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### Introduction: Understanding the transformational power of China's Belt and Road Initiative

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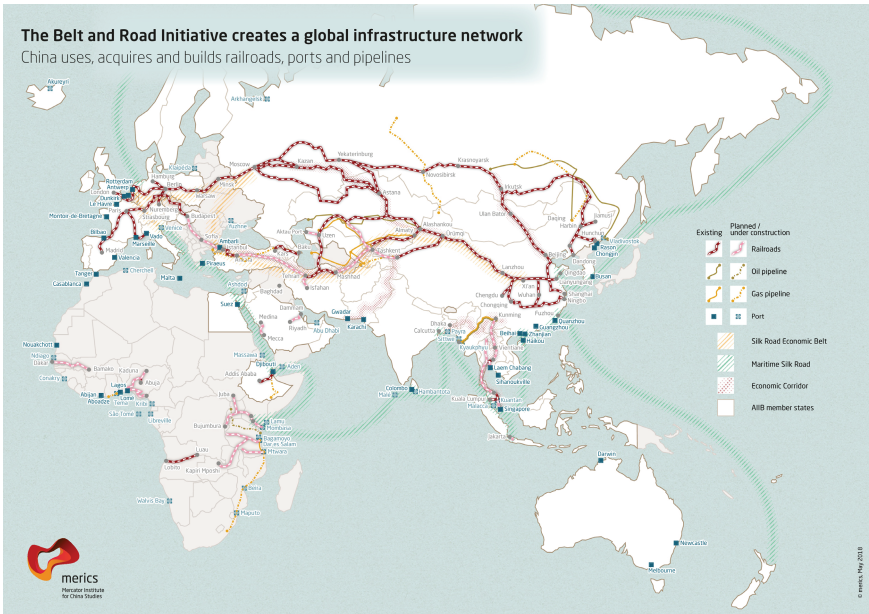
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# Introduction: Understanding the Transformational Power of China's Belt and Road Initiative

Chay Yue Wah and Thomas Menkhoff

This book features several introductory readings about the “Belt and Road Initiative” (BRI), a strategic development initiative launched by the Chinese Government under the leadership of President Xi Jinping in 2013 to jointly build an economic belt along the Silk Road. Some of the key objectives of BRI, previously known as One Belt, One Road (OBOR) or Silk Road Economic Belt, include promoting infrastructure development, trade and investments in Asia, Europe and Africa. BRI is a gigantic development initiative whose key components include the creation of several interconnected economic land corridors (=belts): China–Mongolia–Russia; China–Central Asia–West Asia, China–Pakistan, the China–Indochina peninsula and Bangladesh–China–India–Myanmar.

BRI's evolving overland infrastructure network includes the “New Eurasian Land Bridge” (see Figure 1) which consists of several



**Figure 1.** A map of the BRI

*Source:* Reproduced with the kind permission from Mercator Institute for China Studies (MERICS), Berlin, Germany.

rail corridors linking Yiwu in eastern China with European destinations such as Duisburg (Germany), Madrid (Spain) or London (UK).

A noteworthy case is the Belgrade–Budapest Railway project that will eventually link the Greek ports of Piraeus and Thessaloniki with the economic and trade partners in Eastern Europe. Once construction is completed by the end of 2023, planners envisage that the Budapest–Belgrade railway line will be the fastest transport route between Greece and the interior of Europe. Stakeholders see in the Budapest–Belgrade line a grand flagship project, which shows that China is capable of working according to EU construction standards and legal requirements with regard to fair competition and prevention of dishonest or fraudulent conduct. While the European Union (EU) and China have built a deep, strategic partnership over the years, there are also critics who have cautioned that a new eastern entryway to markets in Western Europe (WE) will carry a significant economic price for many European countries, for instance, China’s increasing

diplomatic and commercial influence as well as greater control (e.g. over resources) through sheer physical connectivity.

