and major Eurasian economies through infrastructure, trade and investment when he visited countries in Central Asia and Southeast Asia. This paper briefly introduces BRI and previous studies on the motivations behind BRI. Then the paper discusses the rationales behind BRI from economic and political perspectives. The author specifies that the China's economy in a "new normal" and the tensions between China and the United States are two primary reasons behind BRI. Finally, the author raises the doubts of BRI's sustainability due to supply chain disruption, "debt-trap", and worse Chinese economy, and recommends further study on the impact of pandemic on China's economic capability of funding BRI to evaluate the sustainability of BRI.

Keywords: The Belt and Road Initiative; One Belt One Road; Economic Reason; Political Reason; China.

1. Introduction

The Belt and Road Initiative (BRI) was initially launched by Chinese President Xi Jinping in 2013 with the aim to rebuild the Silk Road and major Eurasian economies through infrastructure, trade and investment when he visited countries in Central Asia and Southeast Asia. According to BRI, the initiative has two components: The land-based "Silk Road Economic Belt" and oceangoing "Maritime Silk Road" (Figure 1).

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The “Belt” is a network of overland road and rail routes, oil and natural gas pipelines, and other infrastructure projects that will stretch from Xi’an in central China through Central Asia and ultimately reach as far as European’s Moscow, Rotterdam, and Venice. Rather than one route, six economic corridors (Figure 2) are set to run along the major Eurasian Land Bridges, through China-Mongolia-Russia, China-Central and West Asia, China-Indochina Peninsula, China-Pakistan, Bangladesh-China-India-Myanmar. The “Road” is its maritime equivalent: a network of planned ports and other coastal infrastructure projects that dot the map from South and Southeast Asia to East Africa and the northern Mediterranean Sea [1].

In its largest definition, BRI would include 65 countries, 4.4 billion people and about 30 percent of global GDP [2]. China is backing the plan with considerable resources, setting up a New Silk Road Fund of $40 billion to promote private investment along BRI. The New Silk Road Fund is sponsored by China’s foreign exchange reserves, as well as government investment and lending arms. In addition, the Asia Infrastructure Investment Bank (AIIB) is widely expected to support the initiative with a considerable share of its $100 billion in lending, and the China Development Bank reportedly said it would invest almost $900 billion into more than 900 projects involving 60 countries to bolster the initiative. The Economist magazine reported that $1 trillion in “government money” would be spent on the initiative [3].

Figure 1: Routes of the China’s Belt and Road Initiative.

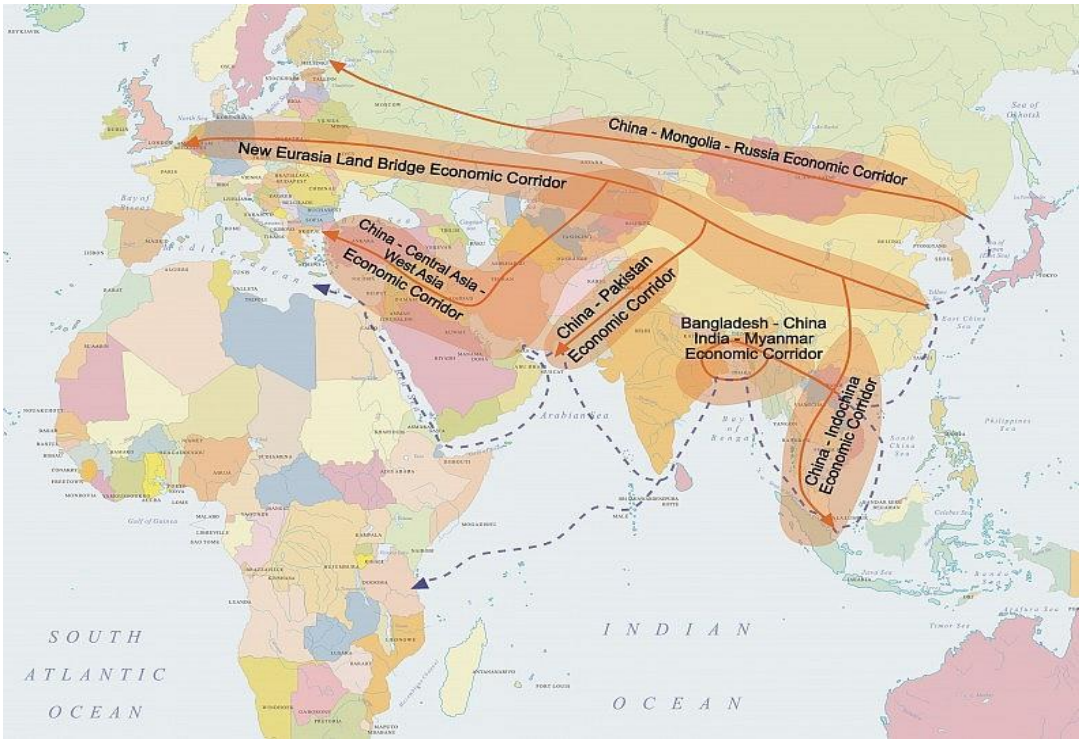

Figure 2: Six Economic Corridors of the China's Belt and Road Initiative.

