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One Belt One Road Strategy in China and Economic Development in the Concerning Countries

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Abstract This paper discusses the vision, scope and the goals of the One Belt One Road Strategy in China and the associated impacts on economic development in the concerning countries as well as the risks and challenges likely to result during the implementation of the initiative. Secondary sources of data are used relying on various government documents, papers and other articles on the internet. The paper argues that the initiative has huge potential in promoting economic development in the participating regions. The initiative is posed to promote policy coordination, facilities, connectivity, unimpeded trade, financial integration, increased economic performance and productivity and people-to-people bonds. The paper also stresses on the risks and challenges that are likely to occur during the implementation of the One Belt One Road Strategy. To ensure the success of this strategy, the paper recommends that the governance and strategic planning of the One Belt One Road strategy be strengthened to ensure that it becomes as inclusive as possible as it involves many actors with different interests. Lastly, supportive regulation, strong project management, transparent procurement procedures and careful consideration of environmental and social impacts should be taken seriously.

Keywords: *One Belt One Road, Infrastructure, Economic Development*

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1. Introduction and Background

China's economy grew at an unsustainably rapid rate during the past three decades, resulting from developments in technology lowering transaction and market entry costs (allowing China to take advantage of its labor resources) and high government investment. This growth strategy, however, has shown signs of running its course, with the working-age population shrinking after its peak in 2012, government investment plateauing at 49 percent of GDP, and a narrowing technological gap between China and developed countries. This shifting environment has prompted a transition toward a more balanced economic approach-a slower, more sustainable "new normal"-with an increased focus on global integration. The One Belt and Road Initiative (OBOR) composed of the land-based Silk Road Economic Belt and the sea-based 21st Century Maritime Silk Road is a pillar of this change. OBOR aims to alleviate China's domestic economic slowdown, build infrastructure to connect Asia for trading, and strengthen China's regional influence thereby utilizing the overcapacity in Chinese firms [1]

The One Belt One Road (OBOR) initiative is a combination of two outward-facing concepts introduced by President Xi Jinping in late 2013 to promote economic engagement and investment along two main routes. To date, reports [2] suggest that the first route, the New Silk Road Economic Belt, will run westward overland through Central Asia and onward to Europe. The second route, the 21st-Century Maritime Silk Road, will probably loop south and westward by sea towards Europe, with proposed stops in South-east Asia, South Asia and Africa. The Silk Road Economic Belt was unveiled by Xi Jinping at Nazarbayev University on September 7, 2013 as part of his state visit to Kazakhstan. The New Maritime Silk Road was announced before the Indonesian Parliament on October 3, 2013, as part of Xi Jinping's state visit to Indonesia.

It is from this background that this paper endeavors to discuss the potential impacts and risks involved in implementing such a massive infrastructural project and its overall contribution to economic development in the concerning countries. The paper will look at the vision, scope and goals as well as the economic impacts of the One Belt One Road Strategy in China. Risks or rather challenges will also be discussed to give a broader picture of this initiative.

2. Vision, Scope and Goals

2.1. The Vision

These two concepts envision the creation of a highly integrated, cooperative, and mutually beneficial set of maritime and land-based economic corridors linking European and Asian markets. Specifically, as stated by a paper issued by the Ministry of Foreign Affairs and the Ministry of Commerce in March 2015 the initiative will pass through the continents of Asia, Europe, and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other, and encompassing countries with huge potential for economic development. 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. The 21st- Century Maritime Silk Road 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 [2].

2.2. The Scope

The scope and content of the One Belt, One Road initiative is rather breathtaking, and its goals quite ambitious. The goal of the initiative is to promote five major goals among its constituent nation states: policy coordination, facilities, connectivity, unimpeded trade, financial integration and people-to-people bonds. The initiative to jointly build the Belt and Road, embracing the trend towards a multipolar world, economic globalization, cultural diversity and greater IT application, is designed to uphold the global free trade regime and the open world economy in the spirit of open regional cooperation. It is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets; encouraging the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards; and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all [3].

2.3. Geographic Coverage

The geographic spread of the initiatives, as stated already, is very ambitious. It is indicated that up to 60 countries may be included involving countries across three continents. Besides its political objectives, OBOR brings a strategic focus to the government's outbound initiative, which encourages Chinese firms to go abroad in search of new markets or investment opportunities. The OBOR push is being led from the highest levels of the government, and involvement will run across several ministries. Its initial stated emphasis will be on regional connectivity projects.

