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China: The Strategy of the Belt Road and Banks



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In the last year and a half China has unleashed a pack of interesting instruments, namely, the 21st Century Maritime Silk Road and Silk Road Economic Belt (Belt and Road), the Asian Infrastructure Investment Bank (AIIB), and the BRICS New Development Bank (BRICS Bank), in pursuit of its grand strategy. The aim is to achieve Comprehensive National Power (CNP), a concept that is based on contemporary political thought of the People's Republic of China and refers to the general power of a nation-state.¹ China believes that such supremacy is essential to achieve the status of a 'Global Great Power'. Consequently, China has been focusing on economic development by accessing resources from around the globe besides building a strong military, enhancing its competences in the science, technology and educational fields, the indispensable elements of CNP. China is now embarking on a plan to create infrastructure to gain land and sea access to global natural resources and overseas market. This will pave the way for establishing set ups and conditions for investing its accumulated capital and providing opportunities to its companies to expand through profitable investment

Key Points

1. Belt and Road initiative is driven by China's domestic compulsions for creating an entry into the world's leading economies.
2. The Maritime Silk Road (MSR) legitimises China's 'String of Pearls' strategy and has the potential to add more pearls to the string.
3. Asian Infrastructural Investment Bank (AIIB) over a period of time is likely to reduce the primacy of US dollar and currency reserve system established by 'Bretton Woods' Conference and set the trend for gradually decoupling the US dollar as the prime currency in international trade.
4. These initiatives effectively counter US's 'Pivot' strategy without a confrontation and eclipses US influence in the world especially in Asia.
5. Participation of European countries in the scheme will help ushering in best practices, besides muting US opposition.
6. The amalgamated idea of Belt, Road and Banks create strategic space for China and improves its geo strategic status in the world.

The Centre for Land Warfare Studies (CLAWS), New Delhi, is an autonomous think tank dealing with national security and conceptual aspects of land warfare, including conventional and sub-conventional conflict and terrorism. CLAWS conducts research that is futuristic in outlook and policy-oriented in approach.

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abroad and thus stimulate business and growth. These initiatives have thus become an essential part of its approach to support its economic expansion.

The instruments

In a speech delivered at Nazarbayev University, Kazakhstan on September 07, 2013, Chinese President Xi Jinping for the first time put forward the concept of the Silk Road Economic Belt (Silk Road).² A month later, the Chinese President while visiting Indonesia in October 2013 announced the launch of the 21st Century Maritime Silk Road (MSR).³ China came out with the vision document⁴ on the proposal on March 28, 2015.

On October 03, 2013, during his speech at the Indonesian Parliament President X Jinping revealed the idea of Asia Infrastructure Investment Bank (AIIB)⁵ that would help fund development projects. This was followed by the announcement of the BRICS Bank, officially known as 'New Development Bank', which was agreed to by the BRICS leaders at the 5th BRICS summit held in Durban, South Africa.

The intent of the initiative

The Chinese concept paper⁶ explains the aim of the initiative thus "The Belt and Road Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries."

"The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean."⁷ "On

land, the Initiative 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 taking advantage of international transport routes, relying on core cities along the Belt and Road and using key economic industrial parks as cooperation platforms."⁸

The MSR is "designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other."⁹ "The Initiative will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road."

The Implications

MSR is global in scope. China has established a \$40 billion fund for the Maritime Silk Road, for ports and related infrastructure, not only along the old route but also extending into Europe and even into the Western Hemisphere. On the economic front, the MSR proposal will boost maritime connectivity, port and harbour cooperation, and maritime commerce leading to economic integration of the countries along the 'Belt and Road' with China.

