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# Trends in Southeast Asia

CHINA'S ONE BELT ONE ROAD:  
AN OVERVIEW OF THE DEBATE

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**ISEAS** YUSOF ISHAK  
INSTITUTE

# Trends in Southeast Asia

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## FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# China's One Belt One Road: An Overview of the Debate

By Zhao Hong

## EXECUTIVE SUMMARY

- The debate over China's One Belt One Road (OBOR) initiative has been lively and at times heated, both in China and internationally. In many ways, this is a reflection of the vagueness of the concept, and of its exceptionality.
- OBOR does not prioritize trade and investment concessions, which makes it essentially different from traditional regional economic cooperation models such as FTAs, the TPP and the RCEP. Instead, it emphasizes regional infrastructure connectivity.
- After China proposed the initiative, countries within the New Silk Road Economic Belt, especially the five Central Asian countries, responded enthusiastically and positively, while Southeast and South Asian countries, on the other hand, expressed more concerns and reservations about the initiative.
- In response to these countries' concerns, China has tried to adjust its approaches to convince Southeast Asian countries that the OBOR initiative holds potential synergy with ASEAN's development strategies and can play a complementary role in the building of the ASEAN community.
- Beijing has also adjusted its India strategy. From previously "inviting" India to join OBOR, it is now stressing "strategy connectivity" (战略对接) and "policy coordination" between the two countries.
- Nevertheless, OBOR is viewed by some as an expression of China's grand ambitions to lead Asian economic growth, and by others as a grand strategy to build a "China-dominated Asia". While it may be mainly an economic and trade initiative, its broader consequences have a strong political and security dimension.



- Hence, China badly needs to cultivate political trust with neighbouring countries if it wishes to convince them that the initiative is a “public” strategy, and not a “conspiratorial” one.

# China's One Belt One Road: An Overview of the Debate

By Zhao Hong<sup>1</sup>

## INTRODUCTION

In September 2013, President Xi Jinping proposed the building of the New Silk Road Economic Belt during his visit to Kazakhstan, and in the same year in Indonesia, he proposed the building of the 21st Century Maritime Silk Road — now they are collectively called One Belt One Road (OBOR for short). After further discussion and planning, Chinese domestic bodies of various levels gradually reached consensus on this initiative. At the Boao Forum on 28 March 2015, China released the “Vision and Action on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” (Vision and Actions for short) which was jointly issued by the National Development and Reform Commission (NDRC), Ministry of Foreign Affairs, and Ministry of Commerce with State Council authorization, indicating that the OBOR initiative has officially become one of China's national strategies.

OBOR has evoked widespread discussion within China as well as a range of interpretations internationally. Some observers view it as a grand strategy for extending China's economic and geopolitical influence into Eurasia and beyond, while others are concerned that OBOR might reshape global economic governance and lead to the rebirth of a China-dominant Asia.

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<sup>1</sup> Zhao Hong is Visiting Senior Fellow at the ISEAS – Yusof Ishak Institute. He would like to thank Mr Daljit Singh and the anonymous reviewer for their very insightful comments and helpful suggestions. The author bears responsibility for all errors and omissions.

Details are still scarce, however, and a concrete top-level design is still lacking. This has led scholars and the mass media to inject more information than can be found in officially published sources. This paper seeks to provide an analysis of the issues from the point of view of scholars in China.

## **OBOR AS A CONCEPT, A NATIONAL STRATEGY**

OBOR as communicated by the Chinese government aims to increase connectivity between the Asian, European and African continents. The intention is to enhance trade flows and spur long-term economic growth and development, benefiting all countries involved.

Be that as it may, OBOR is very much a national strategy for China, and is expected to be a critical driver for the country's long-term ambitions and a key pillar of its "going out" strategy. This overarching strategy is reflected in Vision and Actions, which sets out a vision in which China-led infrastructure construction, reduced tariffs, and simplified customs administration would allow trade to flow seamlessly between China and countries along OBOR by both rail and ship.<sup>2</sup> It takes in every conceivable goal, from improving supply chains to developing trade in services to increasing food security for participating countries, and with the building of a community of common destiny as its ultimate goal.

A clear sign of the political significance of OBOR is that it was included in the "Decision of CCP (Chinese Communist Party) Central Committee on Some Major Issues Concerning Comprehensively Deepening the Reform" passed by the Third Plenary Session of the 18th CCP Central Committee on 12 November 2013. This espouses the plan to "accelerate the construction of infrastructure connecting China with

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<sup>2</sup> "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015 (English version).

neighbouring countries and regions, and work hard to build a Silk Road Economic Belt and a Maritime Silk Road, so as to form a new pattern of all-round opening”.<sup>3</sup> The fact that Beijing established the Central Leading Group on the Construction of OBOR in early 2015, and has confirmed that the seventh-ranked member of the Politburo Standing Committee, Executive Vice-Premier Zhang Gaoli, will chair the Group, with Wang Huning as his Vice-Chairman and doubling as Director of the Group’s General Office,<sup>4</sup> further certainly suggests that OBOR has been elevated to national strategy level.

However, Beijing has explicitly refused to call it a strategy. In Vision and Actions, it is described as an “initiative” (倡议), and the three Ministries have emphasized that the words “strategy”, “project”, “programme”, or “agenda” should not be used to describe it. One has to ask what the difference is between an “initiative” and a “strategy”, and why the Chinese government is so unwilling to present OBOR as a strategy.

According to Xie Tao, “initiative” simply means a call for action, usually in the name of a public good. It is a unilateral move that requires willing cooperation from others with a stake in the provision of the public good.<sup>5</sup> By contrast, a strategy is a deliberate plan of action that aims to achieve specific goals, and these goals are usually exclusive (such as security or free trade), as opposed to public goods, which are considered inclusive. To be successful, a strategy often requires close association among those who share its specific goals, and this is usually institutionalized through explicit rules and procedures.

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<sup>3</sup> 《中共中央关于全面深化改革若干重大问题的决定》 <[http://news.xinhuanet.com/politics/2013-11/15/c\\_118164235.htm](http://news.xinhuanet.com/politics/2013-11/15/c_118164235.htm)> (accessed 4 December 2015).

<sup>4</sup> While Wang (born 1955) is not an economist by training. He is a member of the Politburo and has been a leading advisor to three general secretaries. [Adopted from “‘One Belt One Road’ Enhances Xi Jinping’s Control Over the Economy”, by Willy Lam, *China Brief*, Vol. 15, Issue 10, 15 May 2015.

<sup>5</sup> Xie Tao, “Is China’s ‘Belt and Road’ a Strategy?”, *The Diplomat*, 16 December 2015.

OBOR, according to Vision and Actions, is “open to all countries, and international and regional organizations for engagement.” It “upholds the Five Principles of Peaceful Coexistence of the UN Charter: mutual respect, mutual non-aggression, mutual non-interference, equality and mutual benefit, and peaceful coexistence,” and “follows market operation [and] promotes practical cooperation in all fields.” As such, OBOR should probably not be called a strategy.

Moreover, Beijing has repeatedly stated that OBOR is a vision for “harmony, peace and prosperity,” and not a geopolitical and diplomatic offensive, a geopolitical conspiracy, or a scheme to change the existing international order. China’s official position, as reiterated in the speeches of its leaders, has been that it recognizes that it has benefited from the global order and its economic framework. For example, at a Press conference in March 2015, Chinese Foreign Minister Wang Yi said that China has no reason to challenge the international order established on the basis of the fight against fascism, nor has it the intention to overthrow the current world system that it has fully participated in constructing. However, he added that China hopes to reform the current system to make the world more equal, more harmonious and more secure.<sup>6</sup>

In his speech at the China Development Forum on 21 March 2015, China’s vice foreign minister Zhang Yesui said that “China is a participant, constructor and contributor of the current international order and system”; “the OBOR initiative is an economic cooperation proposal, it is not a tool of geopolitics”, and “it is not directed against any specific country or organization, but is a useful complement to the existing international and regional institutions”.<sup>7</sup> Chinese Minister of Commerce Gao Huchen further stressed that “OBOR will be based on

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<sup>6</sup> 王毅, “中国主张对国际秩序进行改革不是推倒重来, 而是创新完善” [Wang Yi, “China is not to re-build the international order”, Ministry of Foreign Affairs of China, 8 March 2015 <[http://www.fmprc.gov.cn/mfa\\_chn/wjdt\\_611265/wjbxw\\_611271/t1243599.shtml](http://www.fmprc.gov.cn/mfa_chn/wjdt_611265/wjbxw_611271/t1243599.shtml)> (accessed 30 March 2016).

