“China’s One Belt One Road Initiative”: Analysis from an Indian Perspective

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The One Belt One Road initiative is the centrepiece of China’s foreign policy and domestic economic strategy. It aims to rejuvenate ancient trade routes—Silk Routes—which will open up markets within and beyond the region. India has so far been suspicious of the strategic implications of this initiative. If India sheds its inhibitions and participates actively in its implementation, it stands to gain substantially in terms of trade.

Introduction

The growth of China has been remarkable since it undertook reforms in 1978 and China is currently the second largest economy in the world even having overtaken Japan. In order to sustain this development, the concept of the Silk Road was proposed. The renewed initiative of the Belt and the Road is proposed to cope up with the profound changes and challenges that emerge in the course of development. The grandiose idea is rooted in history with the new Silk Road economic belt and the 21st century Maritime Silk Road (MSR) which earlier linked the major civilizations in Asia, Europe and Africa for years.

According to the official document titled “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”, the project aims to create an open, inclusive and balanced regional economic co-operation with common ideology that benefits all the countries involved in the initiative. The vision reflects the demand from relevant countries for releasing infrastructure bottlenecks and improving connectivity with large markets in Asia and Europe as well as the need for China’s own development and security.

To achieve its objective, a new “Silk Road Economic Belt” will link China to Europe that cuts through mountainous regions in Central Asia and the “Maritime Silk Road” that links China’s port facilities with the African Coast and then pushes up through the Suez Canal into the Mediterranean Sea (Minnick2015). The MSR will extend from the Quanzhou province in China, heading south to Malacca Strait, from Kuala lampur it will head to Kolkata, crossing the northern Indian Ocean to Nairobi, Kenya.

Therefore it offers a tremendous opportunity to connect resource and commodity rich west and Central Asia to emerging South and South East Asian countries along the Road which has a huge potential consumer market. To facilitate this development, China has set up a US $40 billion Silk Road Fund.

1. Driving factors behind the OBOR initiative

Much of China’s logic on the project is based on geopolitics and on the export of its huge
infrastructure-building capacities and therefore Chinese President Xi Jinping has made the program a centerpiece of both his foreign policy and domestic economic strategy. The project is comprehensive and multi-faceted and seeks to establish China not only as an Asia-Pacific but also as a global power.

Since decades, China’s opening up policy has favored development of East China and Coastal areas while West China and Inland areas limited by their geographical location, resources and development foundation have remained relatively less developed. The OBOR strategy contributes to the establishment of “one body two wings” of the new pattern of comprehensive opening up (Hucheng2014). Through this initiative China hopes to develop and modernize its landlocked and underdeveloped southern and western provinces, to enable them access the markets of south East Asia and west Asia thus shaping China’s regional periphery by exercising economic, cultural and political influence.

Further, the Chinese leadership is facing difficulties to manage the transition to a “new normal” of slower and more sustainable economic growth because of the property market challenges, overcapacity in the industries, debt burden and financial risks hovering over the Chinese economy. Infact, excess capacity in Chinese factories is a serious problem. It is expected that by promoting investments in course of implementation of OBOR Projects, new opportunities and markets would be created for Chinese firms which would have a multiplier impact on production of goods and services domestically, thereby creating more jobs and higher incomes for the Chinese populace. Given its huge foreign exchange reserves, totaling about $4 trillion, China is in need of avenues to invest so as to earn a reasonable return on the same.

Among all the driving factors, the strategic rationale for initiating the OBOR is of utmost importance. The project clearly reflects the deepening of Chinese interests in strategically important regions to its west, for instance, Persian Gulf. Many of the spectators are of the view that this new initiative by China is a response to the much –hyped “pivot to Asia” by United States (Leverett2015). According to few experts, the launch of this project, if handled proficiently will act as a non-military catalyst that will accelerate the relative decline of U.S. power over the Persian Gulf and will ensure more balanced distribution of geopolitical influence in this region which is seen to be vital strategically.

