THE BLIND MEN AND THE ELEPHANT: MAKING SENSE OF CHINA'S ONE BELT ONE ROAD INITIATIVE

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ABSTRACT

China's One Belt One Road Initiative has virtually been a lightning rod for divisive debate and a polarised narrative since it was announced in 2013. For India, it has been the proverbial elephant in the room, as it awkwardly swings between willful pretence and wishful erasure. The policy brief looks at the clues this initiative could offer on the likely drivers of China's economic diplomacy in the region. There could be three signals for India to watch out for. A clear pointer is the growing role of domestic determinants in setting the direction and pace of China's regional economic engagement. Another pointer could be China's role in shaping and defining Asia's new institutional financial architecture. Lastly, the initiative could be a signal of how China is likely to engage with the larger questions of benefit sharing, trade-offs and the allocation of risks and burdens in subregional Asia.

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POLICY BRIEF

A BELT THAT IS A ROAD

China's One Belt One Road Initiative has virtually been a lightning rod for divisive debate and a polarised narrative since it was announced in 2013. The least of its problems has been that it has tended to be seen in parts and has meant different things to different people. If anything, it has been over-interpreted, generating more heat than light. It has been feared as much as it has been admired; from being seen as an outright threat to being an altruistic investment. Misleading metaphors have played their part in adding to the confusion. It has not helped that the Belt is actually the road and what they call the Road is actually the maritime silk route. For India, the OBOR has been the proverbial elephant in the room, as it awkwardly swings between willful pretence and wishful erasure.

Just how useful are these binaries? If we are to make any sense of the OBOR, at the very least we need to begin breaking down the binaries of either threat/opportunity or security/insecurity. And while India waits to make up its mind, there is no denying that the potential of the OBOR to fundamentally reshape regional economic geography is both real and imminent. For a start, it will be useful to look for possible clues this initiative could offer on the likely drivers of China's economic diplomacy. There could be three signals for India to watch out for.

BEYOND BIG CHINA

A clear pointer is the growing role of domestic determinants in setting the direction and pace of China's regional economic engagement. The idea of promoting subregional cooperation has been a cornerstone of China's Western Development Strategy aimed at developing its landlocked vast hinterland. On completion of a decade of its implementation, the Western Development Strategy programme had received $512 billion from the Chinese central government. (Xinhua 2009) Increasing levels of interdependence with the regional economy also mean that external linkages have today become more important for these macro-regions of China than ties with the domestic economy.

China's provinces are clearly eager to leverage the opportunities that the OBOR represents. China's official plan released by the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce in 2015 lists 18 provinces with pre-assigned tasks. China's Fujian province identified as a 'core area' announced its own $1.6 billion Maritime Silk Road Fund. (Beauchammp-Mustafaga 2015) Yunnan has long been an active sponsor of the Pan-Asia railway project connecting Yunnan with Southeast Asia, providing a total of $707.4 million in partnership with the Central Ministry of Railways. (United Press International 2012) These offer interesting pointers to the longer-term shift occurring in the Chinese economy as Tier 2 towns and cities come into their own as the potential new sites of economic dynamism. As growth in coastal China flat lines struggles with high labour costs and slowdown, the scene is shifting beyond Beijing, Shanghai and Guangzhou to the hinterland as the new nodes of growth.

THE BURDEN OF BENEFITS

The OBOR could also offer useful pointers to how China is likely to engage with the much larger questions of benefit sharing, trade-offs and the allocation of risks and burdens in subregional Asia. How interested is China likely to be in defining the sort of norms and standards it would like to institutionalise within the subregion? For instance, what are the likely consequences of China's 'Go Out' directive to its energy intensive domestic companies, particularly when the stringent domestic standards are not applicable to exports? This could put China's credibility as a normative actor on the line, more so if its domestic and international normative standards are seen to be at variance. On the one hand, while China is set to shut down more than 1000 coalmines in Guizhou, Yunnan, Heilongjiang and Jiangxi provinces. But on the other, it is encouraging its companies to invest overseas especially in sectors such as steel, coal and concrete, plagued by huge overcapacity. As it cleans up its act at home, could China end up exporting its emissions?

These are beginning to cast a shadow on China's projects in the regions, forcing China to reevaluate its strategies. An illustrative example is the growing anti-China sentiment regarding energy-related investments. The energy issue is an instance of just how fraught it could be, with exploration often being seen more as exploitation. Critiques are gaining ground that Chinese investments cater not to local economy but are tailor-made for the export of Chinese products.

A possible straw in the wind could be the perception of regional publics to China's mega investments. Social surveys give a sense of the strong undercurrents of tensions in Kazakhstan, Kyrgyzstan and Tajikistan. (Peyrouse 2016) Reports of attacks on Chinese businesses particularly its energy-related investments have been growing in recent years. Protests against Chinese factories and workers in Vietnam in 2014 and opposition to the Kyaukphyu Economic Zone China is building in Myanmar are definitely not doing its projected benign image much good. The suspension of the 4600 MW Myitsone hydropower project in 2011 by Myanmar was a reality check for China's policy makers. Internationalisation of the protests could bring with it the scope of external interference in the neighbourhood, a prospect Beijing is likely to look askance at. To what extent is China's public diplomacy willing to engage with regional reservations?

DECARBONISING CAPITAL

A third possible pointer could be China's role in shaping and defining Asia's new institutional financial architecture. This will be increasingly critical given the fact that China now has emerged as the biggest development lender, with Chinese banks providing finance worth $684 billion between 2007-2014. (Soular 2016) Development funding by the China Development Bank and the Export-Import Bank of China equals the combined lending of the next six biggest multilateral banks. (Soular 2016) China's voting power in the Asian Infrastructure Investment Bank (AIIB) virtually gives it an effective veto power over the decision making process. China's voting power in the bank accounts for 26.06 per cent, which puts it in a stronger position as a shareholder compared to either the U.S or Japan in other multilateral development banks. (Morris and Higashikokubaru 2016)

This also raises the issue of what sort of lending standards should financial institutions follow while considering development finance? For instance, to what extent is minimising climate impact likely to be a mandatory criterion for prospective projects? Chinese banks and companies are reportedly involved in 79 coal-fired power plants with a total capacity of 52 GW projects in Pakistan, Indonesia, Turkey and Africa. This is at a time when international funding agencies have refused to fund coal projects elsewhere. Chinese funding comes as all leading multilateral development banks including the World Bank and the Organisation for Economic Cooperation and Development (OECD) stepped back from funding dirty coal. Rejecting projects with adverse environmental effects through tighter multilateral lending standards could be a strong signal China could send of its stated intent to draw red lines for green growth.

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