<sup>7</sup> 张业遂, “一带一路不是地缘政治的工具” [Zhang Yesui, “One belt one road is not a tool of geopolitics”] <[http://www.fmprc.gov.cn/web/wjbxw\\_673019/t1247440.shtml](http://www.fmprc.gov.cn/web/wjbxw_673019/t1247440.shtml)> (accessed 30 March 2016).

each country's natural endowments, advocating 'one country one policy' [and that] through the construction of OBOR, different and diversified countries are intertwined together, thus promoting mutual development and dependence, and regional stability".<sup>8</sup>

This official position is also reflected in Chinese academic articles. For example, in his article entitled "China's new economic diplomatic strategy under 'One Belt One Road'", Huang Yiping has proposed the concept of "one superpower with multiple poles" (一元多极) to describe China's new economic diplomacy. Under this concept, China accepts U.S. leadership but also encourages more stakeholders to participate in the governance of the global economy. His position is that "China needs to avoid direct conflicts with the United States, avoid exporting the China model, avoid attempting to reconstruct the international economic system".<sup>9</sup>

## **OBOR: THE BASIC SCHEME**

### *Conceptual Framework*

According to Vision and Actions, OBOR aims to connect Asia, Europe and Africa along five routes. The Silk Road Economic Belt focuses on: (1) linking China to Europe through Central Asia and Russia; (2) connecting China with the Persian Gulf and the Mediterranean through the Middle East and Central Asia; and (3) bringing together China and Southeast Asia, South Asia and the Indian Ocean. The 21st Century Maritime Silk Road, meanwhile, focuses on using Chinese coastal ports to: (4) link China with Europe through the South China Sea and Indian Ocean; and (5) connect China with the South Pacific Ocean

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<sup>8</sup> 高虎城, "一带一路规划初探" [Gao Huchen, "'One Belt One Road' planning"], 《上海证券报》 [Shanghai Securities Daily], 13 March 2014.

<sup>9</sup> 黄益平, "中国经济外交新战略下的'一带一路'" [Huang Yiping, "China's new economic diplomatic strategy under 'One Belt One Road'"], 《国际经济评论》 [International Economic Review], no. 1 (2015).

through the South China Sea<sup>10</sup> (Figure 1). If implemented successfully, it will connect 65 countries that represent 55 per cent of the world's GDP, 70 per cent of global population, and 75 per cent of known energy reserves (See appendix 1).

In reality, OBOR is not a new idea that China has suddenly decided to put forward. A number of related proposals and actions have in fact been taken over the years. According to the Ministry of Commerce, China had invested over US\$13.7 billion in 2014 in countries along OBOR (See appendix 2). Beijing had reached a large number of agreements with these countries on trade facilitation, currency swap and investment. "What the OBOR intends to do is to pull together these various initiatives into a unified and comprehensive framework that establishes a grand foundation for facilitating international co-operation."<sup>11</sup> It is also meant to guide and coordinate the economic efforts of both the public (e.g. provincial governments, state-owned enterprises) and the private sector in China. OBOR will further strengthen collaboration and will consist of six international economic co-operation corridors. These have been identified as the New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar (Figure 2).

### *Scheduling*

There is still no official timetable for OBOR. Vision and Actions suggests that China will consult with other countries to work out relevant timetables and roadmaps.

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<sup>10</sup> "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015 (English version).

<sup>11</sup> Zhang Yunling, "One Belt, One Road: A Chinese View", *Global Asia*, Vol. 10, No. 3 <<https://www.globalasia.org/issue/chinas-new-silk-roads/>> (accessed 3 December 2015).

Figure 1: Official Map of OBOR

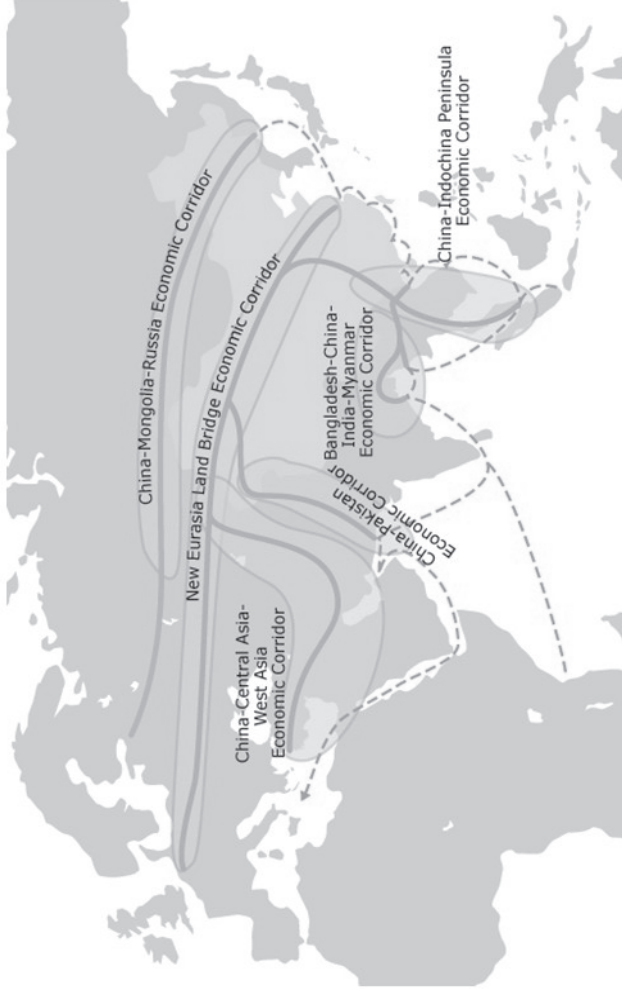


Note: This official map is based on proposed geo-economic cooperation as described in Vision and Actions. Actual routes may differ and may also extend to encompass other territories as the project develops.

Source: *Guancha Zhe*, 13 April 2015.



*Figure 2: Map Showing the Six Economic Corridors Spanning Asia, Europe and Africa*



Source: Hong Kong Trade Development Council.

Chinese academia has conducted considerable research on this topic. A recent report from Renmin University says that China is to launch five years of strategic planning in 2016, with implementation expected to begin in 2021. The report estimates, if carried out at full scale, OBOR will be constructed over at least 30 to 40 years.

Likewise, academician Feng Weijian believes that OBOR is a long-term project and should be divided into three phases. The first is the strategic mobilization period (from 2014 to 2016). The second is the strategic planning period (from 2016 to 2021) during which China will take the lead to establish coordination groups such as a policy coordination group, an infrastructure group, an energy and trade group, and a monetary and financial group. The third phase concerns strategy implementation. Internally, China will need to establish permanent institutions such as an official Council and Secretariat to coordinate policies and regulations among different provinces and regions; externally, it has to strengthen cooperation with the World Bank, AIIB, and the ADB to fully implement infrastructure construction, trade integration, human resources and administrative capacity.<sup>12</sup>

### *Financing*

Since OBOR is supposed to work towards “sharing responsibility, resources and benefits”,<sup>13</sup> some financial innovation will be needed. China will in particular have to provide a set of investment risk assessment criteria that are more suited to developing countries.