The construction of the Panama Canal in Nicaragua by Chinese construction firm Hong Kong Nicaragua Canal Development Group (HKND) to connect the Atlantic and the Pacific Oceans and to allow tankers that cannot pass through the present Panama Canal points to the global nature of the initiative. The Chinese are also contemplating support to build the Kra Canal in southern Thailand, which would turn the region into a hub for the development of the entire Pacific and Indian Ocean basins.¹⁰

The initiative legitimises the 'String of Pearls' strategy and has the potential to add more pearls to the string. Maritime access plays a significant role in the formation of strategic alliances and security

ties. It provides an opportunity to the lodger state to establish naval bases and naval platforms or assist the host state to do so to support its own larger aims. MSR will provide a foothold to China to dominate the seas concerned and militarily support friendly countries and client states. Strategically, by showcasing its naval power, China would be in a position to neutralise other naval powers attempting to dominate and gain influence in the region. The Chinese effort to neutralise the US pivot in the Asia-Pacific region is the case in point.

The establishment of an Asian Infrastructural Investment Bank (AIIB) would provide a strong investment and financing platform for developing multi-mode connectivity, like ports, airports, high-speed rail and oil pipelines within the geographic confines of the member countries. As of April 15, 2015, there are 57 Prospective Founding Members (PFM) who have expressed willingness to participate in the scheme. Of these, 37 countries are from within the region and the balance from outside.¹¹ With a registered capital of US\$100 billion, the fund is adequate enough to compete with the ADB, which runs on a capital of US\$165 billion and is dominated by Japan and the United States. China has invited India to participate in the AIIB as a founding member. This new financial structure could pave way for trade in the respective national currencies and thereby reduce the primacy of US dollar and currency reserve system established by 'Bretton Woods' Conference. This will set the trend for gradually decoupling the US dollar as the prime currency in international trade.

The vision document says "The China-Pakistan Economic Corridor (CPEC) is closely related to the Belt and Road initiative, and therefore requires closer cooperation and greater progress."¹² CPEC is all about China's strategic interests. Pakistan's paybacks are incidental and accompanying. China is positioning itself at the strategically vital Gwadar Port located at the mouth of the Strait of Hormuz, through which much of the world's oil travels. It provides China direct and shorter route to the oil and gas reserves of the Middle East and

to Africa. With Gwadar Port and CPEC under its direct control, China has ensured uninterrupted oil supply and movement of raw material to meet its needs of economic growth. It has thus secured its strategic interests in the Indian Ocean.

With the completion of Egypt's second Suez Canal, the MSR can now pass through the Red Sea to the Mediterranean. One of China's shipping conglomerates COSCO Group has a 35-year concession agreement to run two container terminals of Piraeus port in Athens, Greece, one of Europe's busiest.¹³ By making Greece, a country under pressure from the west backed financial institutions due to its present economic crisis, the major transit point of the New Silk Road and the MSR and terminating some of the rail connections from China along the New Silk Road through Central Asia at Greece, Beijing has set forth its strategy to win over US' alliance partners in Europe.

The five BRICS members will have equal shareholding in the BRICS Bank.¹⁴ As for AIIB, the likely pattern of shareholding and voting rights are not clear as yet. Though China has invested USD 50 billion initially, AIIB has indicated that GDP will be the basic criterion in determining share allocations amongst members.¹⁵ The Chinese government has already announced that it should subject the AIIB to the "best international practices" with respect to transparency and fair standards. It has also promised to tap the pool of technical expertise of the other banks and cooperate with them. China is trying to rope in as many European countries to the scheme, as their participation will help ushering in best practices, besides muting US opposition.

China's efforts to build a worldwide network of friends and allies through these initiatives and soft power diplomacy supplemented by the Chinese President's statement that "China will never intervene in internal affairs of Central Asian countries, seek leadership in regional affairs, or operate sphere of influence"¹⁶ made at the speech delivered at Nazarbayev University, Kazakhstan on

September 07, 2013 are aimed at assuaging some of the apprehensions that the countries of the region and the rest of the world may be harbouring about the larger intentions of China in promoting this idea.

