

# Economic and strategic implications of xi Jinping's flagship foreign policy for t...

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## **What are the economic and strategic implications of Xi Jinping's flagship foreign policy, 'One Belt, One Road', for the Chinese economy?**

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The 'One Belt, One Road' (OBOR) initiative was launched in 2013. The mega-project is also often referred to as the 'Belt and Road Initiative' (BRI) or the 'New Silk Road', these are not to be confused as different things, they refer to exactly the same initiative. From now on I will refer to it as OBOR. To introduce OBOR simply, it is Xi Jinping's flagship foreign policy that aims to increase the connectivity of over 100 countries in Eurasia, Africa and the Pacific through vast infrastructure projects and interlinking trade deals.

This project is not just interesting, it is of paramount importance to understanding how the world will change in the future. In a world turning towards protectionism, Xi Jinping is turning away from Deng Xiaoping's famous dictum, 'hide our capabilities and bide our time; never try to take the lead'. China has never been so aggressive in its foreign policy and the economic returns domestically and internationally of this goliath project are huge to the optimists and minimal to the pessimists of the world.

My essay will begin with an analysis of President Xi's opening speech announcing the initiative. This will be followed by a focus on some of the main economic implications of the project. There is numerous literature on this already that I will contribute to with original thought. I will end my analysis section by examining the potential strategic advantages China may glean and how they could use these benefits to further improve their

economic power. There is very limited literature on this aspect of OBOR and this is where I will demonstrate the highest degree of originality in my essay.

It is important to start the analysis of this colossal project by analysing Xi Jinping's speech introducing it. Under an economists microscope, his rhetoric reveals indirect, but clear aspects of the project. The entire speech bristles with hyperbole such as ' vast steppes and deserts' to ' adding a splendid chapter to the history of human progress'. The choice to involve hyperbolic language and stress the words ' splendid' and ' progress' instantly implies the scale of the policy is going to be large. The bombastic language used in the projects introduction is followed by four sections that highlight the different aims of the policy. The four sections that President Xi Jinping stresses during the speech as important are ' Peace and cooperation', ' Openness and inclusiveness', ' Mutual learning' and ' Mutual benefit'. All four sections contain " buzzwords" that can be linked to trade. These are; ' cooperation', ' openness' and the use of ' mutual' continuously.

Before the analysis of the economic implications of this project begins I believe it to be necessary for the reader to fully appreciate the scale of this mega-project. Some compelling comparisons can be made to the Marshall Plan to rebuild Europe after WWII.

OBOR consists of two major parts. The Silk Road economic belt, a road stretching to Europe from China that encompasses infrastructure projects such as high speed railways and roads. It also consists the 21st century

Maritime Silk Road, a sea-based network ports and shipping lanes throughout Asia to the Suez Canal.

### **China's Industrial Overcapacity Problem**

Due to China's runaway economic growth slowing in recent years (mainly due to the financial crisis in 2008) the economy has suffered from widespread overcapacity in heavy, state controlled industries in cement, aluminium and steel. The overcapacity issue stems from the huge stimulus package the Chinese employed to steer the economy away from recession in 2008/9. An example that vividly highlights how much production surged with the stimulus package is that of steel. China's annual steel production was 512 tonnes in 2008, this increased to 803 million tonnes in 2015. The increase in 7 years is larger than the combined production of the European Union and United States. The excess capacity problem has become one of the top priorities for Beijing, describing it themselves as the " sword of Damocles" waiting to behead them. A couple of the problems excess capacity causes are increasing debt levels and state-owned-enterprise (SOE) profits falling. Accordingly, the government has laid off roughly 1. 8 million workers in the mining and steel industries. OBOR provides an answer to this issue, however, not necessarily in the way most people would assume. It can be assumed OBOR's vast infrastructure projects abroad will create a market for China's heavy industries to export their overcapacity. Currently, despite its size, OBOR is still too small to absorb China's overcapacity. The Lowy Institute cites ' Beijing wants to use OBOR to migrate whole production facilities', their point is supported by Li Keqiang in his address to the leaders of ASEAN countries when he said ' we want companies to move this excess

production capacity through direct foreign investment to ASEAN countries who need to build their infrastructure’.

The Chairman of the China Development Bank, Hu Huaibang stresses one of the key aims of OBOR is to help china upgrade its industries through structural reform. This effort will allow China to reduce supply domestically and help other countries build up their own industry, reducing its own liabilities and turn them into overseas assets. By choosing to move excess capacity abroad China is following a similar model to that of Germany and Japan 30 years ago. Displaced workers in the long run will be able to find jobs in different, more high tech industries. Productivity in these sectors is far higher and in turn this will eventually lead higher rates of growth and higher standards of living. However, to take a more realistic approach, the success of this plan is heavily reliant on countries in Africa and East/South-East Asia’s ability to absorb and facilitate this plan. Also, many of these countries are in direct competition in industrial sectors of the economy. Furthermore, politically, the plan is not sound. Many countries will simply not want China’s unwanted excess capacity.

### **Upgrading Chinese Industry and Exporting Chinese Standards**

In recent years, China’s comparative advantage in manufacturing, mainly from low labour costs has been eroded. Therefore, Beijing is keen to upgrade its industry. This has been made clear with the “ made in China 2025” strategy. Inspired by Germany’s “ Industry 4. 0” plan, its goals entail quality over quantity and the transition of the manufacturing industry toward innovation-driven growth. Once this transition has taken place, the

government hopes emerging economies in Africa and South-East Asia will become more accepting of “ higher-end” Chinese industrial goods. This will be a pivot away from the current status quo of importing capital from America and Europe.

