

Background and Strategic Significance of the “Belt and Road Initiative” of China

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Abstract Chinese President Xi Jinping raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road in 2013 (hereinafter referred to as the Belt and Road). The paper aims to analyze the background and the significance of China’s “Belt and Road Initiative”. And it finds out that the “Belt and Road Initiative” has profound international and domestic background and it has strategic significance to China’s geopolitical and economic security, energy security, RMB internationalization, economic transformation and upgrading, etc.

Keywords: belt and road initiative, background, strategic significance

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1. Introduction

In history, as the trade and transportation route across the Eurasia, the Silk Road built a bridge of civilization and economic exchange between the East and the West, and it promoted friendly exchanges between the European, Asian and African countries with China. Nowadays, the ancient Silk Road has undertaken new historical mission. In September and October 2013, Chinese President Xi Jinping raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, which is to instill vigor and vitality into the ancient Silk Road, connect Asian, European and African countries more closely and promote the economic prosperity of the countries along the Belt and Road and regional economic cooperation. The proposal of the “Belt and Road Initiative” has profound realistic background and strategic significance. This paper aims to analyze the profound international and domestic background of the “Belt and Road Initiative” proposed by China and explore the strategic significance of the Initiative.

2. The Background of the “Belt and Road Initiative”

2.1. International Background

2.1.1. “One Axis with Two Wings” Strategy of the U.S.

Since the beginning of the 20th century, the U.S. has constantly pursued the “two-ocean strategy” aimed at balancing the Pacific Ocean and the Atlantic Ocean. The purpose of the U.S. is obvious, which is to dominate the world through dominating the Eurasia. After the 21st

century, the U.S. began to strengthen its existence and dominance in the Asian-Pacific region. In 2008, the U.S. participated and dominated “the Trans Pacific Strategic Economic Partnership Agreement”(TPP) negotiation, led the institution of high-standard free trade agreements, tried to seize the commanding point of economic rules in the Asian-Pacific region and dilute the influence of China in the region, so as to ensure its geo-political, economic and security interests. In 2009, the then U.S.’ secretary of state, Hillary Clinton, set her first visit destination in Asia and began the "Return to Asia" strategy of the U.S. In 2012, the U.S. proposed the “Asian-Pacific Rebalancing Strategy”, which is to reduce the increasing influence of China through military, political and economic ways to strengthen its intervention in Asian-Pacific affairs. In June 2013, the U.S. and the EU announced to initiate the “Transatlantic Trade and Investment Partner Agreement” (TTIP) negotiation. If the Agreement is reached, it will be the biggest free trade and investment area in the world, which will involve 40 percent of the world’s economic output and 50 percent of the world’s trade, and it will have a significant impact on the setting of global economic and trade rules. Through TPP and TTIP, the U.S. is co-opting the Europe and Japan to promote the "One Axis with Two Wings" strategy (NAFTA and TPP, TTIP), thus to build a comprehensive free economic and trade network beyond WTO rules. Once the network is built, it will greatly squeeze China’s development space.

2.1.2. Goods Transportation and Oil Security of China

With the rapid development of China’s economy and foreign trade, the trade relationship between China and countries all over the world has been greatly enhanced. But China’s trade activities are mainly concentrated in the eastern and southern coastal areas of the country, and 80 percent of its import and export are located there. Most of

its trade of goods will have to pass through the offshore area southeast of the country, which relies too much on sea access. But the conditions of China's access to the sea are not advantageous. China's land has been surrounded by the Western Pacific island arc, the number of passages to the oceans is limited, and many of them are under foreign countries' sovereignty and jurisdiction, thus China's passageways to the outside world are limited. Countries led by the U.S. who are on high alert for China's rise have formed strategic encirclement of China. Non-traditional safety hazards become more and more obvious, and China might face trade embargo aimed at energy, food and other critical materials [1].

In recent years, China's foreign oil dependence ratio has been increasing year by year, and the energy security situation is not optimistic. China's foreign oil dependence was over 60 percent in 2015 [2]. According to International Atomic Energy Agency (IAEA), China's foreign oil dependence will reach 68 percent in 2020. China's import amount of oil is huge, but the import source is very concentrated, of which about 70 percent is from the Middle East and Africa whose political situation is very unstable. Furthermore, the transport route of oil is unitary, which mainly relies on ocean transportation and 4/5 of it has to pass through the Indian Ocean and the Strait of Malacca. Subject to the Malacca Dilemma, China's energy security has been seriously influenced. China badly needs to open new land passages in the Eurasia which can connect to the Middle East, thus to reduce its dependence on the Strait of Malacca and guarantee the transportation security of goods and oil.