2.4. The Financial Support

OBOR is backed by substantial financial powers. The government has launched a US$40bn Silk Road Fund, which will directly support the OBOR mission. The fund, which became active in February 2015, is backed by the China Investment Corporation (China's sovereign wealth fund), China Development Bank, the Export-Import Bank of China and the State Administration of Foreign Exchange. It will be used to improve connectivity along the "one belt, one road" by financing infrastructure, resources, industrial and financial co-operation projects, probably with an initial focus on Central and Southeast Asia. Transport infrastructure such as railways, roads, ports and airports will be a particular focus. The Asian Infrastructure Investment Bank (AIIB), which is being spearheaded by China and was officially established recently in October 2014, is meant to help to finance construction along OBOR as well. The bank's stated aims are to combine China's core competencies in building infrastructure with deep financial resources to help development in other parts of Asia. China will provide much of the US$100bn in proposed initial capital. At its announcement, it sought participation by other Asian governments and signed a Memorandum of Understanding (MoU) with 21 of them, with assurances that it would co-operate with other funding sources such as the Asian Development Bank (in which China is a member) [4].

The proposed infrastructure spending is diversified across a range of sectors. The China Development Bank promised to invest in more than 900 projects-including projects covering coal and gas, mining, electricity, telecommunications, infrastructure and agriculture-involving 60 countries. This development could simultaneously narrow the annual $800 billion gap between the supply and demand for infrastructure spending in Asia while helping to offset the effects of falling investment and rising overcapacity within China. Domestically, OBOR's road projects will promote growth in underdeveloped central and western regions such as Xinjiang, Gansu Province, Ningxia, Guangxi, and Yunnan Province. Such investment could boost overall GDP while reducing regional economic inequality, and could thus mitigate some social tension in those provinces [5].

3. One Belt One Road Initiave and Economic Development

The subject of infrastructure and economic development is one which is highly debated among economic development commentators and policy makers. Many studies have been conducted on this subject, some directly attributing the level of economic development to the kind and level of infrastructure in an economy. The impacts of infrastructure development on economic development cannot be ignored nor can it be overemphasized. The One Belt One Road Initiative is one infrastructural initiative posed to contribute immensely to the economic development of China and the concerning countries. This, however, as many have argued depends on the implementation plans as the initiative also attracts opposition from the west, apparently plus other challenges embedded in the nature of the project.

3.1. Promotion of Local Manufacturing Industries and Enlarging Markets

Infrastructure investment is an important driving force to achieve rapid and sustained economic growth and ultimately economic development. It can provide a basis for the expansion of local manufacturing industries, as well as enlarging markets for the outputs of these industries. For example, as stated earlier, this initiative could simultaneously narrow the annual $800 billion gap between the supply and demand for infrastructure spending in Asia while helping to offset the effects of falling investment and rising overcapacity within China [6]. Domestically, OBOR's road projects will promote growth in underdeveloped central and western regions such as Xinjiang, Gansu Province, Ningxia, Guangxi, and Yunnan Province. Such investment could boost overall GDP while reducing regional economic inequality, and could thus mitigate some social tension in those provinces. The reduction in inequality is at the core or economic development. This will promote infrastructure-based development, the notion that substantial proportion of a nation's resources must be systematically directed towards long term infrastructural assets such as the proposed One Belt One Road Initiative.

3.2. Increased Economic Performance and Productivity

According to a study by Aschauer (1990) [7], there is a positive and statistically significant correlation between investment in infrastructure and economic performance. Furthermore, the infrastructure investment not only increases the quality of life, but, based on the time series evidence for the post-World War II period in the United States; infrastructure also has positive impact on both labor and multifactor productivity. The multifactor productivity can be defined as the variable in the output function not directly caused by the inputs, private and public capital. Thus, the impact of infrastructure investment on multifactor productivity is important because the higher multifactor productivity implies higher economic output and hence higher growth. Higher growth means economic development. Therefore, this initiative has huge potential for economic development in the concerning countries.

In addition to Aschauer's work (1990) [7], Munnell's paper (1990) [9] supports the point that infrastructure investment improves productivity. We then argue that the One Belt One Road strategy in China will promote robust economic development in the concerning countries as it stimulates economic activity which has an aggregate effect on the overall economic performance of the participating countries. Infrastructure development contributes to investment and growth through increase in productivity and efficiency as it links between resources to factories, people to jobs and products to markets. This One Belt One Road Strategy, as envisioned by the Chinese government is one with potential in further propelling the Chinese economy and those of the concerned Countries.

Infrastructure is an essential ingredient for the success of a competitive modern economy. Research [9] has shown that well-designed infrastructure investments have long-term economic benefits; they can raise economic growth, productivity, and land values, while providing significant positive spillovers. However, investing wisely in infrastructure is critically important as over-investment can lead to projects that are inefficiently large, and therefore have low marginal returns. This implies that the effective implementation of the One Belt One Road Strategy is core. This calls for a proper and well-coordinated implementation plan involving all the participating countries in the region to ensure that the envisioned impacts are realized-given that infrastructure investments, especially of this nature are of high-risk, long-term, and capital intensive.