Feng Weijian writes: “According to the investment standards in developed markets based on the ‘Washington Consensus’, many projects in emerging markets and developing countries do not meet the

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<sup>12</sup> 冯维江, “丝绸之路经济带战略的国际政治经济学分析” [Feng Weijiang, “International political and economic analysis of the silk road economic belt strategy”], 《当代亚太》 [*Contemporary Asia-Pacific*], no. 6 (2014).

<sup>13</sup> Zhang Yunling, “One Belt, One Road: A Chinese View”, *Global Asia*, Vol. 10, No. 3 <<https://www.globalasia.org/issue/chinas-new-silk-roads/>> (accessed 3 December 2015).

requirements of investment and financing”.<sup>14</sup> What this means in practice is that countries whose rules and norms are inconsistent with those of developed countries face high financing costs, and are excluded from international financial markets. Feng suggests that OBOR adopts a new set of investment risk assessment standards that are more suited for developing countries, and identify projects that are worth the investments but are excluded from the existing financing system.

A majority of Chinese scholars believe that private, commercial and social capital should be mobilized to aid OBOR projects. According to Lin Yifu, infrastructure investment accounted for around 9 per cent of China’s GDP in the past five years, yet only 0.03 per cent of this came from private and social capital. The same problem also exists in other Asian countries.<sup>15</sup> Gao Wei suggests that China issue RMB-denominated Silk Road Bonds to complement the AIIB and Silk Road Fund, or in accordance with the financing needs of OBOR projects.<sup>16</sup> More and more private funders and enterprises have in fact expressed strong interest. For example, the “Maritime Silk Road Investment Fund Management Centre”, a private capital company, is to set up a “Maritime Silk Road Bank”, with plans to mobilize 100 billion RMB for projects in countries, regions, and cities along OBOR. According to Tan, the purpose of the company, apart from providing financial support for Maritime Silk Road-related projects, is to participate in OBOR projects as a source of private capital, so as to reduce government involvement in Chinese overseas investment.<sup>17</sup>

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<sup>14</sup> Ibid.

<sup>15</sup> 林毅夫, “吸引更多私人资本参与基础设施投资” [Lin Yifu, “To attract more private capital to invest in infrastructure sectors”], 《中国证券报》(*China Securities Daily*), 17 May 2014.

<sup>16</sup> 高伟, “‘一带一路’建设有待财政政策发挥更大作用” [Gao Wei, “‘One Belt One Road’ fiscal policy to play a greater role”], 《中国证券报》[*China Securities Daily*], 10 December 2014.

<sup>17</sup> 唐逸如, “一带一路钱从哪里来?” [Tang Yiru, “Where comes the money for ‘One Belt One Road’?”], 《国际金融报》[*International Financial Daily*], 9 February 2014.

## MOTIVATIONS

### *China Needs a New Round of Opening-up*

OBOR is driven by different considerations. Economically, the plan signals a shift in China's strategy on development. Absorbing investment has been a major objective since 1978 when China started its opening-up and reform programme. After three decades of doing so, China's strategy now is to encourage its own capital to flow out to its neighbours.<sup>18</sup> China considers OBOR as a new step towards further integrating with the global economy through direct investments abroad. Jia Qingguo believes the objective of OBOR projects is to promote China's economic upgrading, rebalancing, and further opening. He calls it a "new wave of opening". Unlike in the past when China opened itself up to attract foreign investment, technology, and management skills, China is now reversing its role by opening outwards to help push through its domestic reforms.<sup>19</sup>

From a domestic strategic point of view, the global financial crisis and emerging domestic social problems together have made China's original growth model which is highly dependent on the eastern coastal areas and is driven by exports and FDI less efficient.<sup>20</sup> China needs urgently to develop its western region and find new growth momentum, and this is what it hopes to do by creating external momentum through OBOR.<sup>21</sup>

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<sup>18</sup> "Policy banks to lead Silk Road infrastructure fund", *China Daily*, 4 November 2014.

<sup>19</sup> 贾庆国, "一带一路"亟待弄清和认证的几大问题 [Jia Qingguo, "A number of issues that OBOR urgently needs to clarify and prove"], 人民网-人民论坛 [*Renmin Forum*], 30 March 2015 <<http://theory.people.com.cn/n/2015/0330/c112851-26771579.html>>.

<sup>20</sup> Justyna Szczudlik-Tatar, "China's New Silk Road Diplomacy", CASS PISM Policy Paper, No. 34 (82), December 2014.

<sup>21</sup> 冯维江, "丝绸之路经济带战略的国际政治经济学分析" [Feng Weijiang, "International political and economic analysis of the silk road economic belt strategy"], 《当代亚太》 [*Contemporary Asia-Pacific*], no. 6 (2014).

Beijing believes that connecting China to countries in OBOR will help create a new frontier not just for China's western region, but also for the country as a whole.

### *An Economic Rebalance Needed*

After three decades of high growth driven by massive investment and exports, China is now the world's second largest economy. However, this pattern of growth creates many problems, including decreasing marginal product on capital, and very low domestic consumption. The sharp rise of China's labour cost in recent years has resulted in its losing comparative advantage in labour-intensive activities such as garments, footwear, and electronic assembly. This has meant that investment in China's manufacturing sector has dropped and its share in the world's low-quality manufacturing production has fallen.<sup>22</sup> There is now an opportunity for lower-wage developing countries to step in and take some market share from China, either by exporting directly to final markets in the United States and Europe, or by exporting to China as part of a supply chain.<sup>23</sup> Because of these changes, China now feels the need to restructure its economy and cultivate opportunities outside its borders.

According to Zhang Yunling, in order to continue dynamic growth, it is important to build up momentum for growth both internally and externally through new competitive capacity. He believes that externally, the new frontier for the global economy lies in developing countries. It would be indirectly beneficial to China if the economic environment of these countries is improved through participation in OBOR.<sup>24</sup> Zheng

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<sup>22</sup> According to China's statistics, compared to 2013, in 2014 FDI to China declined by 40 per cent from the United States, 20 per cent from Japan, 10 per cent from the EU, and 24 per cent from ASEAN.

<sup>23</sup> David Dollar, "China's rise as a regional and global power: the AIIB and the one belt one road", Brookings paper, Summer 2015 <<http://www.brookings.edu/research/papers/2015/07/china-regional-global-power-dollar>> (accessed 4 December 2015).

<sup>24</sup> Zhang Yunling, "One Belt, One Road: A Chinese View", *Global Asia*, Vol. 10, No. 3 <<https://www.globalasia.org/issue/chinas-new-silk-roads/>> (accessed 3 December 2015).

Yongnian also believes that China's era of high growth is gone, and it therefore needs to find new areas of opportunity. He notes that some Southeast Asian countries (e.g. the Philippines) are caught in the "middle-income trap". OBOR can help them overcome this by restructuring and upgrading their manufacturing sectors to higher value-added activities, which would in turn further China's own economic transformation and growth as well as benefit Chinese companies and goods.

### *A Need to Adjust Periphery Policy*

In the past three decades, consistent with domestic economic reform and opening up, China mainly implemented economic-oriented peripheral policy, stressing that "diplomatic work serves domestic economic construction". With the help of its growing economic strength, China hoped to strengthen stable relations with peripheral countries through interest concessions and expansion of economic cooperation.<sup>25</sup> This economic-oriented peripheral foreign policy succeeded in increasingly closer and interdependent economic links between China and its neighbouring countries.