2.1.3. The Need for Multilateral Regional Economic and Trade Cooperation

A single country is often inevitably in a vulnerable position in the world's economic competition. Compared with economic and trade organizations composed of a number of countries, the bargaining position and bargaining power of a single country in the world trade is weaker, and the capability of coping and withstanding global economic risks of it is lower. By joining in proper regional economic and trade organizations a country can collaborate with other members, promote regional economic development and attain bigger development space. In recent years, regional economic organizations have been growing in number, and their influence is increasing, such as NAFTA, EU, APEC, ASEAN, BRICS, etc. In the meanwhile, regional economic cooperation is a flexible alternative under the situation that it's hard for international multilateral cooperation to make progress. Countries (regions) who haven't joined in any regional economic or trade organizations face the risk of "marginalization" [3]. By taking advantage of international transport routes, the "Belt and Road Initiative" intends to build a new Eurasian Land Bridge and a number of international economic corridors, maintain closer economic ties between Asia, Europe and Africa, and form new regional economic cooperation pattern with wider range, broader fields and deeper levels, thus to strengthen China's international competitiveness through regional multilateral economic and trade cooperation.

China and countries along the Belt and Road have long historic origin in economic connections. The proposal of the "Belt and Road Initiative" fits the need of multilateral regional

economic and trade cooperation, provides cooperation frame for strengthening economic exchanges between China and countries along the Belt and Road and promotes the cohesion of all countries concerned. Although there are no institutional constraints at the initial stage, the "Belt and Road Initiative" will lay a good foundation for future multilateral regional economic and trade cooperation.

2.2. Domestic Background

Since modern times, it was proposed for many times that a large railway network in China should be constructed to form an international transport route from the east to the west. After the founding of new China, Longhai railway was extended from Tianshui to Lanzhou. In 1956, China and the Soviet Union signed an agreement for extending the Lanzhou-Xinjiang railway of China to Aketogay of the Soviet Union. But anyway the railway wasn't built for some reasons. Since China's reform and opening up, the proposal of building a new land bridge through Eurasia was brought up again by many people. In 1990, Lanzhou-Xinjiang railway was linked with Turkestan-Siberia railway of the Soviet Union. In December 1992, the new Eurasia Land Bridge was opened. It starts from Lianyungang of China at the east, passes through Longhai railway, Lanzhou-Xinjiang railway and railways in the northern part of Xinjiang, enters Central Asian countries, and then links European railway network. It is called "Modern Silk Road" and provides convenient route for the economic exchanges between Asia and Europe. In April 1994, Chinese Premier Li Peng proposed "Co-constructing the Modern Silk Road, widening the economic and cultural exchanges between Asia and Europe". In June 2001, SCO (Shanghai Cooperation Organization) was founded, which created a new situation of good-neighborly and friendly relations and win-win cooperation between China and Central Asian countries [4]. In September and October 2013, President Xi Jinping proposed the "Belt and Road Initiative", aiming at building modern Silk Road, and it has far-reaching significance to the strategic cooperation and economic development of Eurasian countries.

Oceans are natural ties for the economic and cultural exchanges among countries. "21st-Century Maritime Silk Road" is a new trade route for linking China with the rest of the world under the global ever-changing political and trade pattern, and its core value is to serve as passageway and ensure strategic security. Especially when China becomes the 2nd largest economy in the world, the proposal of "21st-Century Maritime Silk Road" will no doubt strengthen China's strategic security. "21st-Century Maritime Silk Road" will enhance communications between China and countries along the Silk Road, link the markets of economic blocks of ASEAN, South Asia, West Asia, North Africa, Europe, etc. and develop strategic cooperative economic belt facing South China Sea, the Pacific Ocean and the Indian Ocean.

3. Cooperation Priorities of the "Belt and Road Initiative"

The "Belt and Road Initiative" aims to promote cooperation between China and the countries along the

Belt and Road. In particular, it has five cooperation priorities, which are policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds.

3.1. Policy Coordination

Enhancing policy coordination is an important guarantee for implementing the Initiative, therefore it is proposed that intergovernmental cooperation should be promoted, multilevel intergovernmental macro policy exchange and communication mechanisms should be built, and mutual political trust should be enhanced. Countries along the Belt and Road may fully coordinate their economic development strategies and policies, and work out plans and measures for regional cooperation.

3.2. Facilities Connectivity

Facilities connectivity is a priority area for implementing the Initiative. On the basis of respecting each other's sovereignty and security concerns, countries along the Belt and Road should improve the connectivity of their infrastructure construction plans and technical standard systems, jointly push forward the construction of international trunk passageways, and form an infrastructure network connecting all subregions in Asia, and between Asia, Europe and Africa step by step.