Financial integration is another important underpinning driving the implementation of OBOR. This project will help the internationalization of Yuan and encourage Chinese companies to issue Yuan bond to fund projects for the OBOR initiative. As more and more trade will get channelized through the route, the demand for Chinese currency will increase that will further help increase its weightage in the IMF and Special Drawing Rights. Also with most of the projects (in initial phases at least) to be financed by Chinese financial institutions like China Investment Corporation, China Development Bank etc., and China dominated institutions like Asia Infrastructure Investment Bank and BRICS New Development Bank, it is being commented by many observers that this would help China in faster internationalization of her currency, the Renminbi. Thus it quite apparent that China has a grand vision in promoting OBOR; a vision which will seek for a greater role for China (both political and economic) in the international community.

2. Economic Coverage of the BRI.

Economic and Trade co-operation is the foundation of the construction of OBOR. The Chinese officials use three keywords to define the new project: ‘Connection’, ‘Inheritance’
and ‘Record’ as the project is an important component of ‘Chinese Dream’ which extends both in space and time. With 58 countries involved along the “One Belt and One Road”, it accounts for the economic aggregation of $US 21 trillion, with share in the global trade 29 per cent[i]. Unlike the traditional Silk Road which ensured exchange of goods and technology, the New Silk Road also plans to link the policies, infrastructure, trade, finance and people. Table 1 below presents the regions covered along the route along with their percentage shares in world population and world GDP.

Table 1: List of Regions along the OBOR and their % share in world Population and GDP.

<table>
<thead>
<tr>
<th>Region</th>
<th>% share in world population</th>
<th>% share in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>North and East Asia</td>
<td>21</td>
<td>20.1</td>
</tr>
<tr>
<td>Central Asia</td>
<td>1.4</td>
<td>0.7</td>
</tr>
<tr>
<td>West Asia</td>
<td>5</td>
<td>6.26</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>9</td>
<td>0.99</td>
</tr>
<tr>
<td>South Asia</td>
<td>23</td>
<td>6.36</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Southern and Western Europe</td>
<td>2.3</td>
<td>8.37</td>
</tr>
<tr>
<td>East Africa</td>
<td>2</td>
<td>6.35</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>50.6</td>
</tr>
</tbody>
</table>

Source: % share in Population and GDP is calculated by author and data of GDP and Population was taken from World Bank.

3. Implications of the OBOR on China and Member Countries.

One Belt One Road provides a platform to expand trade volumes between China and the member countries. Presently, trade between China and other partner countries along the roads boasts a solid foundation. For most of the countries involved in the project, China is their largest trade partner, largest export market and the main source of investment. Trade and FDI, over the past 10 years between China and other countries have had an annual average growth of 19 per cent and 46 per cent respectively. According to Fidelity Worldwide Investment Report (2015), China’s trade value with the OBOR countries reached almost RMB7 trillion in 2014 accounting for 25% of total foreign trade value, while the combined weightage of trade with the US, Eurozone and Japan was around 34%.

Considering that China has maintained strong trade and economic co-operation with the countries involved in the project, this new initiative will further give boost to economic co-operation which will ensure regional integration. According to Chinese President, the annual trade with the countries involved in the project would surpass $2.5 trillion in a decade.

Chinese agriculture and mining are the two key industries which are expected to benefit as the route will encourage mineral exploration. OBOR initiative will also help China to identify new growth drivers for imports and exports and hence diversify China’s trading profile leading to trade creation. Through the OBOR, China is planning to encourage competitive industries to reap the advantage of high-end technology and increase overseas investment. This will further assist in exploration of resources which will improve China’s supply of energy resources. Under this new initiative China plans to build both hard and soft infrastructure from Indo- Pacific to Africa to improve the relations at both economic and political front.
China however has to be critical while formulating its plan. The route is in three directions- east, west and south and hence needs to be clearly differentiated.

