‘One belt, one road’ strategy of China

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October 2015
The background: dynamism of regional politics

The power void:

a) the weakening of the Russia control after the breakup of the Soviet Union, whilst the Euro-Asian Economic Union of 2015 (Russia, Belorussia, Kazakhstan, Armenia and Kyrgyzstan) is no replacement; Russia has turned to be passive and reactive in Georgia and Ukraine and only more active in Syria now.

b) US withdrawal from Afghanistan from 2015 – the proposal of the New Silk Road initiative (Hillary Clinton in July 2011) speech) and the two Silk Road Strategy Acts of the Congress (1999 & 2006) focusing on the Central Asia and South Caucasus have produced no consequence. More importantly, the US withdraws from Afghanistan and Iraq and fails to stabilize Syria.
China’s opportunities

China is therefore in an advantageous position to push into the region
1. its geostrategic importance – proximity, connectivity and historical ties;
2. its huge market for trade and investment (as the major trading partner and source of FDI and government loans for the countries, in particular for the developing economies along the Eurasian & African trade routes & since 2008 in Central & Eastern Europe plus Greece, Portugal & Spain);
3. China has the largest foreign exchange reserve ever for any country in history and the political will to invest for the future (sovereign wealth fund purposes but more for politico-economic purpose to reduce risks involved in dependent on the US dollar.

### World top nations in terms of foreign reserve (including gold) at end 2014 (in US$ billion) by World Bank

<table>
<thead>
<tr>
<th>Country</th>
<th>Reserve (US$ billion)</th>
<th>Country</th>
<th>Reserve (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>39,000</td>
<td>Russia</td>
<td>3,862</td>
</tr>
<tr>
<td>Japan</td>
<td>12,606</td>
<td>Brazil</td>
<td>3,635</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>7,444</td>
<td>Hong Kong, PRC</td>
<td>3,285</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5,457</td>
<td>India</td>
<td>3,250</td>
</tr>
<tr>
<td>USA</td>
<td>4,344</td>
<td>Singapore</td>
<td>2,615</td>
</tr>
</tbody>
</table>
China becomes capital exporting county - overseas investment by end 2014

In August 2015, 1,134 financial institutions used the RMB for payments with China and Hong Kong, representing more than 35% of all institutions exchanging payments with the latter across all currencies. It was also the no. 2 for global issuance of Letters of Credit by value.
The territorial coverage of the ‘one belt, one road’ strategy:
Indian Ocean plus the Eurasian landmass

Source: Hong Kong TDC
Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road (2015/03/28) (《推動共建絲綢之路經濟帶和21世紀海上絲綢之路的願景與行動》):

- the Silk Road Spirit – "peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit";
- a systematic project, jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along;
- to promote the connectivity of Asian, European and African continents and their adjacent seas – 6 corridors:
  a. On land, it will focus on jointly building a new Eurasian Land Bridge and developing China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors by international transport routes, relying on core cities and economic industrial parks;
  b. At sea, it will focus on jointly transport routes connecting major sea ports;
  c. The China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor will connect the overland and sea routes.
Policy instruments and focus

1. Revival of the entire Silk Road routes, both overland and on the sea and reaching Europe and Indian Ocean coast (including East Africa and probably South Pacific).

2. Establishment of the Asian Infrastructure Investment Bank (57 charter members with US$ 100 billion), the Silk Road Fund (US$40 billion), the BRICS Development Bank (US$ 50 billion), Shanghai Cooperation Organization Development Bank, South-South Investment Fund plus many bilateral and multilateral commitments of funds from China and currency swap agreements.

3. Bilateral Agreements – Hungary and Pakistan as a start.

4. Focus on infrastructural investment to improve connectivity and accessibility as a foundation for trade, investment and local/regional economic development.

5. Specific projects:
   - Euroasian land-bridges;
Asian Infrastructure Investment Bank – founding members 57 but will have more members once in operation

Countries missing from AIIB are Turkmenistan, Armenia, Japan and the USA, Hungary and other East and southeast European countries.

China had already invested at least $5 billion in ports in 10 years before 2014.