The “21<sup>st</sup> Century Maritime Silk Road” is a complementary initiative to promote maritime-related development in countries adjoining the South China Sea, the South Pacific Ocean and the Indian Ocean. It envisions the development of key seaports along traditional and new sea routes to Southeast Asia, Africa and the Mediterranean region with good connectivity to land-based transportation routes. Port development with “Chinese engagement” from Port Klang in Malaysia to Sri Lanka, to Gwadar in Pakistan, to gulf state ports in the Middle East, to Piraeus in Greece and beyond, provide a string of valuable pearls in the form of harbours from which adjoining areas can be serviced through feeder vessels or railway lines by Chinese government-linked companies.

BRI is a gigantic regional integration project that involves more than 60 countries in Asia, Oceania, East Africa and Europe. Funding and support is available from new financial institutions established by the Chinese Government such as the Silk Road Fund (US\$40 billion) founded in 2014 (<http://www.silkroadfund.com.cn/enweb/23773/index.html>) and the Asian Infrastructure Investment Bank (AIIB) formed in 2016. AIIB is “a multilateral development bank with a mission to improve social and economic outcomes in Asia and beyond” (<https://www.aiib.org/en/about-aiib/index.html>). Its headquarters is located in Beijing. AIIB has 80 approved members from various parts of the world: “By investing in sustainable infrastructure and other productive sectors today, we will better connect people, services and markets that over time will impact the lives of billions and build a better future” (<https://www.aiib.org/en/about-aiib/index.html>).

The “Central belt” is aimed at integrating countries in Central and West Asia with linkages to the Persian Gulf and the Mediterranean Sea. Central Asian countries such as Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan urgently require large-scale infrastructure investments, and the BRI is seen as a welcome source of funds and support. One of the completed projects in Kazakhstan is the Khorgos dry port that connects China and Kazakhstan (see Figure 2).



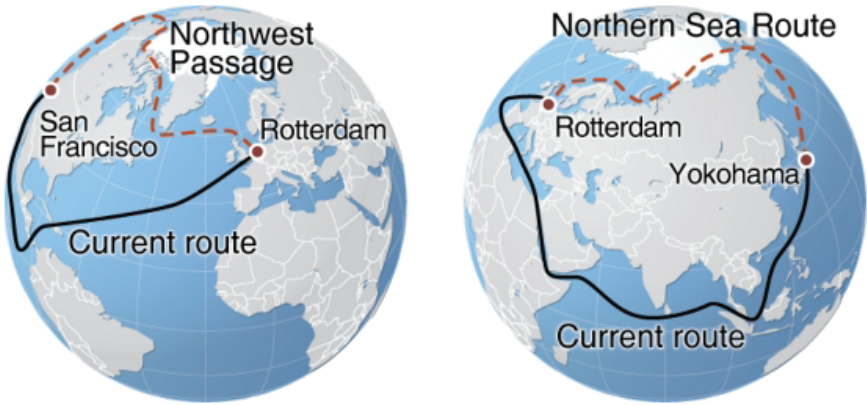
Figure 2. Examples of BRI projects

Source: *Nikkei Asian Review* 28/3/2018, <https://asia.nikkei.com/Spotlight/Cover-Story/Is-China-s-Belt-and-Road-working-A-progress-report-from-eight-countries>.

A key cooperative project between Kazakhstan and China is the emerging Western Europe–Western China (WE–WC) Expressway, which will connect the port of Lianyungang, on the Yellow Sea in China, to the port at St. Petersburg, on the Baltic Sea in Russia. WE–WC is mainly funded by The World Bank’s IBRD (International Bank for Reconstruction and Development), Japan International Cooperation Agency (JICA), Asian Development Bank (ADB), the Inter-American Development Bank (IADB) and the European Bank for Reconstruction and Development (EBRD). The WE–WC Expressway is positioned as a core element of a newly emerging multimodal transport system that will comprise other highways, railway lines and transport hubs, interlacing China, the Commonwealth of Independent States (CIS), Eastern Europe, South Asia and the Middle East with Kazakhstan as Eurasia’s logistical heart. Economic benefits include reduced travel time, industrial development, job creation, domestic tourism and increasing tax revenues.

Besides further extending the belt to countries in South Asia and Southeast Asia (=South belt) via new rail lines such as the high-speed railway project linking China to Thailand’s ports, the strategy is to create a “North belt”, connecting Central Asia, Russia and Europe. China’s President Xi Jinping has promoted a plan to create a Northern Sea Route (NSR) (=“Ice Silk Road”) in collaboration with Russia, with emphasis on oil and gas exploration in the Arctic region, including shipping, infrastructure construction, tourism and science (see Figure 3).

