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The Belt and Road Initiative: China's 21st century tool for economic growth

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Abstract

The Belt and Road Initiative (BRI)is an international cooperation project proposed and led by China, where it seeks to promote its social, commercial and economic development with stakeholders through the implementation of a strong and effective foreign policy and the creation of bilateral agreements between China and other countries. "Through policy coordination, the IFR seeks to expand shared interests and reach multi-level cooperation agreements" (Dunford & Liu, 2019), allowing the flow of investments and financial loans to initiate the construction of large infrastructure projects, establishing a more interconnected world with China at the center. All these infrastructure and development plans are accompanied by a strong Chinese foreign policy with the objective of obtaining the greatest possible expansion and scope to enable its economic development, increase its global influence and facilitate its trade flows, and which have already been underway for several years. During the 1970s, China was working on a two-stage economic modernization process. The first stage is known as "Welcoming", which sought to promote innovation and entrepreneurship within China. However, it is particularly interesting to analyze the second stage known as the "Exit" strategy. This policy, born in 1999 due to the Asian financial crisis, sought to promote foreign direct investment in the countries of the region to support international trade and business. During this period, China began to consider moving production abroad to seek benefits in terms of costs, opening new markets and acquiring technology and foreign currency, which would be enhanced after China's entry into the World Trade Organization (WTO) in 2001 and the effective launch of the internationalization process for Chinese companies in 2008 with the change in investment policies.

Keywords

China, Investment, Infrastructure, Development, International cooperation, Financial loans, Foreign policy, Trade, Transportation, Credits, Debts

Resumen

La Iniciativa de la Franja y la Ruta (IFR)es un proyecto de cooperación internacional propuesto y liderado por China, en donde busca promover su desarrollo social, comercial y económico con los actores involucrados, a través de la implementación de una política exterior fuerte y efectiva y la creación de acuerdos bilaterales entre China y otros países. "Mediante la coordinación de políticas, el IFR busca ampliar los intereses compartidos y llegar a acuerdos de cooperación en múltiples niveles" (Dunford & Liu, 2019), permitiendo el flujo de inversiones y préstamos financieros para iniciar la construcción de grandes proyectos de infraestructura, estableciendo un mundo más interconectado con China como centro. Todos estos planes de infraestructura y desarrollo van acompañados de una fuerte política exterior china con el objetivo de obtener la mayor expansión posible y un alcance que permita su desarrollo económico, aumentar su influencia global y facilitar sus flujos comerciales, y que ya se han puesto en marcha desde hace varios años. Durante la década de los 70, China estaba trabajando en un proceso de modernización económica en dos etapas. La primera etapa se conoce como "Acogida", que buscaba promover la innovación y el espíritu empresarial dentro de China. Sin embargo, resulta particularmente interesante analizar la segunda etapa conocida como estrategia de "Salida". Esta política, nacida en 1999 debido a la crisis financiera asiática, buscaba promover la inversión extranjera directa en los países de la región para apoyar el comercio y los negocios internacionales. Durante ese periodo, China empezó a considerar el traslado de la producción al extranjero con el fin de buscar beneficios en términos de costos, apertura de nuevos mercados y adquisición de tecnología y divisas, los cuales se verían potencializados tras la entrada de China a la Organización Mundial del Comercio (OMC) en 2001 y el lanzamiento efectivo de del proceso de internacionalización para las empresas chinas en el 2008 con el cambio en las políticas de inversión.

Palabras clave

China, Inversión, Infraestructura, Desarrollo, Cooperación internacional, Préstamos financieros, Política exterior, Comercio, Transporte, Créditos, Deudas

tries, thereby securing the supply of resources, especially in the natural resource sector" (Cheng, 2016).

Since then, the Chinese diplomatic services have assisted companies in their foreign investment processes and in dealing with local laws. The government has granted extensive financial aid to such companies, lowered barriers to exports, and provided machinery and equipment to ensure success abroad. These measures have been frowned upon by many different members of the World Trade Organization who have criticized China's unfair competition, but the gains made outweigh the complaints by those members as its FDI increased significantly, and it moved up on global investment and capital export rankings. "Outward FDI rose dramatically in subsequent years. China moved to the front ranks of large global investors, transforming itself from a major exporter of goods into a major exporter of capital". (The Diplomatic Courier, 2021).

