



# “ONE BELT-ONE ROAD” CHINESE INITIATIVE AS A NEW MODEL OF GLOBAL ECONOMIC COOPERATION

## RESEARCH PRESENTATION

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### **Brief historical background of Belt and Road Initiative (BRI) and chronology of major events**

- Announcement of the initiative by President of China H.E. XI JING PIN in Kazakhstan in 2013. This strategy includes two major projects : Silk Route Economic Belt (SREB, Eurasian Land route connecting China to Europe) and the 21<sup>st</sup> Century Maritime Silk Route (MSR, connecting Chinese or Chinese invested ports with the African coast and European Mediterranean ports). The main objective is to rebuild trade communications and boost economic activity between China and countries of Central Asia, Europe and Africa.
- In 2013-2014 start of the discussions over concept and goals of OBOR in society of China and first reaction of international community.

- In 2014 Chinese Government announced the establishment of the Silk Road Fund (with 40 billion US Dollars budget) at the Asia-Pacific Economic Cooperation (APEC) meeting in Beijing (aimed at allocating funds for Chinese companies –potential partners of BRI).
- Signing of the Memorandums of cooperation within BRI by China with partner countries starting from 2014. At present 150 countries have signed the Memorandum of cooperation with Chinese Government.
- In 2015 - assignment of the leading Group of Chinese organizations to coordinate all activities connected with the BRI: National Development and Reforms Commission, Ministry of Foreign Affairs and Ministry of Commerce.
- In 2015 - establishment of the Asian Infrastructure and Investment Bank (AIIB) with 100 billion US Dollars initial capital fund, one of the important source of the financing of business projects under umbrella of the BRI.
- In 2015 specific policies regarding OBOR concept were revealed with determination of six transit routes in the frame of BRI: the New Eurasian Land Bridge (set of railways connecting Central China - Wuhan, Chongqing and Chengdu to Europe via Kazakhstan, Russia and Belarus), the China-Mongolia-Russia (exploitation of Trans-Siberian railway), China-Central-Asia-Western Asia (still not defined finally, but in general reflects the old Silk Road passage through Central Asia, Iran, Turkey to Europe, the other version of this passage is via South Caucasus over the Caspian Sea skipping Iran to Turkey and Europe), China-Indochina Peninsula, China-Pakistan (the construction of highway and railway are planned through Pakistan up to Gwadar port), and Bangladesh-China-India-Myanmar economic corridors to connect Asian economic circle with the European economic circle. They should play an important role in establishing and strengthening connectivity partnerships between countries and building an efficient and smooth Eurasian market. The 21<sup>st</sup> Century Maritime Silk Road targets to connect

regional waterways via the Straits of Malacca to the Indian Ocean, Middle east and Africa.

- In 2017 National Development and Reform Commission of China, the Ministry of Foreign Affairs of China and Ministry of Commerce of China jointly announced “One Belt-One Road” concept “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> - Century Maritime Silk Road”. This concept or strategy covers the land and sea territories with 4,4 billion population of more than 60 countries (63 per cent of the world population), almost 30 per cent of the world economy (6 trillion US Dollars), 23,99 per cent of the world export, one third of international trade volume and 81 thousand km of railway network in Euro Asian space. Based on the United Nations Charter provisions and five principles of peaceful coexistence, this strategy promotes the following standpoints of the market economy: transparency (open for any object of international law and their number cannot be limited by participants of an old Silk Road Project only; harmony and complexity based on respect of specifics in cooperation, tolerant approach and cultural traditions, dialog among civilizations and sovereignty; leading role of market principles in economic activity with priorities determined by the Governments of the participants; mutual benefit and “win-win” co-operation model.
- BRI has five dimensions:
  - **Policy coordination** (promotion of intergovernmental cooperation, multi level intergovernmental macro policy exchange and communication mechanism)
  - **Facilities connectivity** (improvement of connectivity of infrastructure construction plan and technical standards systems)
  - **Unimpeded trade** (reduction of investment and trade barriers, promotion of regional economic integration)
  - **Financial integration** (coordination and cooperation in monetary policy, set up of financial institutions)
  - **People-to-people bonds** (cultural and academic exchange and dialog, media cooperation)