As a country with massive expertise in building roads, tunnels, bridges, high-speed trains for rail projects, etc., China’s BRI seems to be a logical outcome of the country’s domestic development approach with its emphasis on infrastructure development. Besides its forte as a massive transformational development force directed at the underdeveloped Eurasian landmass, BRI can also be seen as a strategy to address China’s uneven development of inland western regions and the prosperous eastern seaboard states. Instead of investing more state funds on underdeveloped provinces within China, regional economic integration is seen as a more effective approach towards poverty alleviation and sustainable development.



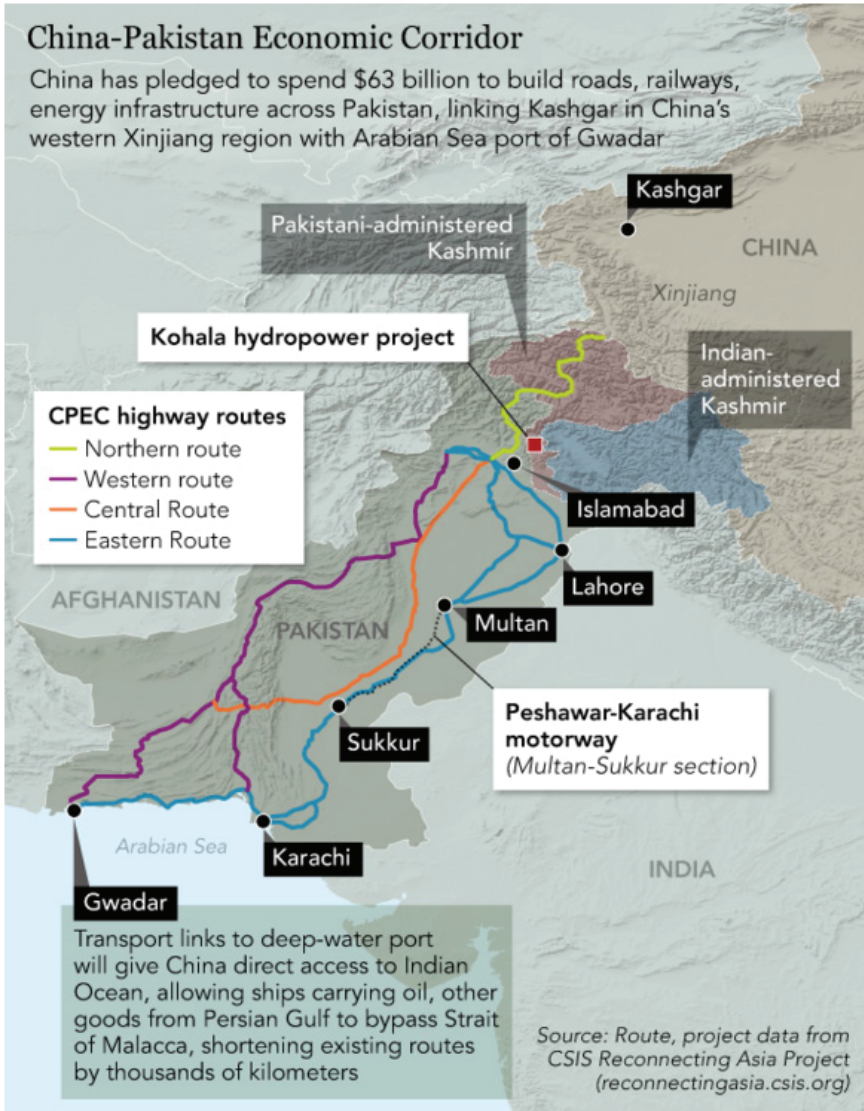
**Figure 3.** Northern sea route

*Source:* <http://www.grida.no/resources/7150>; Maps by Hugo Ahlenius, UNEP/GRID-Arendal.