<table>
<thead>
<tr>
<th>Country</th>
<th>Port</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Antwerp</td>
<td>At least $3.94 million</td>
</tr>
<tr>
<td>Greece</td>
<td>Piraeus Port</td>
<td>At least $624 million</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Port of Djibouti</td>
<td>$185 million</td>
</tr>
<tr>
<td>Kenya</td>
<td>Lamu Port</td>
<td>$484 million</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Gwadar port</td>
<td>$198 million</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Hambantota port</td>
<td>$1.43 billion</td>
</tr>
</tbody>
</table>

**Investors:**

- Cosco Pacific bought a 25% stake in 2004, China Merchants later got a stake through its part-purchase of Terminal Link. The two now have a 29% interest in Antwerp.
- Cosco Pacific, for the right to run and upgrade part of the port.
- China Merchants, for a 23.5% stake.
- China Road & Bridge, China Communications Construction Company.
- China paid for 80% of the port’s Phase I.
- China Exim Bank, China Harbour Engineering, China Communications Construction Company, China Development Bank.

China – USA confrontation in the South China Sea

US military projection in the region from the Philippines, Guam and Okinawa

Source: South China Sea Dispute: Beijing Constructing Third Airstrip For Chinese
By James Hoffman, September 15 2015,
First country focus in the strategy – Pakistan: US$ 46 billion in pipelines, railways, roads & IT infrastructure

China’s southward corridor 1: China - Pakistan

Source: Afshan Subohi, China-Pakistan corridor: Visibility of the game changer, Dawn, April 27th, 2015

Source: Saleem Shahid, China-Pakistan corridor: NP criticises centre for not taking Balochistan govt on board, Dawn, May 27th, 2015
Gwadar port

Financed & built by China and managed by China from 2014 (taking over from Singapore, which was supported by the US. China will invest $1.62 billion for further develop the port & connecting highway along the coast. A railway and pipeline will be built to connect to China.

The IP Pipeline will pass through Gwadar port with a possible LNG terminal built at the port.

China-Pakistan corridor; Gwadar port offers the shortest route for China to import oil from the Gulf

Source: http://globalriskinsights.com/2014/03/prospects-improve-for-china-pakistan-economic-corridor

Bangladesh – China – India –Myanmar corridor

China’s strategy

1. Trade and investment facilitation – to develop new markets and secure new investment opportunities, esp. for supplies of oil, gas and minerals; and to make a more profitable use and at least risk diversion of its huge foreign exchange reserve (almost $ 4 trillions);

2. Political and anti-terrorism – from the Shanghai Cooperation Organization to the One Belt, One Road strategy to secure political and security cooperation of its neighbouring countries, esp. those in Central Asia, through generous aids and loans (Silk Road Fund, Asian Infrastructure Investment Bank, The BRICS Development Bank and other bilateral and multilateral arrangements);

3. Global realignment – to create a new economic bloc of countries cemented by China’s investment in infrastructure using mostly the Renminbi (now the 5th largest currency in global transaction) and other local currencies (i.e. against the use of the US dollar) in the promotion of a multi-polar world of economics, politics and finance – an open and inclusive regionalism that counteract the hegemony of the USA and its close allies (Japan, UK and Germany?)

To prepare for the resurgence of China after the lapse of 150 years of decline since 1870 when China was the largest economy in the world
Economic factors

1. Massive investment in infrastructure facilities (railways, highways, and pipelines) will create demands for construction and related services. It would improve connectivity and accessibility of economies and promote directly local production, intra- and inter-regional trade and investment.

2. Great boost to trade in hydrocarbons (mostly from Central Asia & South Caucasus to China, India & Pakistan and to Europe), and minerals (e.g. uranium from Kazakhstan & copper from Afghanistan).

3. Diversion of Europe-Asia trade from sea to overland (currently in the proportion of 99% to 1%) would boost logistics and related services.

4. Greater incentives to resource investment in the region – e.g. hydrocarbons in Kazakhstan, Turkmenistan, Azerbaijan, Caspian Sea and Black Sea, minerals in Afghanistan, hydroelectricity in Tajikistan and Kyrgyzstan.

5. Increase in the demand for financing and financialization of assets and services.
China and Europe: new ideas and new cooperation to come

• Total bilateral trade in goods reached 467 billion euros in 2014, making China the E.U.'s most important trade partner after the U.S. Since 2005 EU’s trade with the East has been larger than with the West.

• At the end of September 2015, China announced it will become the first non-EU nation to contribute to the European Commission's 315 billion euro Investment Plan. Meanwhile, the E.U. said it would examine the possibility for China to become a member in the European Bank for Reconstruction and Development.

• There has already been a 16+1 framework of China with Central and East European countries with China offering a US$ 10 billion credit line and funding the high speed railway connecting Budapest and Belgrade (to be completed in 2017 & possibly extending into Greece)

Source: http://www.kkr.com/sites/default/files/exh1.png
A new found overland route

Existing overland railway routes between China and Europe

The oil and gas factor for both Europe & China


Figure 8: China’s crude oil imports by source