3.3. Lowered Transactional Costs, Employment and Welfare

The One Belt One Road Initiative has the potential to promote economic development in the concerning countries because this initiative is expected to benefit hundreds of entrepreneurs within the regions involved, creating employment for the masses. Many Chinese companies will participate in the implementation of this initiative. Not only this, the initiative is posed to enlarge markets (as mentioned in this paper), lowering transactional costs, also creating employment-thereby promoting growth and benefiting households and promoting welfare-economic development.

Conceptually, the One Belt One Road project is expected to affect aggregate output in two main ways: (i) directly, considering the sector contribution to GDP formation and as an additional input in the production process of other sectors; and (ii) indirectly, raising total factor productivity by reducing transaction and other costs thus allowing a more efficient use of conventional productive inputs. Infrastructure can be considered as a complementary factor for economic growth.

Investments in modern infrastructure as the one proposed by the Chinese government, the One Belt One Road strategy, lay the foundations for economic development and growth. If successfully implemented, the One Belt One Road strategy will create jobs. When completed, this massive and ambitious project is expected to help societies in the concerned countries increase their wealth and the citizens' standard of living.

The One Belt One Road is expected to reduce transaction costs and facilitating trade flows within and across borders. This is so because the project will enable economic actors, individuals, firms, and governments to respond to new types of demand in different places. Further, the project is expected to lower the costs of inputs for entrepreneurs, or making existing businesses more profitable-thereby creating employment, including in public works. This has a potential to enhance human capital, for example by improving access to markets and increasing connectivity between and among the concerning countries.

3.4. Regional Connectivity, Integration and Trade Facilitation

When developed, the one belt one road infrastructural project will be critical for ensuring the effective functioning of the economy, as it is an important factor in determining economic activity and the kinds of activities or sectors that can develop in a particular economy. This infrastructural project will reduce the effect of distance between regions (Asia, Europe and Africa), integrating the national market (Chinese market) and connecting it at low cost to markets in the concerning countries and regions. In addition, the quality and extensiveness of this massive project will significantly impact economic growth and affect income inequalities and poverty in a variety of ways. This infrastructure network will serve as a prerequisite for the access of less-develop communities to core economic activities and services, ultimately leading to overall economic development. The One Belt One Road project will create production facilities and stimulate economic activities; (ii) reducing transaction costs and trade costs, thereby improving competitiveness and (iii) providing employment opportunities and physical and social infrastructure to the general masses.

The initiative could also spur an upgrade to the China-EU comprehensive strategic partnership. The European interconnection plan, linked with OBOR, will enable "five-way" connection in policy, trade, transportation, currency and people to mesh with China and Europe's "four great partnerships" of peace, growth, reform and civilization. Poland and Greece will become new gateways for China's access to Europe under the 16+1 framework of dialogue between China and countries in central and Eastern Europe. China and Europe can discover new sectoral dialogues in maritime and cyber issues. OBOR would enhance the EU's global influence, promoting green, sustainable and inclusive development, and the high labor and environmental standards long promoted by the EU. Many of the countries along the route are Europe's former colonies who need to draw from European experience in global and local governance. There will be a greater opportunity for China and the EU to cooperate in markets like West Africa, the Indian Ocean and Central Asia. Europe's experience, standards and historical and cultural influence are valued by China, and One Belt One Road will uphold the spirit of the Silk Road, namely solidarity, trust, equality, tolerance and mutual benefits to produce win-win cooperation [10].

Over the medium to long term, successful implementation of the initiative could help deepen regional economic integration, boost cross-border trade and financial flows between Eurasian countries and the outside world, and further entrench Sino-centric patterns of trade, investment, and infrastructure. This would strengthen China's importance as an economic partner for its neighbors and, potentially, enhance Beijing's diplomatic leverage in the region. Increased investment in energy and mineral resources, particularly in Central Asia, could also help reduce China's reliance on commodities imported from overseas, including oil transiting the Strait of Malacca. Drawing from the Gravity Model of trade which puts emphasis on the size of the economy as determining the pattern of trade between and among countries, we can postulate the increased trade flows between China and European countries with an improvement in infrastructure and the promotion of connectivity and diplomatic relations in the regions, reducing the impediments to trade such as distance, barriers and borders. This will allow the participating countries greatly benefit from trade and thereby promoting economic development for their citizens.

The One Belt One Road is positioned to attract increased foreign direct investment, stimulate commerce and support local businesses. Their citizens are more likely to enjoy better and improved livelihoods.