A related case of interest in the overall scheme of the BRI is the China–Pakistan Economic Corridor, which connects Kashgar in the landlocked Xinjiang with the Port of Gwadar in Pakistan (where the China Overseas Ports Holding Company has an operating lease). The development of corridor-related road upgrading works have angered India because they are conducted in Gilgit–Baltistan which is a part of the greater Kashmir region, a disputed territory that is the subject of a long-standing conflict between Pakistan and India. Eventually, the China–Pakistan Economic Corridor is expected to entail highways, pipelines, power plants, optical connections and railways. Analysts expect that greater linkages between the restive province of Xinjiang and Central Asia will lead to significant economic and national security dividends.

At the sea port of Gwadar, the China–Pakistan Economic Corridor meets the Maritime Silk Road (see Figure 4) which gives China access to the Indian Ocean with its important sea routes, including oil and gas from the Middle East.

For many collaborating provinces and external countries, the BRI is a welcome source of much needed infrastructure investments to tackle infrastructural gaps and to stimulate more trade. For others, the potential BRI threats outweigh the benefits (Table 1). BRI has been interpreted as an attempt to create a new world order with China as



**Figure 4.** China–Pakistan economic corridor

Source: *Nikkei Asian Review* 28/3/2018, <https://asia.nikkei.com/Spotlight/Cover-Story/Is-China-s-Belt-and-Road-working-A-progress-report-from-eight-countries>.



**Table 1.** SWOT analysis of BRI based on several media articles, including a report in *The Economist*, 26<sup>th</sup> July 2018, entitled “China’s belt-and-road plans are to be welcomed — and worried about”

<b>Strengths</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>• China has massive expertise in infrastructure development know how (roads, tunnels, bridges, high-speed rail projects)</li> <li>• Source of much needed infrastructure investment to stimulate more trade</li> <li>• Creation of new funding institutions by China (e.g. Silk Road Fund, Asian Infrastructure Investment Bank)</li> <li>• Better local, regional and global connectivity as well as novel trading networks</li> </ul>	<ul style="list-style-type: none"> <li>• Good business prospects for builders of roads, railways, ports and power stations</li> <li>• More prosperity for less-developed economies (e.g. in Central Asia)</li> <li>• Novel cofinancing opportunities for joint BRI investments by China, the European Commission (EC) and multilateral institutions such as the IMF (International Monetary Fund) or the World Bank</li> <li>• Stimuli for regional economic growth</li> </ul>
<b>Weaknesses</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• No master plan with detailed targets and milestones to be achieved</li> <li>• Heavy reliance on Chinese labour rather than local manpower resources</li> <li>• Opaque governance and little transparency with regard to (Chinese) decision-making and returns on capital in BRI regions</li> <li>• “Easy” Chinese financing might lead to “white infrastructural elephants”</li> </ul>	<ul style="list-style-type: none"> <li>• Attempt to create a new world order with China as preeminent power (new hegemony)</li> <li>• Debt burden cum dependency (“debt trap diplomacy”) and possibility of potential IMF bailouts</li> <li>• Security risks arising as a result of creating a string of ports and berths for China’s navy with global reach</li> <li>• Potential military confrontation between China and the US over regional leadership, including the contested South China Sea</li> </ul>

preeminent power. There is concern that China’s new partnerships in (Eastern) Europe could have a negative effect on the integration project of the EU (with its emphasis on “good” governance, democracy and human rights), which overlaps with Russia’s Eurasian Economic Union (EAEU) project. Another worry is the potential debt burden cum dependency (“debt trap diplomacy”) of mega infrastructure

projects funded by China. Sceptics have pointed to security risks which may arise as a result of creating a string of ports and berths for China's navy extending its global reach.

In Sri Lanka, for example, China financed the construction of a new sea port in Hambantota with state-owned China Merchants eventually holding a majority stake after Sri Lanka encountered difficulties in the loan repayment. Additionally, a small group of China watchers have stressed the potential of a military confrontation between China and the US over regional leadership, including the contested South China Sea.

BRI's track record since it was unveiled in late 2013 suggests that China has become a champion of globalisation and an advocate of inclusive growth, filling a gap left by the more protectionist stance of the USA. In many Southeast Asian nations, BRI is regarded as a new force for regional economic integration — filling a vacuum created by the cessation of the Trans-Pacific Pact (TPP).