The initiative implementation began in March 2015 and has a prominent place in China's 13th five-year plan, released in October 2015, and is the country's most ambitious foreign trade and investment strategy. It deliberately rebalances globalization and reshapes China's comparative advantage in the global industrial division of labor system. It has been described by the Chinese government as the country's "second opening", after Deng Xiaoping's 1979 model which led to China's rapid growth over three decades.

2. Reasons behind the Belt and Road Initiative

The Action Plan on the Belt and Road Initiative, published by the State Council of China in 2015, does not provide convinced reasons why China promote the initiative. From East to West, scholars explore the motivations behind the initiative and their own view on motivations that China promotes the Silk Road plan. The authors in [4, 5] offer three reasons that China promotes the initiative: break the "power is bound to tyrants" curse; stabilize the periphery; promote China's own development, especially in central and western China. The author in [6, 7] believes one motivation for China to promote BRI is rebalancing globalization. The author in [8] indicates China's main interest is to reduce the cost of transporting goods as the world's biggest trading nation. Those studies are either from China's perspective or international perspective to study the motivations of BRI, but none of those studies has been devoted to the study of the internal motivations of BRI under a global scale. In this paper, we explore internal motivations behind BRI from economic and political perspectives under a global scale.

Economically, China is entering a new development stage called "new normal". First, China's economy is slowing down. After unprecedented high-speed GDP growth rate with double digits for thirty years, China's

GDP growth rate started to fall to below 7% since 2012 [9]. Second, traditional domestic infrastructure investment to stimulate economic growth was ineffective. 98.35% of villages already connect with cement road, almost all counties are covered by rail system, and 80% of big cities (more than one million people) connect with high-speed rail system [10, 11]. Third China’s export-oriented model for economic growth can’t be sustainable [12]. With the world economy slow recovering from the 2008 financial crisis and depressed international demand, especially under the circumstance of uncertainty of trade war between China and US, China’s export growth rate has down to single digit since 2012. The export growth rate in 2012, 2013, 2014, 2015, 2016 and 2017 were 7.9%, 7.8%, 6.0%, -2.9%, -7.7% and 7.9%, respectively [13]. Fourth, China’s overcapacity of production has been well documented. Owing to the economic drive and building boom of recent decades, especially the economic stimulus countering the financial crisis in 2008, China has severe overcapacity in 19 of total 39 manufacture sectors [14, 15]. A viable outlet is needed for excess production capacity.

Politically, the tensions between China and United States have been growing along with the rising global power of China. First, Beijing believed that the United States deliberately contained China and strategically hindered China’s rise. During a nine-day trip to Asia-Pacific region in November 2011, President Obama sent a clear message that the United Sates was a “Pacific Power” and eager to help build economic success and security in the fastest-growing region [16]. He pushed a free-trade agreement, called the Trans-Pacific Partnership (TTP), to isolate China. In a speech at Australian Parliament, the president declared that the United States would play a larger and long-term role in Asia-Pacific region [17]. Then Defense Secretary Leon E. Panetta announced the United States would have 60% of its ships in the Pacific by 2020 and more military exercises with other countries in Asia [18]. Many territory disputes arise in the East China Sea and South China Sea since US adopting the “Pivot to Asia” or Asia-Pacific rebalance policy. Beijing believed the rebalance was a reaction to China’s arrival as regional/global power. They viewed that rebalance was to contain China and a strategic tool to hinder China’s rise [19, 20]. Second, energy security has been a consistent worry by Chinese government, and for good reason. With the growth of economy, China has been the world’s biggest energy consumer since 2009 and, as of 2017, the world’s largest net import of crude oil [21, 22]. More than 60% of crude oil and 30% of natural gas rely on import [23]. However, 80% of those import is transported through the Strait of Malacca, where U.S. has military base nearby. Chinese government deems it as potential energy security issue and must diversify energy sources.

3. Conclusion

Economic and political motivations are two primary reasons behind BRI. Economically, China is entering a new development stage called “new normal”. Politically, the tensions between China and United States have been growing along with the rising global power of China. BRI is being considered a key instrument in achieving the China’s economic and political agenda. Since its launching, the Belt and Road initiative has steadily gained in importance as a major element of Chinese foreign policy and has made significant progress in policy coordination, infrastructure connectivity, unimpeded trade, and financial integration. It has been presented as the key focus of China’s diplomacy since 2014, and as an essential element of Beijing’s attempt to deepen economic reform within China and stimulate development in China’s western regions. The potentially multitrillion dollar scheme has generated enthusiasm and opportunities but also skepticism and challenges throughout the region and across the world. Covid-19 travel restrictions have been significant damaged global economy and supply chain. The impact is expected to affect business indefinitely and the supply chain is unlikely to resume its pre-covid-19 status. “Debt-Trap” in host countries has become a key concern. With an estimated $15 billion in debt to the Chinese government and another $6.7 billion in Chinese commercial debt for China-Pakistan Economic Corridor (CPEC) projects, together with non-CPEC Chinese debt, China is going to take a growing toll on Pakistan economy, especially when the bulk of payments start to come due in the next four to six years. The debts are going to hang over Pakistan’s economic development potential and hamstring Pakistan’s economic reform agenda [24]. Doubts are rising whether BRI is sustainable as China’s Covid-zero policy has worsened Chinese economy unmeasurably and current Covid-19 outbreak in China adds a new unpredicted factors to existing gloomy global economy. The impact of pandemic on China’s economic capability of funding BRI projects need to be further studied to evaluate the sustainability of BRI.

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