But economic cooperation alone cannot spontaneously solve various security problems between countries. Over the past few years, we have found that as the overall strength between China and its neighbouring countries changed, and the peripheral security and strategic environment became more complicated, the impact of China's economic-oriented peripheral diplomacy began to decline. This led Gao to comment: "As ASEAN countries become increasingly concerned with over-reliance on China in economic and trade areas, the marginal effects of China-ASEAN economic cooperation have been gradually diminishing".<sup>26</sup>

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<sup>25</sup> 陈琪、管传靖, "中国周边外交的政策调整与新理念" [Chen Qi, "China's peripheral diplomacy adjustment and new ideas"], 《当代亚太》2014年第3期 [Contemporary Asia-Pacific] no. 3 (2014).

<sup>26</sup> 高程, "周边环境变动对中国崛起的挑战" [Gao Chen, "Challenges of changes in peripheral environment to China's rise"], 《国际问题研究》[Journal of International Studies], no. 5 (2013).

This being the case, “China needs to transform its ‘economic oriented’ thinking, and better balance and address economic and political appeals from the peripheral countries”.<sup>27</sup>

From the Chinese perspective, “OBOR is a new model of international relations. It stresses that China and its peripheral countries achieve common development and common prosperity through the construction of infrastructural connectivity and promotion of regional core competitiveness”.<sup>28</sup> Beijing is therefore hoping that China’s robust investment in the region’s economic future and her plans to advance connectivity can help instill confidence and build trust in Southeast Asian partners. Chinese Premier Li Keqiang announced at the 18th ASEAN-China Summit in November 2015 that “China intends to link the OBOR initiative to the development strategies of regional countries by providing more public goods like the AIIB, Silk Road Fund, and the China-ASEAN Investment Cooperation Fund, apart from offering another US\$10 billion for infrastructure interconnectivity between ASEAN and China.”<sup>29</sup> This implies that as China commits itself to the initiative and binds its interests more closely with neighbouring countries, it will have to provide the stability needed to ensure its success — a responsibility that comes with the big power role that China is claiming.

## DIFFERENT VIEWS IN CHINA

The OBOR proposal aroused wide discussion in Chinese academic circles, mainly around whether OBOR is a “grand strategy” for China’s rise, a Chinese version of the “Marshall Plan”, and/or a tool for exporting

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<sup>27</sup> 陈琪、管传靖, “中国周边外交的政策调整与新理念” [Chen Qi, “China’s peripheral diplomacy adjustment and new ideas”], 《当代亚太》2014年第3期 [*Contemporary Asia-Pacific*] no. 3 (2014).

<sup>28</sup> 黄河, “公共产品视角下的‘一带一路’” [Huang He, “One Belt One Road: from the perspective of public goods”], 《世界经济与政治》 [*World Economy and Politics*], no. 6 (2015).

<sup>29</sup> Li Keqiang’s remarks at the 18th ASEAN-China Summit, Kuala Lumpur, 21 November 2016.

China's surplus capacity. To a large extent, this discussion has influenced policymakers and encouraged the government to revise the initiative and adjust its approach.

### *Is OBOR a "Grand Strategy" of China's Rise?*

Many in China saw the Global Financial Crisis of 2008–09 as a strategic opportunity for China to assert itself as an independent great power,<sup>30</sup> and indeed, since then, China has shown a more deliberate effort to link its own economic globalization with strategic purposes.<sup>31</sup> Under President Xi Jinping, China has gone further. Xi is more ambitious and innovative in foreign policy thinking than his predecessors, and seems convince that China must develop a distinctive diplomatic approach befitting its role as a big power. For him, China's diplomacy needs to feature salient Chinese features, Chinese styles and Chinese confidence.<sup>32</sup> Thus Beijing proposed to build various "destiny communities" explicitly designed to provide impetus for intertwined interests to develop into security and political communities.<sup>33</sup>

This led some foreign commentators to express fear that Beijing will use OBOR for its emerging diplomatic ambitions and for 'the great rejuvenation of the Chinese nation'. Lee Jong-Wha, for example, believes that China "is using its growing clout to reshape global economic governance".<sup>34</sup> David Arase too believes that "China is seeking

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<sup>30</sup> Wu Xinbo, "Understanding the geopolitical implications of the global financial crisis", *Washington Quarterly* 33, no. 4 (2014).

<sup>31</sup> Zheng Bijian, "The second decade of the 'Peaceful Rise'", *Liaowang*, 21–27 March 2011.

<sup>32</sup> Commentary, "中国外交必须具有自己的特色 — 论贯彻落实中央外事工作会议精神" [Chinese diplomacy must have its own features — an analysis of how to implement the spirit of the Central Conference on foreign affairs work], *People's Daily*, 1 December 2014.

<sup>33</sup> *People's Daily Overseas Edition*, 7 October 2013.

<sup>34</sup> Lee Jong-Wha, "China's new world order", *Project Syndicate*, 12 November 2014 <<http://www.project-syndicate.org/commentary/china-global-governance-by-lee-jong-wha-2014-11>> (accessed 31 April 2016).



to gain the status of a great power and achieve predominance in Asia”. According to him, “[t]hrough the implementation of its geo-economic and geo-political agenda China expects all surrounding Asian neighbours to join it in a ‘community of common destiny’ in which they will have an asymmetric dependence on China”.<sup>35</sup> To him, “the Silk Road clearly reflects China’s ambitions to create a China-centric, albeit still open, Asian order”.<sup>36</sup>

At the same time, some Chinese scholars think OBOR is a response provoked by the U.S. rebalancing strategy to constrain China’s rise. Professor Wang Jisi of Peking University was the first Chinese scholar to speak of the need for China to revitalize the two Silk Roads to Southeast Asia and to Central Asia. He recommended in 2012 that China should avoid confrontation with the United States in the Asia Pacific and instead seek an alternative sphere of influence in the vast area west of China.<sup>37</sup> To be sure, he refused to consider his concept as a response to the U.S. rebalancing strategy. Xue Li in turn believes that one of the goals of OBOR is to resolve the adverse effects of the U.S. rebalancing strategy,<sup>38</sup> while Bai Gao believes that the Silk Road Economic Belt is part of China’s response to the TPP (Trans Pacific Partnership). “If the U.S. continues to implement the approach of ‘anybody but China club’, it will force China to respond through the Silk Road Economic Belt, establishing a parallel and even competitive world order.”<sup>39</sup>

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<sup>35</sup> David Arase, “China’s two silk roads: implications for Southeast Asia”, *ISEAS Perspective*, 22 January 2015.

<sup>36</sup> Yong Deng, “China: the post-responsible power”, *Washington Quarterly* 37, no. 4 (2015).

<sup>37</sup> 王缉思, “西进: 中国的地缘战略再平衡” [Wang Jisi, “Westward: China’s own geostrategic rebalancing”], *Global Times*, 17 October 2012.

<sup>38</sup> 薛力, “中国‘一带一路’战略面对的外交风险” [Xue Li, “Diplomatic risks faced by China’s ‘one belt one road’ strategy”], 《国际经济评论》 [*International Economic Review*], No. 2 (2015).

<sup>39</sup> Bai Gao, “From Maritime Asia to Continental Asia: China’s responses to the challenge of the TTP”, CDDRI, Shorenstein APARC Conference, October 2013.

But most Chinese scholars insist that OBOR does not target the United States, nor should it be seen as a response to the U.S. rebalancing strategy. They think that it is but simply a new model of regional cooperation. In Zhang Yunling's view, "China sees OBOR as a grand strategy" only in economic terms, it can be considered as China's "pivot to the West" because the western region needs to be developed.<sup>40</sup> Pu Guangji and Wang Yuzhu, in the meantime, view OBOR from the perspective of regional integration. Pu believes that, given the economic recession in the EU and the United States, the original East Asian regional growth mechanism based on industrial chains and trade is facing a transition: "Asia needs to build a new and more dynamic growth mechanism which is based on infrastructure connectivity and better transnational market arrangements."<sup>41</sup> Wang believes that "the traditional regional integration model which was initiated from building FTA (free trade area) does not necessarily apply to Asia which is geo-dispersed and diversified in economic development level. [...] The model of connectivity integration can be a way for regional integration in Asia."<sup>42</sup>

Indeed, although the U.S.-led TPP can help its Asian members achieve economic growth, from the perspective of regional integration, it cannot help Asia form a relatively independent regional growth mechanism. The RCEP (Regional Comprehensive Economic Partnership), on the other hand, is led by ASEAN, but since ASEAN is weak in market scale and capacity, RCEP can be more a platform for building an interregional institution than a real driving force. Due to the expansion of the TPP, the RCEP now faces many challenges and difficulties in constructing a

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<sup>40</sup> Zhang Yunling, "One Belt, One Road: A Chinese View", *Global Asia*, Vol. 10, No. 3 <<https://www.globalasia.org/issue/chinas-new-silk-roads/>> (accessed 3 December 2015).