## **Structure of the Reader and Contributors**

The book's contents are aimed at discussing the following broad questions:

- What is the programmatic focus of BRI (beyond infrastructure investments or power grids) and its impact on selected partner countries who are involved in it?
- What explains China's growing proactivism in international affairs?
- How will BRI modify the geopolitical order in Asia and how do Asian countries respond?
- What is the role of the China-led AIIB vis-à-vis traditional development banks such as the ADB?
- What motivates China to finance these infrastructure-driven economic growth strategies in selected regional land corridors/belts and what are potential development outcomes?
- What is the impact of Chinese capital and infrastructure investments on Sino–Southeast Asian economic relations in general and Southeast Asia's maritime trade routes in particular?

- How do Southeast Asian nations such as Malaysia view China-financed BRI projects and what long-term geopolitical scenario is likely to arise with regard to the contested South China Sea?
- Why and how do countries in Central Asia like Kazakhstan participate in the Eurasian transcontinental corridor “Economic belt of the Silk Road”?
- How and under what conditions is economic power captured by China through the BRI?
- How will China’s increasing geoeconomic power translate into geopolitical power?

In Chapter 1, Dai Shiyan, Wang Xiangquan and Yang Yang (“External Challenges Arising from BRI Development and Approaches for Solutions”) provide insights into the increasing number of BRI projects worldwide in areas such as transport infrastructure, energy development and industrial park construction. External challenges include concerns that the further development of BRI will lead to an over-reliance on China, socio-cultural cum language barriers between BRI-involved nations and China, weak regulatory systems (e.g. finance), disputes over borderlines, investment risks and so forth. As the authors argue, effective communication can help BRI stakeholders achieve a good mutual understanding of the objectives and significance of BRI, “which could be more important than the hardware facilities of connectivity among the countries along the Belt and Road routes”. They conclude that China is well advised to further enhance the external communication and publicity about BRI as there have been growing concerns about this gigantic blueprint.

Gary Hawke sheds light on the complex issue of how to absorb the new BRI (which he views as a vision, not a plan) into an international economic architecture in Chapter 2, “Economic Historical Development and Leadership Underlying the BRI Strategy”. He discusses how the BRI can accommodate the various economic systems in a synergetic, positive and peaceful fashion vis-à-vis the narrative of China’s past humiliation and the historical primacy of the USA in Asia-Pacific. As he concludes his wide-ranging politico-economic analysis of BRI, which also sheds new light on its multiple security

dimensions vis-à-vis Washington's strategic competition consensus, he notes that "... it takes time for the new to become familiar. In a situation where one economy is gaining a leadership position while another's is declining, the novel is especially threatening." The development of the 21<sup>st</sup> century BRI will test China's peaceful rising, especially by those affected outside of China.

In Chapter 3 ("Frontier Infrastructure: OBOR and Northern Sea Route (NSR) in Comparative Perspective"), Christopher M. Dent introduces the concept of "frontier infrastructure" as an analytical device to explain both the nature and historic significance of the BRI and the NSR. He discusses how this discourse plays out in current debates about the governance and promotion of international trade in the 21<sup>st</sup> century. As illustrated in Figure 3, the NSR connects the Barents Sea near Russia's border with Norway with the Bering Strait between Siberia and Alaska. Melting ice sheets as a consequence of climate change suggest that the NSR might become an alternative maritime route by 2040, making the Suez Canal less important in the long run.

How the BRI impacts Central Asia in general and Kazakhstan in particular is discussed in Chapter 4, "The Belt and Road Initiative: Case of Kazakhstan" by Batzhan Akmoldina, Sara Alpysbayeva and Zhanna Kapsalyamova. Kazakhstan is landlocked and the biggest of the Central Asian countries by land mass. With vast oil and natural gas reserves, it is strategically positioned as a trade and logistics hub between China, Europe and South Asia to become the logistical heart of Eurasia. Kazakhstan participates in three directions of the Eurasian transcontinental corridor "Economic belt of the Silk Road": (i) China-Kazakhstan-Russia-Europe, with access to the Baltic Sea; (ii) China-Kazakhstan-Turkmenistan-Iran-Pakistan, with access to the Persian Gulf and the Indian Ocean and (iii) China-Kazakhstan-Azerbaijan-Georgia-Turkey-Europe, within the framework of the international Transport Corridor Europe Caucasus Asia (TRACECA) program, with access to the Black and Mediterranean Seas. The TRACECA program was launched at a conference in Brussels in 1993 to create a transport corridor on a West-East axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central