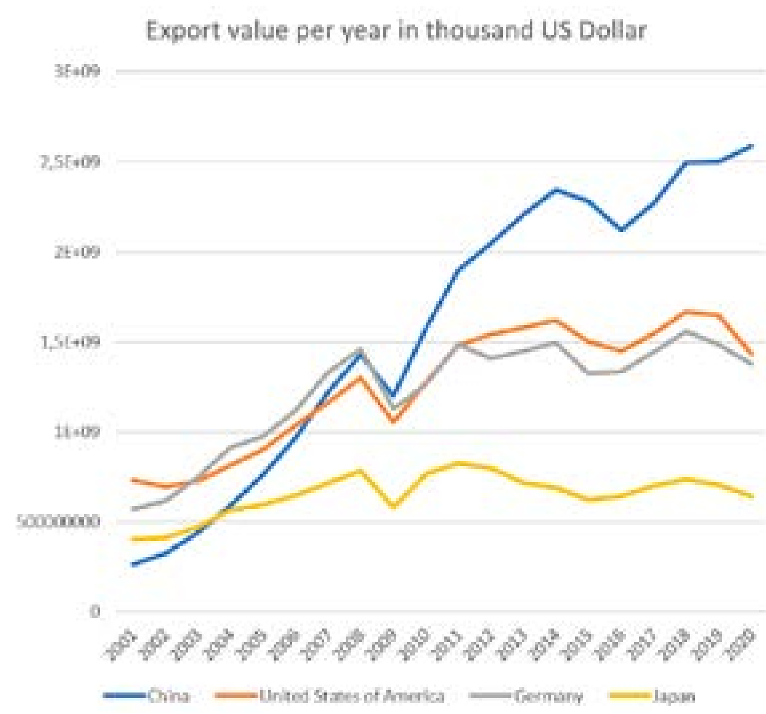
The Chinese economy has experienced enormous economic growth in recent decades, which persists today. "China is the third-largest country in the world with the fastest-developing economy" (Xin, Hoi, Tsan & Jhiu, 2019). This growth is attributed to high production levels and large export capacities, among others, due to low labor costs and economies of scale. However, China has recently undergone an economic slowdown, which has brought with it overproduction that is harder to trade with the country's current export capacities. "After more than 30 years of remarkably fast economic growth, China's economy has slowed in recent years. The country has a high rate of overcapacity in the manufacturing sector" (LinHui, Dan, Haixia & Futao, 2020). Added to this, the temporary or permanent import infrastructure of some of its trading partners are not in conditions to generate efficient trade, allow the entry of large volumes of goods, and transport them to their final destinations.

Considering this problem, and analyzing and studying the factors that impact China's commercial activities and have caused the slowdown of the country's export process, the authorities have made export issues into a primary focus and pillar for continued economic growth. "Expanding exports, is thought to be one of the most effective and immediate ways to sustain the country's further economic growth" (LinHui, Dan, Haixia & Futao, 2020). From this perspective, the BRI becomes an important strategy where China can invest its resources to ensure its continued economy growth based on large-scale commercial activities. The considerable number of projects in which China participates at a regional and global level will serve to create a more effective and efficient trade system that favors Chinese interests and connects it to current and potential trade partners, increasing its importance as an indispensable and influential player in the international market.

China's export needs are not the only factor that plays a fundamental role in the creation of the BRI. In recent years, China has increased its consumption of the imported resources it requires to maintain its massive production, namely raw materials and energy. "China is also increasingly dependent on imported energy and raw materials" (Dunford & Liu, 2019). The authorities know these resources will play a fundamental role in the country's future growth and that they must be secured by different means including bilateral agreements with countries that can serve as ongoing suppliers to satisfy Chinese needs. Thus, many of the infrastructure plans under the BRI consist of constructions and plans to ensure coal, gas, and oil transportation. "China's resource dependencies require it to develop and diversify resource and energy sources and routes" (Dunford & Liu, 2019).