The benefits of the project however is not just limited to China alone but also gives tremendous opportunities to its members to boost and revitalize trade with other countries and seeks for new markets and strengthen their accessibility. With connectivity improving, the OBOR covered countries are more likely to gain more share among Chinese trading partners. Being the final destination of the New Silk Road, Europe is also an important region for China from an economic viewpoint. Through better connectivity, OBOR may promote the reconciliation of EU and Russia and will also provide Europe, a platform to balance its transatlantic relationship. There will be a greater chance for Europe to co-operate with the markets of West Africa, the Indian Ocean and Central Asia.

OBOR will also connect resource and commodity rich west and Central Asia to emerging South and South East Asian countries along the Road which has a huge potential consumer market. Southeast Asia though rich in resources suffers from infrastructure deficit and low level of industrial development. The project has potential to address this gap and hence promote the development in the region. For countries like Cambodia and Laos the OBOR project could be a game changer. Further, the large scale investment needed to build OBOR might encourage Chinese steelmakers to build more capacity in Southeast Asia, West Asia and African countries by setting up integrated steel mills with nearby iron-ore mines. China cement industries will also see a long term benefit as the demand from ASEAN and Central Asian countries will increase because of infrastructure development. This could also encourage overseas expansion of Chinese cement industries in these regions. Additionally, the freight movement by road will increase through multi-modal connectivity. Overall the countries are expected to gain as OBOR will encourage demand, burgeoning of new industries and creation of trade.

India and “One Belt One Road (BRI)”: Implications

According to various experts from different countries from east coast of Africa to Northeast Asia, India’s role in BRI has been acknowledged and seen essential. Indian Ocean is vital for pursuing the economic and strategic interests of China. However, unlike most of the ASEAN and South Asian countries who have welcomed the idea of BRI, India has not. For India, the proposal to build BRI is vague and does not give surety as to how serious Beijing is about opening up trade and cultural exchanges along the Himalayan barrier. The project has several implications for India.

4.1 Impact on Security

India, in order to balance China’s North-South connectivity to South-East Asia, has been promoting East-West Connectivity through Myanmar, Thailand and Vietnam. India however is concerned about the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor which links Yunnan with North-east part of India.

Through the OBOR, China is countering the strategies of India and is promoting its greater presence in the North-Eastern region of India, part of which China claims as its own territory. These along with China’s plan to supply eight type 039 A submarines to Pakistan have made India anxious of China’s policy of ‘balanced’ South Asia. With China’s aid to Pakistan and launch of BRI, such submarines will be more than doubled. India, on the other hand only has 13 aging conventional subs which could result in India-China...
arms race and geopolitical rivalry in the India ocean region.

Further, the China- Pakistan Economic Corridor (CPEC) which is a part of the BRI passes through Pakistan Occupied Kashmir. According to the document released at the Bao Forum Conference in March 2015, the creation of maritime facilities with China’s aid will have an obligation for the host country to serve Chinese interests including strategic interests (Rajan 2014). This is worrisome for India as Chinese will eventually increase their military presence in Indian Ocean and will reshape the economic arrangement in the regions. Further, the railway route planned under BRICS expected to link Pakistan and China via Pakistan occupied Kashmir will be of strategic importance in the event of conflicts with India and will facilitate China to supply missiles and spare parts to Pakistan. This might have serious consequences on India’s power to negotiate with China on the territory of Ladakh and further cause tensions at border.

4.2 Impact on Trade

The Silk Road Economic Corridor initiative is similar to that of BCIM and the CPEC Corridor. India has direct and indirect presence in all the three economic corridors. BCIM gives India greater presence in the region as it is the formal member. India pursues its soft power in the Silk Road Economic Corridor that outvie the economic and political development. The CPEC would link to the larger India market in order to reach its full economic potential. This corridor will open up the flow of trade between India and Pakistan which presently has to be routed through third-countries instead of receiving them directly. Further, India does not enjoy much leverage to guide ocean trade markets despite having proximity to sea and strong navy. Through OBOR project India will get access to more business in an environment which will promote business friendly reforms.