Asia. TRACECA members include Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Romania, Tajikistan, Turkey, Turkmenistan, Ukraine and Uzbekistan. How the country will continue to manage its relations with China, Russia, the EU and the US will be an interesting lesson in statecraft. Common ground entails promoting domestic and regional economic growth, strengthening regional security, mastering digitization and enhancing institutional efficiency.

In Chapter 5 (“Financing the OBOR Initiative”), Joseph Lim and Deborah Lim take a closer look at the gigantic BRI financing needs. While China has sponsored and financed many BRI projects like those in Pakistan, Sri Lanka or Laos, they argue that it cannot shoulder the financing burden alone. Without private capital and national governments serving as equity holders, the BRI is unlikely to succeed. Many BRI projects are located in developing countries whose political leaders struggle with their national finances. Particular challenges include the management of sovereign risk, systemic investment risks and exchange risks. What is needed are new mechanisms for redistributing the risks that debt holders are facing in conjunction with other risk amelioration measures such as tranching, investing through a special purpose vehicle (which is an entity incorporated for the purpose of investing in the bonds of a BRI project), contingent convertible bonds or special infrastructure funds. According to their analysis, there can be no doubt that the nodes along the “belt and road” will see a parallel development of the (much-needed) financial infrastructure.

The (arguably) “irreconcilable rivalry” between China and Japan in regional cooperation in the areas of finance and trade forms the core subject of Chapter 6 by Shintaro Hamanaka (“Explaining Irreconcilable Sino–Japan Rivalry”). There are fundamental differences with regard to policy preferences between both countries. While China prefers goods-centric free trade agreements (FTAs) and supports international financial institutions (IFIs) to finance infrastructure development measures in support of trade facilitation such as transport infrastructure, Japan places emphasis on more comprehensive development approaches “beyond just lending money”, including regulatory reforms and the establishment of regulatory

standards (e.g. environmental standards) of partner countries. The “irreconcilable rivalry” argument is further developed with reference to the trade-related Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP) as well as the workings and rationale of finance-related institutions such as the AIIB and the ADB. Whether the stated rivalry will eventually lead to more harmony amongst regional powers like China/Japan (and the US) and constructive negotiations for mutual benefits as a result of ever-evolving geopolitical dynamics remains to be seen.

A Southeast Asian perspective of BRI is provided by Xue Gong and Li Mingjiang in Chapter 7, “The Belt and Road Initiative: Progress and Prospect in Southeast Asia”. The authors contrast the different responses of three groups of countries vis-à-vis the prospects of BRI in order to assess how it may make progress in the region: (i) Cambodia, Brunei, Thailand and Singapore; (ii) Malaysia, Indonesia and the Philippines and (iii) Vietnam and Myanmar. A case in point is Malaysia under the leadership of Prime Minister Mahathir Mohamad which has suspended work on multibillion infrastructure projects such as the US\$20 billion East Coast Rail Link project (agreed upon during the Najib administration) due to concerns about affordability and debt servicing. There are also strategic concerns with regard to the free movement of ships through the South China Sea and the Strait of Malacca.