3.3. Unimpeded Trade

Investment and trade cooperation is a major task in building the Belt and Road, therefore investment and trade facilitation should be improved, and investment and trade barriers should be removed for the creation of a sound business environment within the region and in all related countries. China will try to discuss with countries and regions along the Belt and Road on opening free trade areas so as to unleash the potential for expanded cooperation.

3.4. Financial Integration

Financial integration is an important underpinning for implementing the Belt and Road Initiative. Thus the Initiative proposes that financial cooperation should be deepened and efforts should be made in building a currency stability system, investment and financing system and credit information system in Asia. The scope and scale of bilateral currency swap and settlement between China and other countries along the Belt and Road should be expanded, the bond market in Asia should be opened and developed, and joint efforts should be made to establish the Asian Infrastructure Investment Bank, BRICS New Development Bank, and Shanghai Cooperation Organization (SCO) financing institution.

3.5. People-to-people Bond

People-to-people bond provides the public support for implementing the Initiative. Therefore the Initiative will promote personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services, so as to win public support for deepening bilateral and multilateral cooperation.

4. Strategic Significance of the “Belt and Road Initiative”

4.1. Geopolitical Security and Economic Security

The “Belt and Road Initiative” is guided by and based on economic and trade cooperation. Through building convenient trade routes, implementing trade and investment facilitation measures, strengthening infrastructure construction, etc., it will promote economic and trade cooperation and development between China and the countries along the Belt and Road, thus to realize mutual complementarity, share development opportunities and achieve common economic prosperity. Since economy is the basis of politics, the deepening of economic ties will surely lead to the strengthening of political ties. The “Belt and Road Initiative” covers 64 countries (regions) in Southeast, South, Central and West Asia and Central and East Europe. From the territorial disputes and oil development disputes between China and some Southeast Asian countries, to broader energy security of China, all of these problems and even the political relations between China and related countries shall be improved through the strengthening of economic ties.

From the perspective of ensuring economic security, based on respecting sovereignty and security concerns of relevant nations, the “Belt and Road Initiative” will improve the connectivity of national infrastructure construction plans and technical standard systems, push forward the construction of international trunk passageways, build a new Eurasian Land Bridge and develop China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors. Especially the China-Pakistan Economic Corridor, starting from Kashgar, Xinjiang of China, reaching the Indian Ocean via Gwadar Port of Pakistan, is an important strategic route, which can bypass the Malacca Strait. The three big oil and gas pipelines of China-Russia, China- Myanmar and China-Central Asia greatly reduced China's oil import dependence on the Malacca Strait. At sea, the Initiative will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports along the South China Sea, Indian Ocean, Europe and South Pacific Ocean, which will promote trade and investment between China and related countries and guarantee China's economic security.

4.2. The Development and Opening Up of the Western Region of China

The “Belt and Road Initiative” is helpful for promoting the development and opening up of the western region of China and building a new pattern of all-round opening to the outside world. Since modern era, due to the advance of maritime transportation and prosperity of marine trade, the western regions of China, which are located in the inland and influenced by inconvenient transportation, their economic development level is comparatively lower and their degree of economic openness is also lower. Take the five provinces (Shanxi, Gansu, Qinghai, Ningxia, Xinjiang) in Northwest China for example, the sum of their GDP was 356.8bn Yuan in 2013, which was only

half of that of Guangdong province or Jiangsu province; the sum of their import and export was 62.5bn US dollars, which was only 5.7 percent of Guangdong province, or 11 percent of Jiangsu province [5]. Thus, the “Belt and Road Initiative” will build a platform for the inland regions’ development and opening up. The western regions of China could make use of the strategic routes of the Silk Road economic corridors and the location advantage and resource advantage of their economic hinterland, vigorously develop export-oriented economy facing neighboring countries, participate more in global trade activities and promote the free flow and optimal allocation of production factors, thus to become a new economic growth pole of China. By building land routes for the deep opening up of China’s inland, a new situation that coastal areas’ opening is echoed by inland opening will be formed.

The “Belt and Road Initiative” is helpful for promoting the coordinated development of the eastern, middle and western regions. Transportation infrastructure construction has positive spatial spillover effects, and it could promote regional economic growth effectively. With the carrying out of the “Belt and Road Initiative”, there will be a large amount of resources concentrated in the western region of China, which will improve the backward conditions of the transportation and logistics there, and new economic growth pole will be formed through introduction of industries and population agglomeration, which will help the western regions achieve leapfrog development. With the interactive development of the inland regions and the coastal regions, outward economic corridor across the eastern, middle and western regions of China will be formed.