Although, China is the largest trade partner with most of the countries involved in BRI projects, India’s also is significant trading partner especially with African, South Asian and South East Asian countries. India will have economic implication once the BRI project is launched. The port development in Myanmar, Bangladesh, Sri Lanka, Maldives and Pakistan which is incorporated in the BRI project have the potential to change the bilateral equation of India further to its disadvantage (Sibal 2014) as it favors China’s trade flows through the Indian Ocean. This also will lead to trade diversion of Indian goods and services. China and India export some of the similar set of goods to the countries like Thailand, Myanmar, Cambodia in South East Asia region, Sri Lanka, Pakistan and Nepal in South Asia, few countries in Western Europe and Central Asia. Once the BRI is built the countries might divert their trade from India to China because of the easier accessibility to Chinese goods and currency exchange.

4.3 Why India should join?

China has a tradition of using the “Cheque book” policy against India. And under maritime silk route (MSR) China is developing ports in Bangladesh, Sri Lanka and Pakistan and is trying to enlarge its sphere of influence using its economic might in the Bay of Bengal, Arabian Sea, thus MSR is nothing but an economic disguise to the “string of pearl” theory. China is investing huge amount of monies in India’s immediate neighbors and these south-east Asian countries tend to use the “China card” against India that is trying to play with the India-China mistrust in order to further their development and economic agenda. With more south East Asian nations coming under China’s sphere of influence would result in a serious setback to India’s traditional concept of the subcontinent as its privileged sphere.
Further, the project, though an informal channel at present, offers an alternative against
the US–led Trans-Pacific Partnership (TPP) in the Asia-Pacific and Transatlantic Trade
and Investment Partnership between the European Union and United States. These Mega
Free Trade agreements through their policies and rules of global trade particularly where
multilateral level consensus is more necessary will make it difficult for the government to
regulate the market and will have economic implications on India’s trade.

Moreover, India and China are members of the BRICS Bank which aims to offer financial
support for infrastructure projects and sustainable development. By refusing to be the
member of BRI, India’s infrastructure needs may get neglected. This may further
interfere with the economic co-operation among the BRICS countries and may cause
conflicts.

Once the issue relating to strategic and economic implications is judiciously analyzed,
India could benefit from being the BRI partner. Most importantly, from a strategic
perspective, India’s involvement in OBOR will help the country, better implement and
integrate its “spice route” and the “Mausam project”. Beside tangible benefit of physical
connectivity, the integration of these projects will also invigorate a climate of mutual
trust, stability and prosperity between the member countries. Additionally, India could
also expedite the progress on the Chahbahar port on the Iranian coast which will give
India access to Afghanistan and Central Asia. This would enable India to be a major
player in the overland Silk Route.

India’s participation in OBOR will give a new start and a new bright spot in India-China
co-operation as it will foster policy coordination, increase trade and investment and
ensure people to people connect and most importantly integrate the financial system. For
India MSR could prove to be a boon and help enhance its regional and bilateral co-
operation. India does not have the same economic might as China has, but investing in
neighboring littoral countries will help in reducing china’s sphere of influence to some
extent.

5. Challenges

The huge grandiose plan of OBOR has been painted as everything from a response to
home-grown economic problems to a masterful reshaping of the regional economy.
However the complete realization of the project as estimated will take about 35 year
which will mark the 100th anniversary of the foundation of People’s Republic of China in
2049. Though the project has met with skepticism from its neighbors, it has huge
potential across regions.

However the plan is yet to finalise its strategic vision. The success of the project depends
on addressing both internal and external challenges being faced by the Chinese economy.