- Promotion of free trade relations and launch of first investment projects.
- Organization of the BRI Global Forums in Beijing in 2017 and 2019. There is an evident increase of the interest towards this international event – almost 5000 participants from more than 150 countries and 90 international organizations, including impressive number of Heads of States and Governments and high representatives of the United Nations joined this Global meeting in April of 2019. “The Belt and Road Initiative is about jointly meeting various challenges and risks confronting mankind and delivering win-win outcomes and common development” said President of China, H.E. Mr. XI JING PIN in his welcoming speech at the BRI 2019 Beijing Forum.
- In 2018 the State Council Information Office of the People’s Republic of China published a white paper “China’s Arctic Policy”. reflecting the China’s Arctic far reaching strategy to develop a “Polar Silk Road” under BRI.
- Establishment in 2019 of the Belt and Road Studies Network and encouragement of cooperation between academic and research communities.

### **Why BRI can be considered as a new and promising model of global economic cooperation?**

#### **Arguments in favor**

- BRI is open for joining to all potential participants based on freedom of choice in making a decision for cooperation (principle of transparency of the concept of BRI). “BRI originated in China, but it belongs to the World. It is rooted in history, but oriented towards the future, focusing on Asia, Europe and Africa, but it is open to all partners. It is a process of open, inclusive and common development, not an exclusionary bloc of a “China club” It neither differentiates between countries by ideology nor plays the zero-sum game. Countries are welcome to join the initiative if they so will” (“The

Belt and Road Initiative Progress, Contributions and Prospects”, source: Belt and Road Portal 2019-04-22).

- At present we observe a new wave of disputes in Global framework of international relations; US - China (trade), US – Russia (security concerns, occupation by Russia the territories of neighboring countries, economic sanctions and etc), US-European Union (trade, migration policy and etc), European Union - Russia (occupation by Russia the territories of the neighboring countries, economic sanctions and etc), exposure of different positions on some aspects of political and economic policies towards foreign partners inside the European Union, crisis in the Middle East and so on. These trends bring less predictability for future stability in the World. In this regard many countries refocused their attention to BRI as a promising opportunity for more stabile national development and Global security.
- China tries to promote transparency and zero tolerance to corruption based on “Clean Silk Road” concept announced at the 2019 Beijing BRI Forum. It is extremely meaningful approach, which in case of effective implementation can minimize the risk of corruptive deals often take place in transitional economies. In addition this policy corresponds to the course of the Chinese Government to struggle with corruption environment at all levels of country’s life.
- China chose a good momentum for announcement of a new initiative since starting from 2008 the international community had been facing the severe consequences of the World financial crises, including the financial turbulence of the Euro zone later and decline of effectiveness of the World Bank to prevent the risks for Global economic stability. On the contrary China has been developing dynamically with almost 10 per cent of GDP growth annually till 2014 and currently at the level of 6,7 per cent. The world desperately needs new approaches and resources to overrun the crises and turn to predictable development. In this context we agree with Mr. Yang Jian Deputy President of the Chinese think tank Shanghai Institute for International Studies (SIIS) observation: “The reason why the

Belt and Road initiative is gaining wider and wider recognition is that besides promoting the development of participating countries, it has also contributed to the recovery of the World economy after the global financial crises, and confirms to the UN Sustainable Development Goals”.

- BRI is not limited in time project. It is a platform for long term and comprehensive intra regional cooperation covering such sectors as infrastructure, trade, transport, manufacturing financial relations, communication, new technologies and others. As President of the Swiss Confederation Mr. U, Maurer pointed out in his interview for Chinese mass media during 2019 Beijing BRI Forum “Belt and Road Initiative is a rare, long term plan that has created a new dimension for the development of the World economy”.
- Absence of multilateral institutional schemes of cooperation with permanent international structures, (like secretariats, boards and etc), that does not exclude, but lessens bureaucracy and search for political consensus. At the same time coordination and better management requires from the managers of BRI cost - effective and timely solutions, particularly at the level of business companies and state organizations. In China decision making relations between state and private organizations are still multistep and long duration due to the size of the country and other factors, but require their adaptation to the norms of dynamically developing modern international business cooperation. Some other partner countries are more adapted to the contemporary business relations, but underestimate the specifics of business and cultural traditions of China.
- Expression of really global interest by participation in BRI of almost 150 countries representing all continents and world experiences of political and economic development, in fact reflecting the United Nations scale of cooperation as to the geographical composition of the countries. By the end of March 2019 the Chinese Government has signed 173 cooperation Agreements with 125 countries and 29 international organizations based on the principle of seeking com-

mon ground while reserving differences and agreed on economic cooperation plans. As the Founder and Chairman of the World Economic Forum Mr. Klaus Schwab mentioned in his speech at the 2019 Beijing BRI Forum: “now the initiative has become an adult, which means that it has become an important factor in the global economy. It has grown up”.