<sup>41</sup> 朴光姬, "'一带一路'与东亚'西扩'" [Piao Guangji, "One Belt One Road and 'Western Expansion' of East Asia"], 《当代亚太》 [*Contemporary Asia-Pacific*], no. 6 (2015).

<sup>42</sup> 王玉主, 《"一带一路"与亚洲一体化模式的重构》 [Wang Yuzhu, '*One Belt One Road' and the Reconstruction of Asian Integration Model*], 社会科学出版社 [Social Scientific Press, China], 2015.

relatively independent market system to support the transformation of East Asian growth mechanisms.

OBOR — different from the TPP and the RCEP which seek a unified internal cooperation mechanism — is to be open, diversified and flexible. As Shi Yin Hong says, “[OBOR] does not seek to build a unified institutional arrangement, it does not require any sovereign alienation, nor does it produce strategic military presence”.<sup>43</sup> He claims instead that it attempts to find a new growth model that can adapt to the real needs of Asian countries, which can expand market scale and deepen regional integration.

### *Is OBOR a Chinese Version of the “Marshall Plan”?*

It was Xu Shanda, former deputy director of State Administration of Taxation, who first proposed the implementation of a “Chinese Marshall Plan”.<sup>44</sup> In 2009, fraught with the downturn in Chinese exports caused by the global financial crisis, Xu put forward the idea of a “Chinese Marshall Plan” to create domestic demand in less developed countries in Asia, Africa and Latin America through large-scale overseas investment and loans headed by the government. Almost at the same time, prominent Chinese economist Lin Yifu proposed the “New Marshall Plan” to break down the bottleneck of economic growth in developing countries by increasing infrastructure investment worldwide. According to his theory, this is a win-win investment, through which developed countries can carry out economic restructuring and shake off the financial crisis, while developing countries can gain better opportunities by overcoming their infrastructure bottleneck.<sup>45</sup>

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<sup>43</sup> 时殷弘, “‘一带一路’: 祝愿审慎” [Shi Yin hong, “One belt one road: wish cautious”], 《世界经济与政治》 [*World Economy and Politics*], no. 7, 2015.

<sup>44</sup> 黄益平, “中国经济外交新战略下的‘一带一路’” [Huang Yiping, “One belt and road under China’s new economic diplomatic strategy”] 《国际经济评论》 [*International Economic Review*], no. 1 (2015).

<sup>45</sup> 林毅夫, “以‘新马歇尔计划’带动全球复苏”动 [Lin Yifu, “To recover global economy through ‘new Marshall Plan’”], 腾讯网 [*Tencent*], 22 October 2012 <[http://www.360doc.com/content/13/0228/23/4310958\\_268540623.shtml](http://www.360doc.com/content/13/0228/23/4310958_268540623.shtml)> (accessed 2 December 2015)].

Furthermore, based on the above, as OBOR was being unveiled and the AIIB and the Silk Road Fund were being established, Chinese and foreign media quickly described OBOR as the “Chinese version of the Marshall Plan”, and the BRICS Bank, the AIIB, and the Silk Road Fund as key components of that plan.<sup>46</sup> Many commentators believe that the “New Marshall Plan” has three roles to play for China’s economy: the first is to reduce foreign currency reserves through overseas investment; the second is to ease the production surplus in infrastructure, and the third is to promote the internationalization of the Chinese currency.<sup>47</sup>

Most Chinese scholars believe that although viewing OBOR as a “Chinese Marshall Plan” is not entirely wrong, especially given its potential role in driving the economies along the Belt and Road, OBOR and the “Marshall Plan” have substantial differences in form, content and implementation.<sup>48</sup> For example, the “Marshall Plan” placed harsh political conditions on the countries it covered and excluded pro-Soviet European countries, while “OBOR is based on open cooperation, and is presented as an unconditional plan to assist in the development of China’s neighbours, regardless of their current relationship with China.”<sup>49</sup>

More importantly, China will be letting companies, especially from the private sector, play a bigger role in OBOR projects, and will be supporting the localizing of the operation and management of Chinese companies. The governments will only play their due functions, such as to clarify what industries, economic areas and projects the host countries hope to develop through foreign capital, what the potential risks and

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<sup>46</sup> 金玲, “‘一带一路’: 中国的马歇尔计划中?” [Jin Ling, “One belt and road: Chinese Marshall Plan?”] 《国际问题研究》 [*Journal of International Studies*], no. 1 (2015).

<sup>47</sup> 赖梓铭, “舆论热炒‘新马歇尔计划’” [Lai Xinming, “Public opinion string ‘new Marshall Plan’”] 《证券时报》 [*Securities Times*], 7 November 2014.

<sup>48</sup> 金玲, “‘一带一路’: 中国的马歇尔计划中?” [Jin Ling, “One belt and road: Chinese Marshall Plan?”] 《国际问题研究》 [*Journal of International Studies*], no. 1 (2015).

<sup>49</sup> “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, March 2015.

prospects of these projects are, and then release this information to companies and related departments.<sup>50</sup>

### *Is OBOR Meant to Export Chinese Production Overcapacity?*

As China's economy shifts to a "new normal" of slower growth, it faces challenges such as the need to readjust domestic economic structures, and excess production capacity. Some Chinese as well as foreign scholars believe the main motivation of OBOR is to save China's economy by exporting its production overcapacity. For example, Kennedy and Parker believe that "OBOR has important economic and geopolitical significance, but given the current challenges facing China's domestic economy, the former perhaps is more important".<sup>51</sup> Ma Jianying believes that "embarking on large infrastructure projects with OBOR recipients can help alleviate China's industrial overcapacity, and can help China transit away from investment-led growth to a consumer-driven economy".<sup>52</sup>

However, many Chinese scholars doubt that OBOR can ease the problem of production overcapacity. Let us take the steel industry (a typical production surplus industry) as an example. Assuming that the total amount of steel demand driven by OBOR is equivalent to that of domestic railway construction (this is already very impressive — in 2014, total steel consumption driven by railway construction was 21 million tons),<sup>53</sup> this will still be unable to absorb the industry's overcapacity. This is because the production of steel in China has continued to rise,

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<sup>50</sup> Interviews in Dalian, China, October 2015.

<sup>51</sup> Scott Kennedy and David A. Parker, "Building China's 'One Belt One Road'", CSIS Publication, 3 April, 2015 <<http://csis.org/publication/building-chinas-one-belt-one-road>> (accessed 7 January 2016).

<sup>52</sup> 马建英, "美国对'一带一路'倡议的认知与反应" [Ma Jianhong, "The US perception of and response to China's OBOR initiative"], 《世界经济与政治》 [*World Economics and Politics*], No. 10 (2015).

<sup>53</sup> "'一带一路'难解钢铁产能过剩之忧" [One Belt and Road cannot ease the overcapacity of steel production], 中国经济导报 (*China Economic Herald*), 17 November 2014.

surpassing the combined output of India, Japan, Russia and the United States. Moreover, the China Iron and Steel Association believes that China's overcapacity of steel production reached 450 million tons in 2014.<sup>54</sup> Looking at these figures, OBOR can at most only transfer 4.6 per cent of China's overcapacity of steel production overseas.