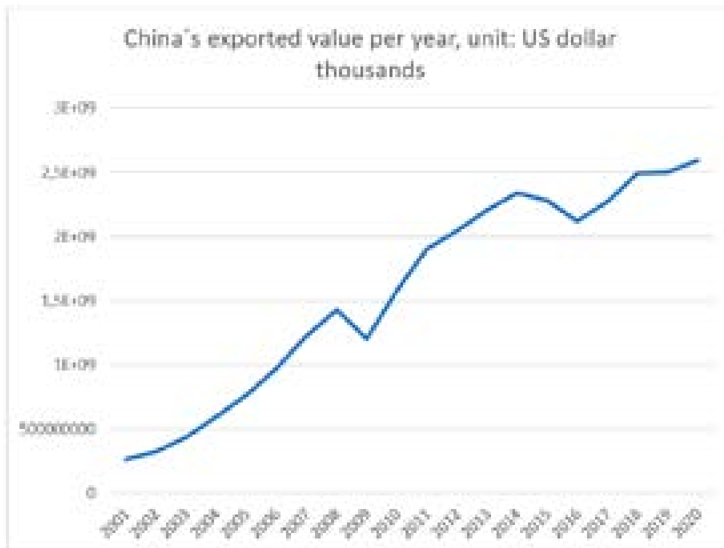
One of the main issues with the acquisition of these commodities is that they are found in areas that represent a high risk to the flow of resources or that lack the adequate infrastructure to ensure their most efficient transportation. Another problem is related international relations issues that China has with certain trading partners that prevent it from obtaining resources required by production systems in China and for the country's upkeep, a situation that has already started. In recent weeks, China began experiencing energy shortages due to a lack of imported coal and deteriorating relations with countries like Australia. "China needs to bolster its coal supply to avoid an economic slowdown this quarter, but Beijing's icy relations with Australia could make that difficult" (CNBC, 2021).

These problems or difficulties are of recent date. China has experienced uninterrupted economic growth over the past decades, and this has continued, but its acceleration has been significantly reduced, to the point it is considered a problem by the Chinese government. The uninterrupted growth of the Chinese economy was strongly impacted by the country's accession to the World Trade Organization in 2001, which brought the country new trading opportunities and increased its commercial expansion globally, making it the world's largest exporter today.



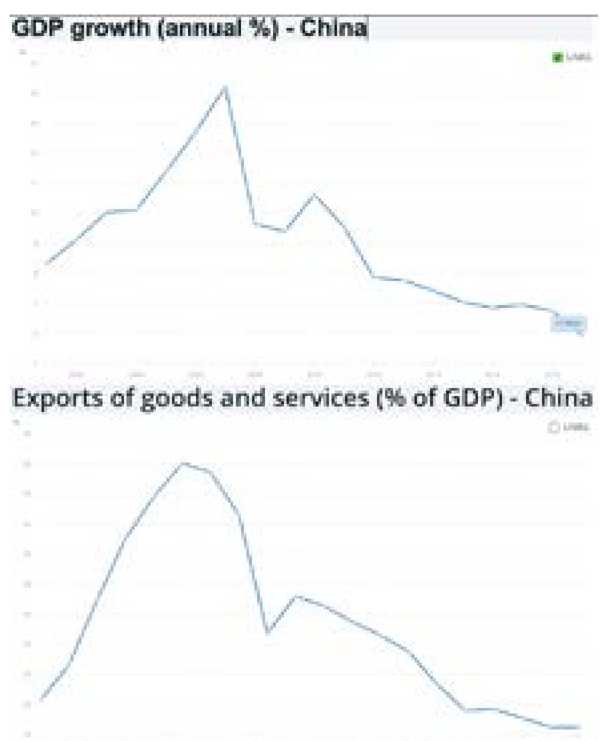
Source: ITC calculations based on UN COMTRADE and ITC statistics.

During the first decade after China entered the World Trade Organization, the country's economy was characterized by exponential growth until the financial crisis of 2008. Although the country recovered rapidly from the crisis, its economy began experiencing a slowdown in its trade situation, specifically related to its export status. Although the value of the country's exports has continued growing in recent years, it has done so at a slower rate than needed to maintain optimal growth rates that satisfy the state's objectives.



Source: ITC calculations based on General Customs Administration of China statistics since January 2015.