4.3. Energy Security

Energy cooperation between China and the countries along the Belt and Road has great significance to the diversification of energy import channels and the insurance of energy supply security for China. In recent years, with the rapid development of China’s economy, China has increasing demand for energy. Furthermore, due to the low energy utilization efficiency of China, its energy consumption per GDP is about twice as the world’s average level, which is not only higher than developed countries, but also higher than some developing countries, such as Brazil and Mexico. In order to meet the increasing energy demand, China’s energy production has kept on hitting record high. In 2014, China’s oil production reached 210m tons and gas production reached 132.9bn cubic meters. Its Oil and gas equivalent hit a record high of 330m tons [6]. China has become the 4th biggest oil production country, but its oil production was not up to half of its self-demand, thus its energy import has kept on increasing. Now China is the biggest energy importer in the world. Energy has become a key factor that constraints the sustainable development of China’s economy and its energy security situation is grim.

The source of China’s energy import focuses on the Middle East, Africa, etc. China imported 170.16m tons of oil from the Middle East in 2015, which accounted for 50.7 percent of China’s total oil import [7]. But due to the political unrest, religious disputes, ethnic conflicts, etc., oil and gas production in these regions are not stable, which threatens China’s energy import security. The oil

imported from the Middle East and Africa has to be transported by sea via the Indian Ocean-Malacca Strait-South China Sea, and the amount of oil transported by this route accounts for 75 percent of China’s total oil import. But this route is subject to “the Malacca Dilemma”, and China is troubled by the singleness of the energy transportation route due to the intensified disputes in the South China Sea [8].

The three big oil and gas pipelines of China-Russia, China-Myanmar and China-Central Asia will greatly improve China’s oil supply security. Take the Central Asian countries for example, they have abundant resources of oil, gas and uranium and they are one of the three energy centers in the world. Their oil and gas resources are widespread with high quality and less impurities. Currently, the Central Asian countries are promoting the process of diversification of energy export. Thus the Central Asian countries and China have great potential for cooperation. The “Belt and Road Initiative” will promote the diversification of energy import channels and the insurance of energy supply security for China.

4.4. RMB Internationalization

The “Belt and Road Initiative” is helpful for removing financial barriers between China and the countries along the Belt and Road, using local currencies for exchange and settlement under current account and capital account and establishing currency circle dominated by local currencies. This will not only fundamentally solve the differences for trade settlement currencies between China and the countries along the Belt and Road, greatly improve investment and trade facilitation, reduce intermediate procedures, avoid losses of exchange rate and improve trade volume and quality, but also will improve financial safety of every related country, prevent financial risks due to the U.S. financial policies and fluctuation of dollar exchange rate and enhance abilities of coping with international financial crisis and risks. For example, China and some countries, such as Kazakhstan, etc. have done useful explorations in currency swap and settlement in local currency, and this experience can be extended to other countries along the Belt and the Road.

The “Belt and Road Initiative” is also helpful for accelerating the process of RMB internationalization. In 2014, China’s trade volume accounted for 12 percent of the world, but the share of RMB in the global payment currency market is only 2 percent. With the implementation of the “Belt and Road Initiative”, RMB exchange and settlement business will be carried out in more countries, and countries who will hold RMB as their reserve assets will be more and more, which will be beneficial for enlarging the size of financial assets denominated in RMB, extending the development of capital market, thus beneficial for improving the influence of RMB and promoting RMB internationalization.

4.5. Economic Transformation and Upgrading

After many years’ development, China has gained the capability of exporting economic elements. China owns the largest foreign exchange in the world, huge amount of excess production capacity and partial industrial advantages. According to statistics, China’s overseas investment was over 110bn USD by the end of 2015, and

has been a net exporter of capital. Since many countries (regions) along the Belt and Road are still short of infrastructures and domestic industries and they are badly in need of capitals and technologies, the “Belt and Road Initiative” could help these countries (regions) build infrastructures, such as roads, bridges, ports, etc., and help them develop textiles and apparels, household appliances and even auto making, steel, power industries, etc., which could not only improve their economic development level and production ability, but also could meet the needs of China’s industry transformation and upgrading. Promoting overseas infrastructure construction, such as high-speed rail, etc. could explore new international markets for China’s iron and steel, cement, equipment manufacturing, etc. and provide them with broader development space, which is beneficial for digesting domestic excess production capability, promote China’s industry transformation and upgrading, further improve market competitiveness and market share of China’s strategic emerging products in Central, West, South Asia, and even in Europe. Thus, the “Belt and Road Initiative” could make China change the mode of economic growth and raise its level of opening up.

5. Conclusion

All in all, China’s “Belt and Road Initiative” has profound international and domestic background, and through its cooperation priorities, it can be seen that the “Belt and Road Initiative” has strategic significance to China’s geopolitical and economic security, energy security,

RMB internationalization, economic transformation and upgrading, etc.

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