An alternative observation OBOR can also be taken. China is trying to make the transition away from “ made in China” towards “ created in China”. To acquire this new label an acceptance of Chinese standards in more countries needs to happen. To become an innovation based economy, Chinese technological standards must be accepted. A strong example showing China’s pursuit of this is its high speed railways. It is considered as ‘ one of the crown jewels of its advanced manufacturing industry’. Over 10, 000 engineers and scientists have been employed to ‘ incorporate imported foreign technology’ with the job of developing China’s own high-speed rail technology. China is the host to over 50 per cent of the world’s total constructed high-speed railways. The emphasis on high-speed rail links to China pressing for it to become the de facto standard across South-East Asia and possibly Eurasia in the future. If China’s standard becomes the standard they will enjoy “ first-mover” advantage over competitors such as Japan. This sector can be expected to play a leading role in the export of high-end Chinese industrial equipment previously mentioned. Chinese policymakers will hope that if OBOR is successful, vast demand will come for Chinese railway technology. The wheels have started turning for this to occur in the future. In a fierce bidding war against the Japanese, China won the rights to construct the ‘ Jakarta-Bandung High-Speed Railway’. Beijing will likely use

this to promote OBOR assuming it is successful. The Chinese won the bid by offering to finance the project themselves, even if the venture makes a loss, this opportunity lends China the chance to demonstrate how efficient their standard could be abroad. China is pushing other sectors such as energy (oil/gas) and telecommunications (5G).

### **China's Unequal Regional Development Problem**

Possibly one the most important aspects of OBOR correlates with China's increasingly focused policy objective of decreasing the regional disparities in economic development that plague the country. Domestic projects are far more likely to be completed before the overseas components of OBOR as Beijing has the ability to enforce its agenda without signing deals with foreign nations. However, failure to incorporate the domestic aspects of OBOR with its overseas counterpart makes the project no different to other domestic infrastructure programs. This retracts any geo-strategic or geo-economic value the project is truly aimed at achieving.

In 2014, the "National Economic Development Strategy" for China adopted OBOR. At the "Central Economic Work Conference", three regional development plans were laid out, one of them being OBOR. The aims of these plans are too address uneven economic development that has taken place in China during its "miracle" years of large, continuous economic growth. A clear example, demonstrating this disparity, is the comparison between the coastal city of Shanghai and the inland province of Gansu. Gansu is situated along the old Silk Road, yet Shanghai is five times wealthier.

Since 1999, the Chinese government has followed the ' western development strategy' to try and revitalise underperforming provinces in the Western parts of the country. Despite large state led investment in these areas the Western provinces share of total GDP has only increased slightly from 17. 1% in 2000 to 18. 7% in 2010. Data from the China Economic Research Institute's Free Market Index supports this. The Western regions of Tibet, Xinjiang, Quinghai and Gansu have an average score of 2. 67 in comparison of the national average of 6. 56.

### **OBOR's Geo-Strategic Benefits**

The most obvious case study that highlights how OBOR aims to bring economic wealth to help serve geo-strategic aim is Xinjiang. Xinjiang hosts a large separatist movement and is hotspot for domestic terrorism. The Chinese government hopes to mitigate the instability in the region by supplying economic prosperity to the province. OBOR aims to provide the stability through one of the flagship projects within OBOR, this is the " China-Pakistan Economic Corridor". The corridor links Kashgar to the port of Gwadar at an estimated cost of \$46 billion. It is the clearest project within OBOR that demonstrates geostrategic aims that are driven by increased economic activity within a region. Xinjiang's separatist movement is a clear threat to the Communist party's absolute control of China. The provinces' underdevelopment lays at the heart at the troubles and the best way to combat it is to integrate the region into neighbouring provinces. The landlocked region is between 4000 to 5000 kilometres away from China's coastal cities. The construction of the port in Gwadar is believed to the key to unlock prosperity in the region. Reduced transport costs will spur



economic activity in the region by allowing local firms to acquire materials at cheaper prices, leading to prices for consumers. This entails higher disposable incomes that increases economic freedom and will lead to lower levels of poverty in the region. It is vital to the Communist party this succeeds. Xinjiang must see economic benefits from OBOR or its separatist movement has the potential to grow and pose a threat to the single party states eligibility.

The geo-strategic gains that could be gleamed from the economic prosperity that surrounds OBOR cannot be overlooked. They contribute to the power China has in world affairs. Beijing is undoubtedly, already strong. This has been demonstrated by not “ blinking” in the ongoing trade war with Donald Trump’s America. The OBOR project has the potential to strengthen China’s regional power even further and in the long run its global power. As its power ever grows certain economic powers it hasn’t enjoyed in the past will become more prevalent.

In conclusion, OBOR is an enigma that will bring about dramatic changes to both the Chinese and global economy. It is an enigma because China does not have absolute control over how successful it will or will not be. There are too many factors out of Beijing’s hands. The economic reasoning behind this mega-project from a realists point of view is sound. The potential for greatness that Xi Jinping cites in his speech are valid. However, its success will come at a cost to some and I believe this will pose a major threat to the efficiency of the project. Outside of China’s borders, I believe OBOR will be

slow to begin with, but as its economic benefits are seen it will gather pace as more countries to choose to actively engage with it.