The following graphs also suggest a strong direct relationship between China's economic growth and the percentage of the Gross Domestic Product occupied by exports. As time pass and exports have begun representing a lower percentage of GDP, the country's economic growth has slowed to a similar extend, following a decelerating export growth trend.



Source: World Bank National Accounts data, and OECD National Accounts data files

This is why the Chinese government has defined exports as a fundamental pillar of the country's growth and to avoid economic stagnation. With the BRI and its multiple cooperation agreements, China aims to increase trade flows and increase annual growth rates. It believes that investment and loans to improve the performance of the trade in goods in countries under the BRI will increase the integration required by its economy. "The signing of such agreements between China and BRI country deepens economic integration by some 30% with reference to trade flows" (Johnston, 2018). Based on its results to date, it seems to be meeting its high expectations, with the plan obtaining extensive global coverage and significant production levels. "According to this narrow identification, this Initiative reaches at least 60 countries, which account for 64% of the world population (4.4 billion people) and 30% of global GDP ($21 trillion)" (Huang, 2016).

To finance the BRI, the Chinese government has been supported by large Chinese entities known as policy banks. These institutions grant of credits, funds, and debt for developing contracts and investments both inside China and overseas. Throughout their existence, these institutions have worked with the Chinese authorities, many different countries, and entities such as the World Bank on international financial cooperation issues. The first and potentially the most important policy bank for this initiative is the Export-Import Bank of China (Exim Bank). This institution is responsible for promoting Chinese foreign policy specifically on industry, foreign trade, economy, and foreign investment, "including concessional lending, to improve the efficiency with which China's aid can promote China's exports at the same time as helping reputable Chinese enterprises to increase the development capacity of developing countries" (Johnston, 2018). The other entity is the Chinese Development Bank, which performs activities similar to the Exim Bank, but with a greater field of action that influences any aspect related to the country's economic development policies, both in commercial arenas and several other sectors of the country. These policy banks have expanded China's lending capabilities both domestically and in other developing countries, and the improvement of trade channels is one of their main fields of action. "The Export-Import Bank of China (Exim Bank) and China Development Bank, were set up to enable the related domestic concessional lending agenda". (Johnston, 2018).

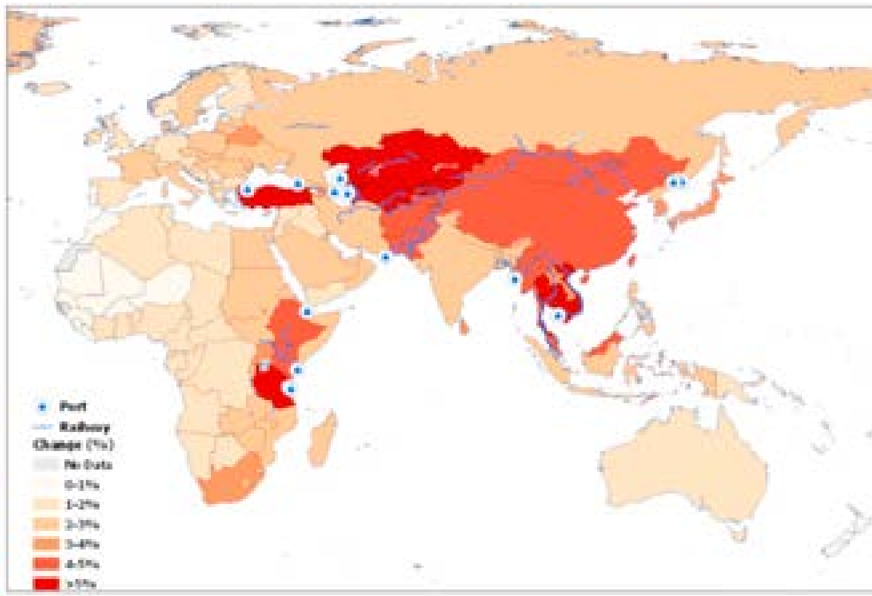
Considering that these entities are organizations that existed prior to the creation of the BRI and do not specifically respond to the initiative's more complex requirements, the Chinese government created the Asian Infrastructure Investment Bank (AIIB). The initiative was introduced in 2013 during President Xi's visit to Indonesia and was announced in conjunction with the "21st Century Maritime Silk Road" plan, which covers the maritime routes generally included under the BRI. The AIIB is another institution that grants loans and credits with very low interest rates for infrastructure and investment development projects throughout Asia and other countries of the world. "As a multilateral development bank focused on developing Asia, but with members from all over the world, our investments in infrastructure and other productive sectors seek to foster sustainable economic development, create wealth and improve infrastructure connectivity" (AIIB, 2021). The Asian Infrastructure Investment Bank has therefore served as a necessary, driving tool for BRI implementation. This entity has functioned as a bridge between China and other countries that seek economic support and cannot meet the requirements and regulations imposed by other organizations that provide financial resources like the World Bank or the International Monetary Fund. Another important international actor in China's trade expansion plan, in terms of dealing with regional issues, is the Asia Pacific Economic Cooperation Forum (APEC). The Chinese government has negotiated directly with this entity, as most of its members are major trading partners of China and several of them have embarked on infrastructure projects under the BRI umbrella. In 2020, Chinese exports to APEC countries were 62.7% of all Chinese exports (ITC, 2021).