The implementation of the One Belt One Road strategy as stated will help improve infrastructure access and interconnection with neighboring countries as well as with those along the routes. This will bring in new development opportunities for outbound investment in infrastructure, energy cooperation and advanced manufacturing sectors. Infrastructure: The Asian Development Bank predicts there will be a funding gap of USD8, 300 billion in infrastructure in Asia during 2010–2026. China is expected to expand its overseas investment and to export technology to developing countries in Asia through the OBOR initiative, benefiting all the participating companies, creating employment for the masses-contributing to economic development in an imaginable way. Energy cooperation: Asian countries are rich in energy resources. As many developing countries are facing funding and technology challenges, there will be more opportunities for joint exploration and development, the construction of energy pipelines and electricity facilities. Advanced manufacturing: China has advantages over some neighboring countries in IT, new material and advanced manufacturing sectors (e.g., high-speed railway and nuclear power, etc.). Those countries are expected to benefit from China's manufacturing technology [2].

4. Risks and Challenges Associated With The Implementation of OBOR

However, in as much as this ambitious initiative has potential impacts on economic development in the concerning countries the project has some potential risks and challenges. China risks overreaching itself, and there is much uncertainty about the process. There has been this believe that this is a concept based on giving, in terms of finances and in terms of leadership [11]. China faces the possibility of losing money or stirring up opposition. The competition among potential Chinese actors-now including everybody up to China's maritime coast-could provoke a "blind development" very much along the lines of events in China's past. It could also happen that the aggregated projects shift some of China's main trends of recent decades. Emphasizing the westward continental overture represents a return to the late 1950s, when Mao rebalanced growth away from the coast with massive investments inland. The project also extends abroad the western development policy of the past decade. It not clear yet whether this project is viable, considering the geopolitics along the proposed routes.

Others [11] have argued that much of China's logic on the project is based on geopolitics and on the export of its huge infrastructure-building capacities. But even within China, these sectors are leading loss-makers. Geographical and geopolitical conditions differ widely outside China, especially along the continental routes. There is a debate about whether it is wise to pour such huge amounts into low-return projects and high-risk countries.

Regional powers, too, are wary of China's rise [5]. China must avoid the perception that it is challenging Russia's position in Central Asia, while many of the target countries for the Maritime Silk Road project are currently involved in territorial disputes with China, which may make them reluctant to cooperate. In order to overcome this skepticism, China should use its growing strength to persuade its neighbors to shelve disputes and pursue joint development. Some scholars have cautioned China not to take smaller countries for granted. Some countries may not find the message of the Silk Road appealing.

The OBOR has attracted great interest within China from local and provincial governments. More than 22 provinces in China have said in their government working reports that they want to take part in the initiative [2]. However, it is pointed out that the rush to implement the OBOR could lead to duplication and wastage. For example, many international railway projects have sprung up to go along with the initiative. But these routes tend to be expensive and are often underused. In the rush to support the OBOR, a number of provinces have poured subsidies into projects that are not necessarily economically viable. And many local officials have developed plans for cooperation with Central Asian countries that are focused on their own narrow regional interests rather than on achieving the larger national strategy. It seems that China's provinces and regions are getting caught up in the excitement around the OBOR, and the rush to join in could have damaging repercussions.

The most serious one is the suspicion with which other countries view China's aims and strategic purposes. Many fear that the OBOR is a veiled attempt by China to dominate its neighboring regions. These doubts mean that many countries are reluctant to cooperate in the initiative. Among potential partner countries, members of the Association of Southeast Asian Nations (ASEAN) are probably the most concerned. The route connecting Africa is one questionable as concerns have increased in the western media some academics on the rise of China in Africa.

5. Conclusion

The paper argued that the initiative has huge potential in promoting economic development in the participating regions. The initiative is posed to promote policy coordination, facilities, connectivity, promote trade flows, financial integration and people-to-people bonds. The Strategy has potential in promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets; encouraging the countries along the Belt and Road to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards; and jointly creating an open, inclusive and balanced regional economic cooperation architecture that will promote economic development in all the concerning countries. Further, the strategy may help in rebalancing growth in the Chinese economy by utilizing overcapacity in China and providing employment opportunities to masses. However, the strategy also attracts risks and challenges such as facing opposition from the west. Concluding, to ensure the success of this strategy, this paper recommends that the governance and strategic planning of the One Belt One Road strategy be strengthened to ensure that it becomes as inclusive as possible as it involves many actors with different interests. Lastly, supportive regulation, strong project management, transparent procurement procedures and careful consideration of environmental and social impacts should be taken seriously.

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