- Mobilization of enormous financial resources, thanks to mostly Chinese key contribution, for economic development of the countries alongside BRI, by strengthening the stability of the World economy and security through East-West dimension of global partnership (major shareholder in AIIB with 100 billion US Dollars capitalization, 40 billion Silk Road Fund, 50 billion US Dollars New Development Bank and an extra 24 billion funding initiative announced by Chinese President in 2017). As to rough estimates, from 4 to 8 trillion US Dollars investments are needed to make the BRI as successful project based on diverse funding channels (BRI bonds, private capital investment and private public partnerships (PPP), state owned enterprise (SOE) and so on.
- Priority of large scale and highly cost infrastructural projects through construction of roads, bridges, airports, seaports, logistical hubs, energy production and communication centers. There is a lot of activities in Central Asia. On the China-Kazakh border, the Khorgos Dry Port s in operation since 2015. The Jiangsu province in China considers the investments amounted 600 million US Dollars till 2020 to build logistics and industrial zones in Khorgos. The new railway lines between Khorgos and port Aktau in Kazakhstan and China-Kyrgystan-Uzbekistan will develop the China-Central Asia-South Caucasus-Europe corridor of BRI. In energy sector China has agreed with Uzbekistan, Tajikistan and Kyrgyzstan to build a fourth gas pipeline in Central Asia, that is going to increase the supply of Turkmen gas to China from 55 billion cubic meters to 85 billion cubic meters.
- Improvement of connectivity is an attractive extra motivation for cooperation. New East-West transport land routes from China to

Europe reduce the time of delivery of the goods up to 12-14 days, when the maritime dispatch takes 30-35 days.

- Promotion of further liberalization of trade relations via signing of bilateral Free Trade Agreements between China and BRI participants and opening a huge Chinese market for many countries and new emerging marketplaces for Chinese producers, including such partners as Australia, Switzerland, New Zealand, Singapore, Iceland, Georgia and others (first country from post soviet space), Japan, Korea, Norway, Israel and others are in negotiation process. The new element is enhancing of multilateral cooperation through first of all bilateral approach and relevant interest. China's trade with BRI countries exceeded within 2013 -2018 – 6 trillion US Dollars, direct investments - up to 90 billion US Dollars (source: China Daily 2019). Free trade Agreements were signed by China with more than 20 countries. As to 2017 date also issues by the Ministry of Commerce of China 56 economic and trade cooperation zones were established in the areas connected with BRI.
- Chinese foreign direct investments (FDI) are increasing in the BRI countries. According to the Ministry of Commerce of China (cited by Shuiyi, 2017) since the introduction of the Initiative total investments 50 billion US Dollars with newly signed contracts exceeded 304,9 billion US Dollars in 2017. China invested most in energy, transportation and information technology with three top destinations : Southeast Asia, Middle East and South Asia (source: blue book of outbound investment and risks, released by Beijing- based China Bond rating Co Ltd and the Chinese Academy and Social Sciences, Shuiyu, 2017).
- The mentioned case is an attempt to present such model of cooperation, that is based not only on business motivation but also on interest to promote cultural exchanges via people to people contacts and share rich traditions of Eastern and Western history and culture. This a sign of advancing of non economic stimulating factors for cooperation, in our opinion so underestimated at present and important for better understanding of each other, respect and trust.



The Silk Road scholarship in first half of 2018 reached 39,3 million US Dollars, 66100 Chinese students study currently in the countries involved in BRI, 81 education institutions and projects are also activated in BRI countries, 24 million Chinese people visited countries involved in BRI and 10 llion visitors from these countries (source: China Daily 2019).

- This model, at least based on initial observation, is going to be more pragmatic and less politically run unlike leading international economic and financial institutions of the United Nations system and other structures.
- The mentioned model creates a single country case which is motivated to start a new global project also for the need of internal agenda of development – to speed up economic growth of less developed regions of China and integrate them not only into economically stronger parts of the country, but into the World economy as a whole.