Many projects are being considered to connect various sub-regions, including high-speed railroads, oil and gas pipelines, and telecom and electrical infrastructure. Chinese institutions, including the Silk Road Fund, the China Development Bank (CDB), and many Chinese companies will probably make large investments to complement funding provided by international organizations like the AIIB, the BRICS New Development Bank, and even the World Bank and the Asian Development Bank (YiPing, 2016).

As a result of all these interactions between the Chinese state and Chinese entities and countries inside and outside the region, Chinese trade will benefit from the BRI as it expands and improves trade routes along which the country exchanges goods and services, enabling its business partners to increase trade with China and, subsequently, with other states, considering that many of them are developing countries that do not have the economic and structural capacities required for optimal trade flows, or do not receive the support their require from institutions like the World Bank or the International Monetary Fund as they have low credit ratings or do not have the capacity or the determination to meet the requirements these entities impose to receive financial aid.

A strong Chinese foreign policy, which promotes trade as the center of diplomatic relations and creates an environment of cooperation, aims to increase trade. "The purpose of all these is to provide policy support for cooperation in large projects through sufficient exchanges about development strategies, action plans and concrete measures" (YiPing, 2016). By creating cooperation agreements, eliminating tariffs, increasing export and import capacities, creating opportunities for different industries, and concluding investment treaties, China could increase its export capacity to maintain the production required for the optimal growth of the country's economy while developing an interconnected system of states with common objectives and characteristics that can benefit from the alliances established during BRI development in terms of governance and international relations. "The Initiative intends to create a multitier inter-governmental mechanism for macro-policy dialogues, deepen shared interest, reach new consensus and promote political trust" (YiPing, 2016).

The BRI also serves as a tool to position China as a central actor on the global stage arena, moving the center of trade power from the West to the Asian country, and making it even more important as the world's leading exporter. "The B&R Initiative has significantly expanded China's export potential to B&R countries compared with the world's top trading countries" (LinHui, Dan, Haixia & Futao, 2020). It also aims to reduce transportation costs and times through infrastructure improvements to trade routes and benefits under multiple agreements concluded with different countries. These will end up benefiting Chinese producers and increasing sales of manufactured goods, making them more attractive and commercial. "The BRI will also reduce shipping times – and ultimately trade costs – not only between BRI countries but also potentially between country-pairs that are not part of the Initiative" (Soyres, Mulabdic, Murray, Rocha & Ruta, 2019).



Source: How much will the Belt and Road Initiative reduce trade costs, International Economics

However, the initiative also creates certain complications. China's cooperation for these large infrastructure projects is mainly through financing and loans at very low-interest rates for countries, most of which have low credit ratings due to corruption, political instability, insecurity, and other elements that make the repayment of financial support uncertain to a degree. "China's interest rates are not high, as China lends to states with low investment ratings" (Dunford & Liu, 2019). Loan repayments are conditioned, in part, by each country's political and economic situation. Abrupt changes in these country's systems could lead to agreements being renegotiated, creating uncertain scenarios that could represent a risk for Chinese investments. "Repayment difficulties arise, and if new governments are elected in countries with multi-party systems, China renegotiates loan repayment terms. Interest-free loans are sometimes written off" (Dunford & Liu, 2019). Cases like a port in Sri Lanka have generated strong debates due to the country's impossibility of paying the debt, and as a result Chinese state companies have taken administrative and commercial control of the port for 99 years, which has brought a raft of criticism from local and international entities.