In Chapter 8, Hans-Dieter Evers, Abdul Rahman Embong and Rashila Ramli examine “The Impact of Chinese Maritime Policy on Malaysia: A Long-term Geopolitical Scenario”. Their paper concentrates on the maritime part of this development policy, which entails heavy infrastructure investments in ports and railroads, and real-estate property developments, for instance, satellite cities and/or condominiums, offered for sale mainly to Chinese citizens. According to their analysis, there will be obvious commercial benefits to economies along the Southern Silk Road, but also geopolitical effects like increasing political dependency due to Chinese capital investments and acquisition of property rights in ports and condominiums. Regarding these developments, a Malaysian maritime policy is called for to match BRI and the Indonesian Maritime Fulcrum, as well as

ASEAN integration. Indonesia's "Global Maritime Fulcrum" refers to the country's grand maritime vision to turn Indonesia into a "fulcrum" of Indo-Pacific maritime activity. Strategic goals include the development of Indonesia's Navy into a regional maritime power and to create a more interconnected Indonesia with modern ports, fisheries and shipping. This includes the upgrading of Indonesia's naval base at Natuna Island. As China and Indonesia have overlapping claims on maritime rights in the South China Sea, the future maritime security environment is set to become more challenging.

Chapter 9 ("China's Belt and Road Initiative and ASEAN's Maritime Clusters") by Hans-Dieter Evers and Thomas Menkhoff deals with the potential impact of BRI on maritime clusters in Southeast Asia. It makes a case for further examining the possible effects of the complementary "Maritime Silk Road" on maritime clusters involving Singapore, Malaysia and Indonesia. Whether China's heavy investments in land and maritime infrastructure in Indonesia and Malaysia will lead to the development of strong and dense maritime clusters with deep connectivity and complementary (maritime) subclusters for mutual socio-economic development benefits remains to be seen. Academic research to better understand these trends, as well as the creation of a comprehensive maritime policy, is advocated for ASEAN nations.

In Chapter 10 ("Strategic Linkages: China's Belt and Road Initiative and Power Capture through Global Value Chains"), Pan Zhengqi examines an important aspect of the BRI: the development of international relations networks of countries economically and politically linked by the BRI that in turn make them increasingly dependent on one another (with China as the strategic core in the network of geoeconomic and geopolitical relations). The author argues that dense GVC linkages formed by the BRI with China as the hub will not only result in disproportionately large trade and investment benefits for China, but also considerable financial gains through the greater use and internationalization of the renminbi (RMB). Importantly, increasing trade and financial connections between China and the rest of the BRI countries will lead to a more comprehensive diplomacy, albeit the effects of China's direct political

influence being constrained by scepticism regarding debt trap diplomacy. However, the overall geopolitical ramifications of the BRI remain salient: China's BRI can be seen as a grand strategy to decrease dependence on and influence of the American-led liberal world order.

In Chapter 11 "Sustaining the Momentum of the Belt and Road Initiative", Andrew Elek discusses some of the key enablers of BRI's long-term viability and sustainability such as efficient infrastructure maintenance and operationality, objective project monitoring, high and sustained level of policy coordination as well as the generation of sound economic rates of return. As he argues, all this will require huge improvements in the skills, institutional capacity and policy environment of most of the countries involved: "A system with one dominant leader — China — will be a massive aid program rather than any new model of cooperation." The main pillars of building BRI include: (i) the generation of mutual trust and mutual respect among a very diverse group of countries, (ii) shared leadership of the process, (iii) reaching win-win agreements on priorities and targets, (iv) sharing responsibility for efficient project design, construction, operation and maintenance and (v) mobilization of the massive funds that are required. He concludes that the future of the BRI remains uncertain as several of the challenges above have yet to be tackled effectively.

In the concluding chapter, Linda Low writes that China is forging ahead with globalising the BRI, albeit with Chinese characteristics; "doing by its own way". China has arrived in a more challenging bipolar world with the USA's more domestically focused "to be great again" somewhat eclipsed as China's BRI continues to transform its domestic economy and the destiny of some of the participating nations. The novel BRI is China's approach to becoming a powerful global leader by building new investment links and trading networks regionally and internationally along the old Silk Road. The "21<sup>st</sup> Century Maritime Silk Road" initiative is yet another approach to capitalise on geopolitical and geoeconomic advantages amid the current global and regional uncertainty. This initiative is planned to promote maritime-related development in countries adjoining the South China Sea, the South Pacific Ocean and the Indian Ocean. Creating maritime clusters around port cities will help to satisfy



Chinese geopolitical needs for secure trade routes. The creation of these maritime clusters will further fulfil the participating states' need for vibrant port cities and effective maritime economies, provided project implementation efforts with cluster effects are viable, sustainable and confidence-building.