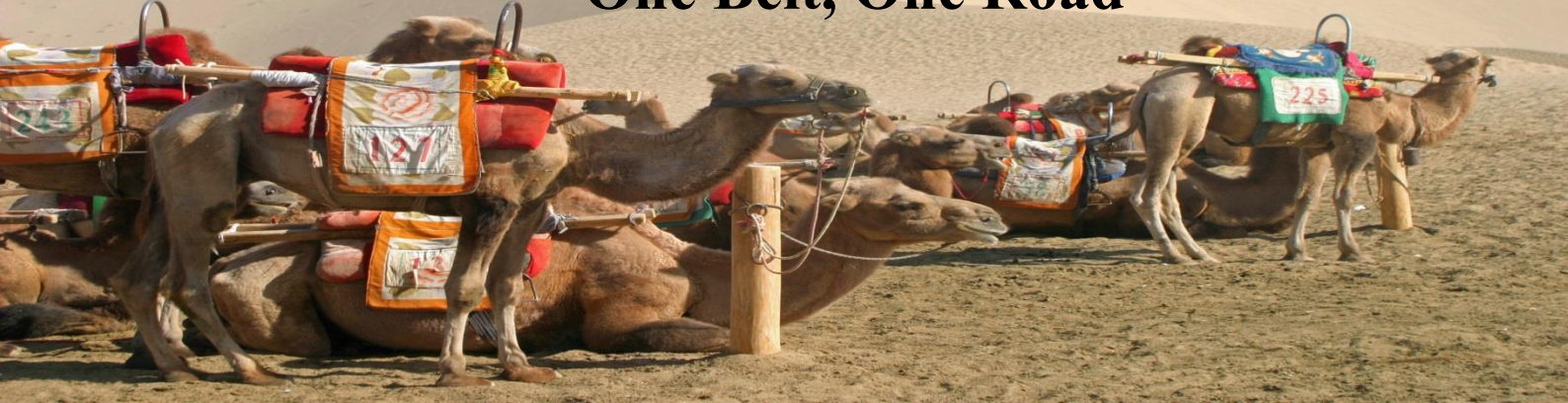


# THE CHINESE DREAM

## “One Belt, One Road”



The concept of the “Belt” and “Road” came into prominence in 2013 when it was raised during visits to Central Asia and South East Asia by President Xi Jinping and Premier Li Keqiang respectively.

Since its announcement, China has been steamrolling out these massive plans to bring this One Belt–One Road (“OBOR”) initiative to fruition. Much spoken of as being the largest development project in the 21<sup>st</sup> century, the motion has been set across 65 countries from China to the West and the Chinese President has been touring different countries negotiating projects, forming bilateral agreements and signing deals in order to shape this mega project in modern history.

At Acutus, we are pleased to shed some lights on the current plans and also the future consequences of this much talk about development and how this could have an impact to the rest of the world.

China’s One Belt, One Road – principally refers to two ambitious ideas. The Silk Road Economic Belt which is a vision to revive the ancient Silk Road that once connect China and Europe; and the 21<sup>st</sup> Century Maritime Silk Road, which is a sea-based path through the South China Sea, South Pacific Ocean and the Indian Ocean. It is intended to complement the Silk Road Economic Belt by linking China to Europe via the Persian Gulf and the Mediterranean Sea and thus connecting three continents, Asia, Europe and Africa.

In order to finance the project infrastructure, China has not only committed to being the largest stakeholder in the newly formed Asia Infrastructure Investment Bank (“AIIB”) but also the New Silk Road Fund (“NSRF”) and the Shanghai Cooperatives Organization (“SCO”) as well as bilateral arrangements with various countries. These investments, loan and grants will be disbursed to create a network of infrastructure which shall include roads, rail lines, energy pipelines, logistic hubs, power stations, fiber optical lines and coastal ports.

*What does it mean for China and the rest of the World?*

The large scale outpouring of capital, enterprises and projects to foreign land has been hailed as China’s great coming out. A historical tipping point in the geopolitical balance, as China finally turns its relatively muted economic clout into a more grandiose global power leadership. Whilst there has been a multitude of factors driving China towards this path, at core, a major issue remains the need to create demands in order to address the over-capacity and structural weakness within the Chinese economy.