China's large investments around the world, especially in countries with unstable economic and political conditions, represent a great risk, raising the question of the degree to which China will allow itself to interfere in these country's internal affairs, considering the consequences of such a controversial decision. Although the benefits of connecting China with secure sources of future supply are very high, China's intervention in these countries to maintain stability will be difficult and extensively questioned by international bodies as well as by Chinese foreign policy principles. "Traditionally, Chinese foreign policy follows the principle of not interfering in other countries' domestic affairs. It is not yet clear if politics can stay completely out of the game of international economic cooperation" (Huang, 2016).

Since its creation, the BRI initiative has been extensively criticized, mainly by Western powers that see it as a Chinese instrument to expand their power and influence through high-risk debts, a strategy known as "debt diplomacy". This Chinese expansion has been viewed as a challenge by current world powers as endangers their dominant position in the world market. These countries are reluctant to accept policy and development models that differ from those generally accepted by the West. Obstacles and criticism from countries like the United States are to be expected and have been endorsed by other international players. "Countries that choose non-western development paths are held to challenge their security and interests and compete unfairly and are pressurized to adopt contemporary Western social models" (Dunford & Liu, 2019). Major powers that oppose to China's intentions have decided to respond to the BRI by launching a joint alternative that conforms to Western and democratic values in countries like Canada, France, Germany, Italy, Japan, the UK, and the United States. "It is the first collective attempt of major democracies to craft a sustainable and targeted alternative to the BRI and to address the challenges it poses to the rules-based international order" (Grieger, 2021). This agreement, reached at the 2021 G7 Summit and known as the 'Build Back Better World' (B3W) initiative, intends to develop a plan for 2035, targeting over 40 trillion US dollars in infrastructure developments in high-income and middle-income countries.

Based on an analysis of the benefits obtained by China and the other participating companies from the development of the BRI, and considering the strong criticism from international actors, who have expressed their dissatisfaction with China's intentions and mode of operation, I believe the BRI has significantly positive impact that counteract and outweigh the criticism from its main opponents in the international system, and that it serves as an instrument to improve trade strategies and promote the growth of China's economy while providing development opportunities for the countries involved. This initiative is proving to be successful in the region and its results can currently be measured by means of completed projects that have realized the growth in China's commercial relations with its partners. "the trade between China with the Belt and Road countries experienced a rapid growth in 2017" (Xin, Hoi, Tsan & Jhiu, 2019).

This initiative intends to both increase China's export capacity and expand its influence in regions of the world where the West has played a significant role. China has become positioned as a primary global economic entity, and the BRI shows how many countries are open to seeking and negotiating agreements that will allow them to increase their growth, supported by a Chinese initiative to seek development, trade, and investment opportunities. "China's intention is clear — to assert greater influence on international economic governance, starting from a specific regional trade and investment initiative" (Huang, 2016).

I also think the initiative generates uncertainty because of the investment risks and instability in the participating countries as well as the criticism from and clashes with certain major world powers. However, I believe that a lot of the opposition from these powers is due to their suspicions and precautions related to the expansion of China's influence around the world. China's government continues promoting the BRI because of its benefits for the country in terms of trade and ensuring resources and raw materials for its future. The benefits that developing middle or low income countries can obtain are greater than an alternative scenario where the BRI does not exist and where these countries would have to resort to international entities with elevated requirements for granting credits, loans, or debt, which many of these states would find very difficult to comply with, given their economic and political circumstances. Many countries would thus lose the opportunity to develop commercially. I think that, for China to achieve the purpose of the BRI – increasing China's trade flows with other countries and promoting its influence around the world – it should seek mediation with opposing powers, involving countries like the United States or members of the European Union in dialogue and cooperation to create a scenario aligned with the commercial interests of all those involved. This would enable establishment of a common framework for action that will ultimately allow obtaining financial resources for developing the projects required for a more inclusive and interconnected global trade.

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