More importantly, although some neighbouring countries welcome China's investment, this does not necessarily mean they welcome China's overproduction and excess capacity. Many already face their own problems such as unemployment and poorly performing steel industries. As Zhang Ming has stated, "transferring production surplus might arouse concerns of exporting backward technology and environmental pollution in the host countries",<sup>55</sup> thus creating trade disputes.

Furthermore, some Chinese scholars also believe that even if OBOR can help China resolve its excess capacity problem and revive related domestic industries, it is unlikely that China's resources, energy, and environment will be able to maintain such a development model.<sup>56</sup> The old growth model of high energy and power consumption along with massive imports of raw materials is not compatible with the "new normal" economic growth pattern. They suggest domestic reform, including the opening up of service sectors and rebalancing the economy away from heavy reliance on investment as a more promising way to deal with the problem.<sup>57</sup>

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<sup>54</sup> Quoted from 薛力, "中国'一带一路'战略面对的外交风险" [Xue Li, "Diplomatic risks faced by China's 'one belt one road' strategy"], 《国际经济评论》 [*International Economic Review*], No. 2, 2015.

<sup>55</sup> 徐奇渊, "亚投行发展融资理念" [The financing concept of AIIB], 《国际经济评论》 [*International Economic Review*], no. 4 (2015).

<sup>56</sup> 张明, "直面'一带一路'的六大风险" [Zhang Ming, "Six big risks of 'One Belt and Road'"], 《国际经济评论》 [*International Economic Review*], no. 4 (2015).

<sup>57</sup> Interviews in Dalian, China, October 2015.

## DIFFERENT RESPONSES FROM RELATED COUNTRIES

Although OBOR is conceptually still a work-in-progress, it has already made a tangible impact on China's international position. Articulated through the images of New Silk Roads that connect China and the world, it has exaggerated the geopolitical effects and the threat of "China's rise".

### *The United States*

The U.S. perception of and response to OBOR is undoubtedly the most important. Ever since OBOR was proposed, North American scholars have made multi-dimensional interpretations on the potential impact it might create. Scott Kennedy commented: "Motivations aside, the initiative is a powerful illustration of China's growing capacity and economic clout, and China's intent to deploy them abroad. 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." In addition, "if this leads to more sustainable and inclusive growth, it could help strengthen the political institutions in the region and reduce the incentives and opportunities for terrorist movements."<sup>58</sup>

However, in light of the U.S. re-balancing strategy in Asia-Pacific, more North American scholars have viewed OBOR from the perspective of competition. For example, Ralph Cossa and Brad Glosserman pointed out that OBOR may change the power structure in the Asia-Pacific and in Eurasia. In the new round of power competition, the United States seems to have been at a disadvantage, because "Beijing is increasingly seen as an assertive actor, responding to regional needs, while Washington is playing defense, working to block new initiatives and seemingly struggling to keep pace with China."<sup>59</sup> Wendell Minnick also believes

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<sup>58</sup> Scott Kennedy and David A. Parker, "Building China's 'One Belt One Road'", CSIS Publication, 3 April 2015, <<http://csis.org/publication/building-chinas-one-belt-one-road>> (accessed 30 March 2016).

<sup>59</sup> Ralph Cossa and Brad Glosserman, "A Tale of Two Tales: Competing Narratives in the Asia", *PacNet*, No. 84, Pacific Forum CSIS, 1 December 2014.

that although OBOR does not have direct military implications, “it could help China ease America out of Asia over the long haul while weaning our allies away from us”.<sup>60</sup>

The U.S. government on the whole takes a selective response. Few U.S. officials have mentioned or praised the significance of OBOR. On the other hand, in some specific areas where it needs China’s help, such as in the maintenance of stability and development in Central Asia, it has expressed a cautious welcome and taken a cooperative position.

For example, on the Silk Road Economic Belt, although the view that it is competitive with the U.S.-led “New Silk Road” vision is prevalent,<sup>61</sup> the United States has had to accept that China enjoys much geopolitical and economic advantage in the “post-Afghanistan war” era, which explains why it has repeatedly said that the two countries’ Silk Road initiatives are not in competition. For example, on 22 January 2015 U.S. Assistant Secretary Nisha Desai Biswal said at the Woodrow Wilson Centre: “Some paint our New Silk Road initiative as being in competition with China’s Silk Road Economic Belt, but in fact we welcome China’s constructive engagement and see a great deal of potential complementarity in our efforts.”<sup>62</sup> In October 2015, American Deputy Assistant Secretary Lynne M. Tracy also said that “although the U.S. is an important partner for all the countries of the region, China, as a neighbour to these countries and as a result of its own dramatic economic growth, is naturally going to be leader there in trade and investment.

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<sup>60</sup> Wendell Minnick, “China’s ‘One Belt One Road’ Strategy”, *DefenseNews*, 12 April 2015 <<http://www.defensenews.com/story/defense/2015/04/11/taiwan-china-one-belt-one-road-strategy/25353561/>> (accessed 30 March 2016).

<sup>61</sup> The U.S. “New Silk Road” vision was confirmed by the then Secretary of State Hillary Clinton at the second U.S.-India Strategic Dialogue held in India in July 2011. The New Silk Road is to build a large channel leading from the hinterland of Eurasia to the Indian Ocean, covering five Central Asian countries, India, Pakistan, and Afghanistan. However, in reality, the economic assistance the United States can provide is limited. The United States plays the role of convener.

<sup>62</sup> Nisha Desai Biswal, “The Silk Road Post-2014: challenges and opportunities”, The U.S. Department of State, 22 January 2015 <<http://www.state.gov/p/sca/rls/rmks/2015/236214.htm>> (accessed 14 January 2016).



We welcome the efforts of China to develop energy and transportation infrastructure in the region, including the Silk Road Economic Belt.”<sup>63</sup>

### *Central Asian Countries*

Countries within the New Silk Road Economic Belt, especially the five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), have showed a positive attitude towards China’s proposal. For example, Kazakhstan Foreign Minister Kairat Sarybay pointed out that the Silk Road Economic Belt proposed by China is consistent with the new Silk Road project initiated by Kazakhstan President Nursultan Nazarbayev in 2012.<sup>64</sup> When President Xi Jinping visited Uzbekistan in 2013, Uzbekistan President Islam Abduganiyevich Karimov praised the Silk Road Economic Belt vision, saying that “the revival of the Silk Road is our common historical mission”.<sup>65</sup> The Tajikistan Ambassador to China also believes that the Silk Road Economic Belt will create new opportunities for Central Asian countries: “With the Silk Road, Central Asian countries will not only have access to the sea, but also will be further integrated into the world financial and trade systems.”<sup>66</sup>

There are economic and political reasons for these countries to be supportive of China’s initiatives. Economically, most Central Asian countries are heavily dependent on primary production or natural resource

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<sup>63</sup> Lynne M. Tracy, “The United States and the New Silk Road”, 25 October 2013 <<http://www.state.gov/p/sca/rls/rmks/2013/215906.htm>> (accessed 14 January 2016).

<sup>64</sup> Daniyar Mukhtarov, “Kazakhstan considers its participation in Silk Road economic belt project”, *Trend*, 10 January 2014 <<http://en.trend.az/casia/kazakhstan/2228894.html>> (accessed 1 December 2015).

<sup>65</sup> Ibid.

<sup>66</sup> Adopted from 冯维江, “丝绸之路经济带战略的国际政治经济学分析” [Feng Weijiang, “International political and economic analysis of the Silk Road Economic Belt strategy”], 《当代亚太》 [*Contemporary Asia-Pacific*], no. 6 (2014).

extraction for economic growth. There are economic complementarities, and China has become the biggest trade and investment partner for Central Asian countries. Central Asian countries do gain from China's economic growth and vast domestic market. Currently, all the five Central Asian countries have synergized their economic development strategies with the Silk Road Economic Belt to varying degrees, with industrial upgrading, energy security community, and trade integration being the goals of their future cooperation.