Prior to the financial crises, China was already facing the issues of over-capacity in many of its production sectors. When threatened with negative spillover of the West's economic slump in 2008, China's response at that time was to inject capital into infrastructure projects, such as roads, rails, urban housing constructions, in order to stimulate and boost those sectors where inefficiencies were high but demand were slumping. As a short-term solution, it works; unfortunately for such a large economy, much more would be needed.

The OBOR is seemed as a solution to overcome the situation of over-capacity in China. Chinese analysts have been very openly discussing the opportunity of using China's excess steels, cement, construction materials and heavy machinery to support the OBOR projects. This remains to be seen as the challenges and costs associated to transport bulky and heavy materials abroad would not be easy.

From the look of it, it is quite pertinent that China will benefit from this situation. Success in this area will enable China to continue to grow well for another decade or more. They will have easier access to trade. Chinese companies will gain enormous business from projects accorded and more job opportunities for its workers. Undeveloped remote regions in China will become economic hubs as they gain access to wider national and international markets.

As for the rest of the world, the initiatives would also create many opportunities for cities within this region. It will be a win-win situation. Many countries will enjoy economic development with increased activities as a result of this development. Not only will there be efficiency, with the new infrastructure, the expansion will spawn new job opportunities for decades to come, across many regions of the world.

### *Observations*

The Chinese dreams will be fought with a heavy cost. Its challenges are not as simple and straight forward. The road ahead will be bumpy.

1. As many of the developing countries along the route are politically volatile and economically vulnerable, there will be inherent political, social and economic obstacles and it is therefore difficult to ensure the stability and security necessary to see through these projects in a timely manner.

With so many land borders between China, Central Asia and Europe, a key part of the success of these initiatives will rest upon the cooperation between countries and there is no guarantee that all counterparts will hold their end to the bargain.

2. On the other hand, whilst it may be feasible for China to send some of its surplus production to these countries, there is also a reasonable prospect that China might not get paid in the long run. The West has a long history of debt forgiveness to weakly-governed states. It would be necessary for China to learn from that history.
3. The opening of foreign markets to Chinese companies would seem to be a natural way of exporting its human resources abroad. This is however hindered with the obstacles that Chinese companies using Chinese labor are not always welcomed in open arms and the flooding of Chinese goods and exports likewise can become a source of local disgruntlement and resentment. Developing countries had indeed experiences cases of failure with stalled or troubled Chinese projects due to local opposition, corruption, regulatory and legal issues.

4. The OBOR initiatives start with the idea of linking nearby countries in Central Asia (i.e. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) to Europe. These countries have many similarities in term of geographical location, culture, language, history and religion. It is however wrong to view Central Asia as a single regional grouping with similar economic and foreign policies. This is primarily due to its short history of independence and leaders of the countries would have different objectives and priority to its own domestic and international policies. Even if this is overcome, the economies of Central Asia are not large and thus, the potential is limited.
5. The OBOR initiatives at this juncture may be seen as a creation of an “infrastructural hardware” for the purposes of trade and investment. Unless carefully planned, it may potentially lack the “software” element necessary to deepen integration. Unlike the Trans-Pacific Partnership initiative led by the Americans, it represents the ‘software’ integration in reducing trade barriers, opening up services for trade and investment and harmonizing various regulatory barriers to trade.

### *Conclusion*

It is a big step taken forward by China with a view to overcome its domestic growth problems. To think that such a mega initiative can be a complete solution to China’s excess capacity problems may be largely misguided. Many are of the opinion that the contribution that these initiatives could pull together in terms of demand are likely to be too small to be macro-economically meaningful.

On the other hand, the OBOR could well-prove to be very successful in enhancing China’s regional and geopolitical clout, but as far as direct economic gains are concerned, the benefits may be ironically both too shortsighted in shedding capacity and long-sighted in terms of investment returns.

Whether the Chinese dream will come true, it remains to be seen as the devil of course will lie in the details of it.

If you wish to understand more on China’s “One Belt, On Road” initiative,  
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