The Strategy

The fundamental constituent of the Chinese strategy is “strategic access”. Land routes provide access and access is vital for realising a country’s political, economic and military potentials besides cultural connectivity. Control over the routes is mandatory for the security and uninterrupted flow of traffic and goods along the route to exploit the benefits of trade. Secure access besides facilitating economic development also enables projecting the country’s military potential and the influence that it can exercise in the region. Maritime access on the other hand facilitates control over sea routes, offers prospective leads and advantages for positioning military platforms besides inducing strategic alliances. It provides the much needed legitimacy to its presence and economic activity in foreign land and sea coasts by incorporating other countries and seeking their participation in the scheme. It enables China to showcase its maritime power. Clearly, the Belt and Road initiative is to craft strategic space for China and improve its geo strategic status in the world.

Economic Component

This initiative is driven by China’s domestic compulsions for an entry into the world’s leading economies in pursuit of trade, investment and energy partnerships. It is also an expression of Chinese aspirations to play a greater role in the global political and economic landscape. This vast strategic plan contemplates the integration of Chinese markets with over 60 ‘Belt and Road’ countries across three continents housing over half of the world’s population and controlling one-third of the world’s economy.

For China, which is experiencing sharp decline in property prices in 64 of the 70 cities¹⁷

affecting its construction industry with global consequences,¹⁸ such outward investment especially in infrastructure is critical. The need to address the issue of its surplus domestic production capacity¹⁹ for stimulating its manufacturing sector and domestic economic growth adds greater relevance to the initiative.

China is also looking forward to a way to shift its polluting industries to developing countries within the ambit of its Belt and Road scheme by offering to create a new mode of investment cooperation to build “all forms of industrial parks such as overseas economic and trade cooperation zones and cross-border economic cooperation zones, and promote industrial cluster development.”²⁰ China may be looking forward to replicate Japan’s ‘Flying Geese’ model to its advantage by shifting some of its polluting component making industries to these industrial areas with full buy back clause. Developing countries on their part may have to safeguard their long term industrialisation and climate change interests. In the long run, a sub-contracted component manufacturing country may never be able to realise its manufacturing potentials and compete with the major player in the market.

Countries opting for the Belt and Road initiative may study the controversies surrounding the Chinese funded infrastructure projects in Sri Lanka which include the environmental dispute over the Colombo Port City, the cost related storm over the Northern Expressway Project (NEP), delays due to flaws in project evaluation in the Hambantota port project and the closure of Mattala Rajapaksa International Airport (MRIA) effective April 30, 2015 for better understanding of Chinese funded projects.

Conclusion

MSR is a sign of the emerging transformation of the global order from a unipolar to a multipolar world. These initiatives project China as a tolerant country willing to engage with and open up to a

world, whose political, economic and cultural backgrounds are diverse and thus projecting it as a benign and nonthreatening state. It will step up China's engagement with the world and present the country as a leader of world's economic structures and global trade.

The initiative poses a major threat to US control and domination over the international financial systems and the status of US dollar as an international reserve currency established at 'Bretton Woods'. It counters US 'Pivot' strategy effectively without confrontation and eclipses its influence in the world, especially in Asia. US influence in Europe and the East may also diminish over the years if and when the economic dividends of the scheme show up.

The US needs to revisit its 'Trans Pacific Partnership (TPP)' plan, as the plot is neither visible nor heard. Its instruments to coerce influence which include regime change, military bases, naval presence, containment, military intervention, sanctions, and support to terror groups etc., have lost their relevance and have only brought about bloodshed and destruction, damaging US image beyond redemption.

As for India, Chinese funding and construction of CPEC through Gilgit - Baltistan (GB), a part of Indian Territory illegally occupied by Pakistan are sensitive issues. China, which has nothing to do with Arunachal Pradesh, had earlier objected to the Asian Development Bank (ADB) and Japanese funding projects in the Indian State. Notwithstanding the probability of success and the Chinese provocation, even if India abstains from subscribing to the project, the scheme is likely to take off. India's neighbours and countries of the Indian Ocean Region are viewing this as Chinese investment coming their way for infrastructure development, generating opportunities for improving their economy and providing jobs to their unemployed. Opting out will alter India's traditional pre-eminent position and its influence in the region. India may be better off as a partner providing the necessary checks and balances to the scheme to which the region and the world are looking forward to. India could effectively exploit the land and sea access offered by the initiative to expand its reach and benefit from its consequential paybacks.

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