## **Challenges**

The challenges or risks can be classified by the following grouping:

- Political or security risks
  - Macro economic and financial risks
  - Human factor based on management enhancement
  - Legal regulations gaps
  - Cultural differences
  - Global disputes on trade relations
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- Unprecedented scale, diversity and different experience of participants, still leaves certain difficulties for clear understanding of the concept and principles of BRI and compare it with the existing mechanisms of international economic cooperation to find out the benefits from this cooperation. Even six years after the announcement of the Initiative, there is a lot of various understandings and misinterpretation of BRI among participants of the concept and

content of this project. Is it an alternate to Marshall Plan implemented by the United States to rebuild Europe after World War II, new version of Global economic cooperation replacing of World Bank and IMF or intention of China to undertake a new role in global leadership?

- Confrontation between the United States and China on Trade issues, which take a bulk of international trade exchange, in combination with less enthusiasm of the United States, India, Japan and other big economies to join BRI in certain limits the future opportunities to develop stabile World economy.
- Participants of BRI belong to different integration structures according to their political and economic strategies (Euro - Atlantic Alliance, Commonwealth of Independent States, European Union, Euro Asian, BRICS, Black Sea Economic Organization, Asian, Arabic, African Organizations). Thus, the challenge is to adjust their political, security and economic agenda to the BRI ideology of partnership - extremely problematic task, when the political and security obligations of the countries within Alliances sometimes affects their economic interests in order to stay in the streamline of common strategy. That s why for BRI bilateral approach is dominating one to avoid the mentioned discrepancies. We can say that BRI has multinational umbrella of cooperation but based on bilateral agreements.
- Risk of political instability in a number of countries located alongside BRI that makes problematic investments on long term basis. It refers mainly the countries with border conflicts, intra state and internal tensions alongside the BRI. Some of them present a risk due to “black holes” in the frozen conflict zones, where illegal economic activity and various crimes take place. Probably this factor explains relatively low volume of investments in South Caucasus and other BRI vulnerable areas at present.
- Potential threats of international terrorism, extremism and separatism on some segments alongside Belt and Road routes and need to deepen coordination of the BRI countries in this direction.

- China's first experience as one of the leading economic powers to run such global project, that is a challenge and new discovery for the country due to less experience of modern international managerial practice. From other side this gap can be filled up by the experience of retired and acting Chinese nationals heading the UN agencies and other international regional organizations.
- Need to tailor the implementation of BRI to modern international standards of cooperation and business relations at all levels, primarily corporate level – major players of business relations,
- Difficulties with determination of priorities of the projects of BRI at country and sector levels of cooperation to develop the full-fledged and balanced long term strategy of development.
- The BRI backbone are infrastructural projects for connectivity expansion. In this respect the improvement of the customs rules, tariff policy and other procedures should be a first priority since most of the countries have different rates and are restricted by their obligations before relevant organizations..
- Activation of the East-West transit routes within BRI is important for commercial competition environment and support of the motivation of the counties to cooperate particularly for provision of free trade deals and shipments of the commodities, development of tourism and other services.
- BRI impressive Agenda and potentially wide range of projects covering many countries and regions with variety of emerging markets and relevant risks desperately need high level of business managers who can work effectively and rapidly based on international practice and experience. Current situation exposes this problem during the start of implementation of BRI. In our opinion, this is one of the fundamental non - economic risks which can convert the BRI into “slowly moving car on the road” Liberalization of China's foreign economic relations for last decades in parallel with opening of new markets resulted by appearance of newly independent states last century is continuing intensively and dynamically. But inter-

national professional readiness of the participants of this process is not adequately provided. Education and training of qualified business executives for China and its BRI partners is a matter of urgent solution.

- Huge projects are accompanied by Issuing of large volumes of Chinese loans for the low income countries-participants of BRI. The ability of the mentioned countries to fulfill f their financial obligations will determine the effectiveness of the Global project and stability of international economic relations. “The Center for Global Development recently estimated that BRI projects will increase debt to GDP ratios for several BRI countries putting eight at risk. Countries participating in BRI projects will need to balance the need for these development projects with the vulnerabilities created by increased debt levels” (by Michele Ruta on FRIB 05.04.2008, the World Bank.
- Internal regulation of banking and business activity of state and private organizations in China also should be adjusted to the norms of international law in order to fill up a gap between Chinese banks and their partners. The Chinese Government has started the adoption of new regulations aimed at improving the investment climate for foreign companies and banks.