Chinese are expecting quick results. As the project involves large scale infrastructure
development, the plan needs to be given at least ten year time frame for success which
means that expectation should be revised. Since China is planning continuous investment
in infrastructure in the countries that are less developed and unstable, there is a potential
for a debt crisis and limited returns. Moreover China presently is grappling with its own
economic issues and slowdown can also have implication on its OBOR strategy. Therefore
serious planning would be essential.

China has allocated $40 billion to its Silk Road Fund and established $100 billion AIIB.
According to few analysts, the actual fund needed for the plan might exceed three or four times the amount allocated. The additional requirement will have to be met either by issuance of special bond and low-cost finance by the China Development Bank. China has to be vigilant of the financial challenges or else the ambitious project could end up as expensive boondoggles.

OBOR has also received criticism and skepticism from many member countries, particularly ASEAN. They see this project as an attempt by China to dominate its neighboring region and therefore are facing coordination problems. Further regional and territorial disputes of China can interfere with the project. Additionally, Chinese failure in considering regional politics and non-interference policy can expose the project to political risks from both local opposition and competing regional power. China’s OBOR dream can also get affected because of the presence of underdeveloped and immature market along the route. Terrorism can further add to the risk. The potential of conflicts and geopolitical tension with the United and the unbalanced trade relations between China and Russia can further act as a hurdle. India may also challenge OBOR as the initiative is seen more of a threat to the country rather than opportunity.

Therefore, it’s the adequate planning and coordination between the member countries that will be required for successful implementation of the OBOR initiative.

6. Conclusion

In sum, the OBOR initiative is a centerpiece of China’s foreign policy and domestic economic strategies. It is aimed at rejuvenating two ancient trade routes and further opening up markets within and beyond the region. In order to make the OBOR successful, China is keen to offer more economic and financial assistance to countries on the route and beyond through connectivity program, technical exchanges and the building of infrastructure. China has already started taking several initiatives by investing in infrastructure projects and seeking a comprehensive engagement with member countries. However better planning will be essential.

From an Indian perspective, it is apparent that the One Belt One Road initiative of China will seriously hamper India’s efforts in increasing its share in global trade and commerce, if India chooses to stay out. Not only is India likely to lose existing and prospective markets, but also see its share in global capital inflows come down. In such a situation, it becomes imperative for policymakers in India to plan out strategies that not only mitigate adverse impacts of the OBOR Project, but also enables the country to reap benefits from the same.

China has repeatedly reached out to India and other countries of the region to partner her in the implementation of the OBOR corridor. India should therefore not miss the bus and strive to gain maximum economic and geopolitical advantage out of the Corridor. To begin with, India should seek to add more Indian nodes in the existing plan of the OBOR Scheme. The Belt is planned to pass through Pakistan Occupied Kashmir (PoK). India should seek to make the route pass through the Indian portion of the region of Kashmir. This would help her not only economically revive Kashmir, but also ease tensions and build mutual trust on both sides of the border. Similarly along the Maritime Road, India should attempt to make the route pass through another port like Kochi or Mumbai. Such a measure would augment India’s own infrastructure development efforts by attracting foreign capital and technical expertise.
It is evident that India needs to actively engage in the development of the project, right from the beginning. She needs to heed China’s call to participate in the project geographically, politically and financially. The OBOR Project provides India a perfect opportunity to attract foreign capital to develop a significant proportion of her requirements. Simultaneously India has the opportunity to tap new markets and make good economic returns by investing in infrastructure and industrial corridors along the Belt and the Road. India can also enhance her international prestige by playing the role of an international mediator between an aggressive China and a suspicious West. India thus has a lot to gain from the One Belt One Road Project, provided India sheds its inhibitions about the same and participates actively in its implementation.

Please click here to view the full article.

[i] The List of the countries involved can be found in “The Silk Road Economic Belt and the 21st Century Maritime Silk Road May 2015” published by Fung Business Intelligence Centre.