Geopolitically, many countries along the Silk Road are frustrated by the difficulty of developing closer ties to the EU. Keith Bardsher said that “they are alarmed that the American-led TPP could give an edge to Malaysia and Vietnam”. Also, problems in the Arab world are pushing these countries to look for alternatives.<sup>67</sup> Thus, building better relations with China became their priority. By 2013, China had established relations of strategic partnership with all Central Asian countries, built within the framework of the Shanghai Cooperation Organization.

Russia has dominated this region since the Soviet era and has most recently formed an Eurasian Economic Union (EEU) with Kazakhstan, Belarus and Russia as its founding members. Zhao Huashen says that “when China announced the Silk Road Initiative, Russian officials saw it as a challenge to Russia's regional integration project — the Eurasian Economic Union”.<sup>68</sup> China has tried to convince Russia that these two projects can be connected and developed in mutual cooperation. In addition, sanctions imposed by the West have pushed Russia closer to China, with Putin attempting to re-orientate Russian interests from the West to the East. Russia's weaker economy has provided an opportunity for China to establish stronger links with Moscow and increased the prospect of Russian accommodation of China's economic interests in the region.

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<sup>67</sup> Keith Bradsher, “China plans a New Silk Road, but trade partners are wary”, *New York Times*, 25 December 2015.

<sup>68</sup> Quoted from 杰克·法尔基, “一带一路牵动俄罗斯神经” [Jack Falchi, “‘One Belt One Road’ affects Russia's nerve”], FT中文网 ([www.ftchinese.com](http://www.ftchinese.com)), 29 October 2015.

During President Xi Jinping's visit to Moscow in May 2015, the two countries signed 32 deals. A key point of these agreements was the decision made by Putin and Xi to link their countries' key integration projects: the Russian-led EEU and China's Silk Road Economic Belt. Alexander Gabuev, a senior researcher at the Moscow Carnegie Center, says that "the agreement was the result of 'a painful internal discussion' on the Russian side,"<sup>69</sup> indicating that Russia would allow China to have economic domination in Central Asia, while it retains its military and security position there.

### *Southeast and South Asian Countries*

Compared to Central Asian countries, Southeast and South Asian countries hold much more concerns and reservations regarding China's initiatives. They tend to view China's intentions with suspicion, interpreting Chinese initiatives as an attempt by Beijing to increase its own influence at their expense. There are many reasons for this interpretation, such as complex geopolitics, asymmetric economic strength between China and these countries, and most importantly, territorial disputes with China. While the South China Sea dispute is far from being resolved, India has become concerned over China's expanding presence in the Indian Ocean, the border disputes in the Himalayan region and Beijing's growing ties with Pakistan. Indeed, with its bilateral tensions with some Southeast Asian countries and India over territorial disputes, the Maritime Silk Road as an international development framework for China looks highly problematic.<sup>70</sup>

Southeast Asian countries may laud some of Beijing's initiatives, but their view of the long-term trajectory of their economic ties to China is tinged with caution. As David Arase has said, ASEAN is concerned that China might "use economic incentives to lead ASEAN into broader and deeper 'all-dimensional' cooperation" and thus undermine its centrality

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<sup>69</sup> Ibid.

<sup>70</sup> John Wong and Lim Taiwei, "China's One Belt One Road and its overland central Asian component", EAI Background Brief No. 1074, 28 October 2015.

and unity.<sup>71</sup> They might fear that “in the long run, when China’s growing economic power morphs along more strategic-oriented pathways, pressure will mount on ASEAN members to reciprocate China’s regional and global interests”.<sup>72</sup> At a time when China’s assertive stance in the South and East China Sea is provoking anxiety among its neighbours, the Maritime Silk Road initiative will inevitably arouse significant geopolitical apprehension. This led Ma Jianying to comment that unless China can resolve its maritime disputes properly with Vietnam, the Philippines, Malaysia and Indonesia, Southeast Asian countries’ concerns may not be assuaged.<sup>73</sup>

India remains ambivalent about OBOR. It has indicated that it sees it as a “national Chinese initiative” devised with its own national interests in mind, and it is “not incumbent on other countries to necessarily buy into such unilateral initiative”.<sup>74</sup> In her speech at the inaugural Raisina Dialogue hosted in New Delhi in early March 2016 by the Indian Ministry of External Affairs, Indian Foreign Minister Sushma Swaraj stressed: “We bring to bear a cooperative rather than unilateral approach and believe that creating an environment of trust and confidence is the pre-requisite for a more inter-connected world.”<sup>75</sup> India hopes to have discussions with China on the details of the initiative, and build connectivity through consultative processes or more multilateral decisions.

Indian business seem largely supportive, and some Indian analysts have called for Delhi to see the opportunities that OBOR presents and

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<sup>71</sup> David Arase, “Explaining China’s 2+7 initiative towards ASEAN”, *Trends in Southeast Asia* no. 4, 2015.

<sup>72</sup> Kavi Chongkittavorn, “Pushing East Asia Summit to new level”, *Straits Times*, 11 November 2014.

<sup>73</sup> 马建英, “美国对‘一带一路’倡议的认知与反应” [Feng Jianying, “The US perception of and response to China’s OBOR initiative”], 《世界经济与政治》 [*World Economics and Politics*], No. 10 (2015).

<sup>74</sup> Quoted from Tanvi Madan, “What India thinks about China’s One Belt One Road initiative”, Brookings <<http://www.brookings.edu/blogs/order-from-chaos/posts/2016/03/14-india-china-asia-connectivity-madan>> (accessed 18 March 2016).

<sup>75</sup> Ibid.

use the infrastructure and institutions that are being created to further India's transformation. But it seems that India is unlikely to formally endorse OBOR. For one thing, the Indian government has particular concerns about the China-Pakistan Economic Corridor that is part of OBOR and that includes projects in territory that India claims. This is a crucial reason why India pushed for a provision in the charter of the AIIB that requires project financing in disputed territory to obtain the agreement of the disputants. Also, there is clearly concern about the way China is pursuing OBOR, the motivations behind it, and particularly the kind of influence that Beijing might be seeking through it. As B.R. Deepak has claimed, "OBOR vision will put China at the center of global geopolitics and geo-economics, but it is still unclear whether it is a part of 'strategic encirclement' of India".<sup>76</sup>

## CHINA ADJUSTING ITS APPROACHES

In response to these concerns, China has tried to adjust its approach. An encouraging sign is that one of China's controversial goals for OBOR — promoting exports to absorb excess capacity — has gradually disappeared from government statements and media reports, and inclusive development has become the main theme. Indeed, *Vision and Actions* marks a significant evolution in China's attitude and position, as it stresses that OBOR "should be jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries along the Belt and Road".<sup>77</sup> Given that OBOR is based on cooperation between China and different countries, it is clear that China will discuss and consult with related

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<sup>76</sup> B.R. Deepak, "'One Belt One Road', China at the Center of Global Geopolitics and Geo-economics?", *South Asia Analysis Group*, 4 December 2014 <<http://www.southasiaanalysis.org/node/1672>> (accessed 5 January 2016).

<sup>77</sup> "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", Issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of PRC, March 2015.

countries before making detailed plans and concrete implementation arrangements.

In accordance with this guideline, China has tried to convince Southeast Asian countries that OBOR synergizes with ASEAN's development strategies and can play a complementary role in the building of the ASEAN community.<sup>78</sup>

ASEAN has come up with several initiatives in an attempt to close its development gaps, including the Initiative for ASEAN Integration Work Plan and the Master Plan on ASEAN Connectivity. OBOR and the Lancang-Mekong Cooperation framework will also help address the gaps by improving connectivity for lagging countries, bringing their competitive advantages into full play. The ASEAN Connectivity Coordinating Committee (the body tasked to coordinate and oversee the effective implementation of the Master Plan on ASEAN Connectivity) has held several meetings with its Chinese counterpart, the Chinese Working Committee of the China-ASEAN Connectivity Cooperation Committee.<sup>79</sup> They agree to hold regular meetings and continue the consultation process to expand project financing channels and enhance cooperation in infrastructure technology transfer and personnel training. China and ASEAN believe that the AIIB and Maritime Silk Road Fund under the OBOR framework will develop new innovative modes of financing and play a big role in developing ASEAN connectivity. China in this regard would hope that ASEAN would arrive at a regional consensus on engaging OBOR and play a more proactive role as a group, although a consensus might be difficult to achieve due to the varied conditions of the ten ASEAN countries.<sup>80</sup>

Since noticing India's hesitation and concerns about OBOR, Beijing has adjusted its India strategy from previously "inviting" India to join

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<sup>78</sup> "China-proposed initiatives synergize with ASEAN's development strategies", *China Daily*, 22 December 2015.

<sup>79</sup> ASEAN Secretariat, "Overview of China-ASEAN dialogue relations", 18 January 2016 <[http://www.asean.org/?static\\_post=overview-asean-china-dialogue-relations](http://www.asean.org/?static_post=overview-asean-china-dialogue-relations)> (accessed 20 March 2016).

<sup>80</sup> Interview in Singapore, 18 March 2016.

OBOR, to stressing “strategy connectivity” (战略对接) and “policy coordination”. When addressing journalists in March 2015, China’s Ambassador to India Le Yucheng said that “the OBOR initiatives can also be linked with India’s ‘Mausam Projects’ and ‘Spice Route’”.<sup>81</sup> On 14 May 2015 in a meeting with Prime Minister Modi, Xi Jinping also proposed that China and India further communicate and exchange views on OBOR, the AIIB and India’s “act east” policy so as to realize “strategy connectivity”.<sup>82</sup> Although India is sceptical and wary that China might lead regional economic integration, it also fears being marginalized. Therefore, it cannot ignore OBOR’s economic potential.

In this regard, much can be learned from the cooperation between China and Russia. Russia was also very cautious when OBOR was initially proposed. But after Putin visited China in May 2015, Russia’s attitude changed from passive response to active participation. One of the reasons is that China convinced Russia that the Silk Road will be a supplementary part of the Russian-led EEU, and it will ultimately connect with the “Trans-Eurasian Development Zone”, the aim of which is to develop Russia’s vast eastern region. China and India could use similar cooperation methods, seeking out more strategic and economic intersections through full communication and consultation.

## CONCLUSION

OBOR is different from traditional regional economic cooperation models, such as the FTA, the TPP and the RCEP, in that it does not take trade and investment concessions as its priority. Instead, it emphasizes internal-regional infrastructure connectivity, seems to seek new economic

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<sup>81</sup> “China says ‘Mausam’ can be linked to ‘One Belt One Road’”, *Deccan Herald* <<http://www.deccanherald.com/content/463755/china-says-mausam-can-linked.html>> (accessed 30 December 2015).

<sup>82</sup> “习近平会见印度总理莫迪” [“Xi Jinping meets with Indian Prime Minister Modi”], 人民网, People.cn, 14 May 2015 <[http://paper.people.com.cn/rmrb/html/2015-07/09/nw.D110000renmrb\\_20150709\\_3-01.htm](http://paper.people.com.cn/rmrb/html/2015-07/09/nw.D110000renmrb_20150709_3-01.htm)> (accessed 30 December 2015).

growth incentives and momentum through large-scale infrastructure building. If successfully implemented, it may reshape the regional growth mechanism and lead Asia into a new wave of economic growth. In this sense, it is more a vision expressing China's grand ambition to lead Asian economic growth and deepen regional integration rather than a grand strategy to build a "China-dominated Asia", or a grand strategy for "great rejuvenation of the Chinese nation".

Nevertheless, although this initiative is in the main an economic and trade initiative, it has a strong political and security dimension. It can be seen to be in the best interests of every country for China's investment in those countries to increase and trade to expand. It can also be interpreted as a "geopolitical conspiracy" if consensus on the initiative cannot be achieved and mutual confidence is lacking. Hence, to convince others that the initiative is a "public" strategy, not a "conspiratorial" one, China needs to better understand the concerns and real needs of related countries. It needs to cultivate much-needed political and strategic trust with its neighbouring countries.

Every country has its own ideas of constructing infrastructure and national interests. There does exist anxiety within the Asia-Pacific region over Chinese actions. This is partially because before China released Vision and Actions, it did not fully consult and discuss it with countries involved, due partially to a lack of mutual trust. Given China's assertive stance in the South and East China Sea, it is difficult for the region's countries not to feel suspicious of initiatives proposed by Beijing, and it will be difficult for China to build a friendly neighbourhood, let alone ask its neighbours to accept its grand proposal if its every move is met with distrust and fear. Indeed, although OBOR could be very helpful in reinforcing economic cooperation and enhancing maritime cooperation, Beijing would do better in crafting rules and institutions if it were done in concert with others in the region.



### *Appendix 1: Countries along OBOR (65)*

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East Asia	Mongolia
Southeast Asia	Singapore, Malaysia, Indonesia, Myanmar, Thailand, Laos, Cambodia, Vietnam, Brunei, the Philippines
West Asia and Africa	Iran, Iraq, Turkey, Syria, Jordan, Lebanon, Israel, Palestine, Saudi Arabia, Yemen, Oman, United Arab Emirates, Qatar, Kuwait, Bahrain, Greece, Cyprus, Egypt
South Asia	India, Pakistan, Bangladesh, Afghanistan, Sri Lanka, Maldives, Niebuhr, Bhutan
Central Asia	Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan
Commonwealth of Independent States (CIS)	Russia, Ukraine, Belarus, Georgia, Ukraine, Belarus, Georgia, Azerbaijan, Armenia, Moldova
East Europe	Poland, Lithuania, Estonia, Latvia, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Serbia, Albania, Romania, Bulgaria, Macedonia

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*Note:* According to Vision and Actions, OBOR-related countries are based on but not limited to the scope of the ancient Silk Road countries. All countries, and international and regional organizations may also participate.

*Source:* Author.

*Appendix 2: Chinese FDI in Countries along OBOR (US\$100 Million)*

	Countries							Total
	Southeast Asia	West Asia and Africa	Commonwealth of Independent States	Central Asia	South Asia	East Asia (Mongolia)	Central and East Europe	Total
2003	1.2	0.2	0.3	0.1	0.1	0.0	0.1	2
2004	2	0.4	0.8	0.1	0.0	0.4	0.0	3.8
2005	1.6	1.2	2.1	1.1	0.2	0.5	0.1	6.7
2006	3.4	2.6	4.7	0.8	-0.5	0.8	0.2	11.9
2007	9.7	2.5	4.9	3.8	9.4	2	0.3	32.5
2008	24.8	2.1	4.1	6.6	4.9	2.4	0.4	45.3
2009	27	7.3	3.6	3.5	0.8	2.8	0.4	45.3
2010	44	11	6.3	5.8	4.2	1.9	4.2	77.4
2011	59.1	14.3	7.4	4.5	9.1	4.5	1.3	100.2
2012	61	14.5	9	33.8	4.4	9	1.5	133.3
2013	72.7	22.3	11.6	11	4.6	3.9	1	127.1
2014	78.1	21.3	9.6	5.6	15.4	5.1	2.2	137.3
Total	384.5	99.6	64.4	76.6	52.6	33.4	11.7	722.8

Source: Ministry of Commerce, *Statistical Bulletin of China's Outward FDI, 2004–2015*.

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