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China's Belt and Road Initiative in a Global Context

Volume I: A Business and Management Perspective

Edited by
Jawad Syed · Yung-Hsiang Ying

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Editors

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ISSN 2661-8435 ISSN 2661-8443 (electronic)
Palgrave Macmillan Asian Business Series
ISBN 978-3-030-14721-1 ISBN 978-3-030-14722-8 (eBook)
https://doi.org/10.1007/978-3-030-14722-8

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Acknowledgements

The editors thank China Pakistan Management Initiative (Lahore University of Management Sciences) for their support of this project. The editors also thank the anonymous reviewers for providing most valuable and constructive comments on various chapters of this book. The editors are also grateful to Palgrave Macmillan, the commissioning editor and her team for their support at various stages of this book—right from its conception to the end product in your hands.

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Introduction: Diversity, Convergence and Opportunities Along the Belt and Road

Jawad Syed and Yung-Hsiang Ying

Overview

The Belt and Road Initiative (BRI, also known as One Belt One Road or OBOR) was launched in 2013 by Chinese President Xi Jinping as a development strategy and framework that focuses on connectivity and cooperation between China and regional countries. It consists of two main components, the land-based 'Silk Road Economic Belt' and the ocean-based 'Maritime Silk Road'. China is implementing the initiative through Asian Infrastructure Investment Bank, Silk Road Fund, and other public and private financial institutions.

This edited book, *China's Belt and Road Initiative in a Global Context: A Business and Management Perspective*, comprises interdisciplinary

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_1

chapters on BRI focusing on topics as diverse as macro-economy, business environment and strategy, cross-cultural management, human resource management, finance, trade, logistics and supply chain, history and diplomacy. Written by scholars from China, Pakistan, Taiwan, Europe, and North America, the book includes theoretical and empirical chapters exploring business and management opportunities and challenges related to BRI. The chapters explain the scope of the BRI as the mega business and development project and framework initiated by China, focusing on connectivity and cooperation among regional countries in South, Southeast and Central Asia, Middle East and parts of Europe, and Africa including more than 68 countries.

There have been debates across the world regarding different facets of the BRI; however, its business and management aspects remain under explored. The book highlights the essence and global implications of BRI by identifying the convergence of interests in terms of business, economic and social development, and political and cultural exchanges. The book takes into account the business and economic approach and the parallel cultural exchange approach inherent in BRI.

BRI is an ambitious project aimed at spurring the growth of Chinese economy and linking it with the economic growth of regional countries. However, it is natural to probe and analyze how such a vast project provides adequate business and management processes and sustainability measures.

The chapters in this volume shed light on both core and specific interests of individual countries for participation in BRI projects and examine BRI's implications. The authors elaborate in the chapters the challenges, opportunities, principles, and processes of business and management for BRI projects. The authors provide China's and other countries' perspectives highlighting the significance of reviving the ancient Silk Road connectivity that extends on the world map, linking East with the West.

The book will be of equal interest to policy makers, government officials, practitioners, entrepreneurs, consultants, businesspersons, strategic analysts, journalists, academics, and students in China and other countries along the Belt and Road. Within academia, the book will be of specific interest to research scholars, academics, and students in international business, cross-cultural management, trade, finance, strategy, and international policy.

Connectivity is a key concept used by Chinese leadership in defining the BRI. This term is referred to not only in terms of building and improving transport, communications, and energy infrastructure to facilitate trade and investment but it also refers to improving cross-border trade, information exchange, and financial connectivity such as in the shape of currency swaps, the issuance of RMB (Chinese yuan)-denominated bonds, and cooperation in financial regulation. In much broader terms, Chinese policymakers link connectivity with economic development and, by extension, security and stability (NDRC, 2015).

However, in order to achieve this ambitious goal of connectivity, it is important to understand the socioeconomic diversity and convergence within the countries along the belt and road.

Socioeconomic Diversity and Prospects

The ultimate goal of BRI is to construct a platform to facilitate regional trade, promote financial openness, and enable economic development of the participating countries. This reminds us about what happened during the formation of Economic and Monetary Union (EMU) in Europe decades ago. The EMU initiative may be traced back as early as European Economic Community (EEC) in 1957. It took almost half a century for 11 countries to finally meet the stringent criteria to become initial members of EMU in 1999, and they gave up their own currencies in 2002 to fully adopt Euro. The number of stakeholders and the complexity of BRI are just as challenging as they were in EMU. It is therefore of crucial importance to investigate the diversity of participating countries of BRI from various perspectives, such as the standard of living and the quality of human capital.[1] In 2017, the per capita income of BRI countries ranged from $1700 (Bangladesh) to $65,000 (Qatar). The substantial gap of income between the BRI countries is a long-standing phenomenon. In contrast to this heterogeneity, the experiences and income levels of participating countries of the North American Free Trade Agreement (NAFTA) and EMU are relatively similar. Arguably, with similar income backgrounds and, in turn, similar standards of living, it is easier to build mutual understanding and cultural harmony across societies and coun-

tries. Seen from this angle, the significant income gaps within BRI countries may be a potential challenge to the implementation and stability of the system.[2]

There are in total 69 countries in BRI (and the number continues to grow). It is challenging to collect entire data for these countries. Other than the missing data problem, the extant data contains a great extent of inconsistencies. We managed to extract data from various sources including the Conference Board 2018, World Economic Forum, and World Bank. In total, 41 countries' data were available for over 20 years to analyze. Among them, there are 28 countries with almost 50 years' data accessible for analysis. To understand the convergence or divergence of incomes in BRI countries, Fig. 1.1 is presented to depict the relationship between average GDP (gross domestic product) growth rate from 1971 to 2016 against the initial real per capita income (in logarithmic form) at 1971 for 28 countries. It is interesting to see that South Asian countries such as Myanmar, Thailand, Vietnam, India, and Indonesia started at a lower income in 1971 but have exhibited sustained and high growth. It is also noteworthy that South Korea also started off poor but has enjoyed nearly 6% of growth on average for four decades. Within the Persian Gulf, Qatar, United Arabic Emirates, Kuwait, and Saudi Arabia have shown much higher income than other countries in BRI since the 1970s. Overall, Fig. 1.1 shows a clear phenomenon of unconditional convergence of income over past four decades.

However, when applying data of the more recent periods, this phenomenon is not so obvious. Inspecting data from 1991 to 2016, the initial real incomes of the BRI countries cluster between $3000 and $14,000 and the average growth rates cluster between 1% and 3% as shown in Fig. 1.2. Comparing the results of Vietnam, India, and Myanmar between Figs. 1.1 and 1.2, their average real incomes has only grown from $1074 in 1971 to $1498 in 1991, but they have exhibited average growth rates over 5% over these two decades.[3] South Korea, in contrast, experienced not much higher growth rate than these three countries, but enjoyed a whopping high level of income in 1991 and onward. It suggests that high economic growth over time does not guarantee a high-income level in the future. Data provided in Figs. 1.1 and 1.2 may encourage future scholars to focus on contexts and implication of income gaps for

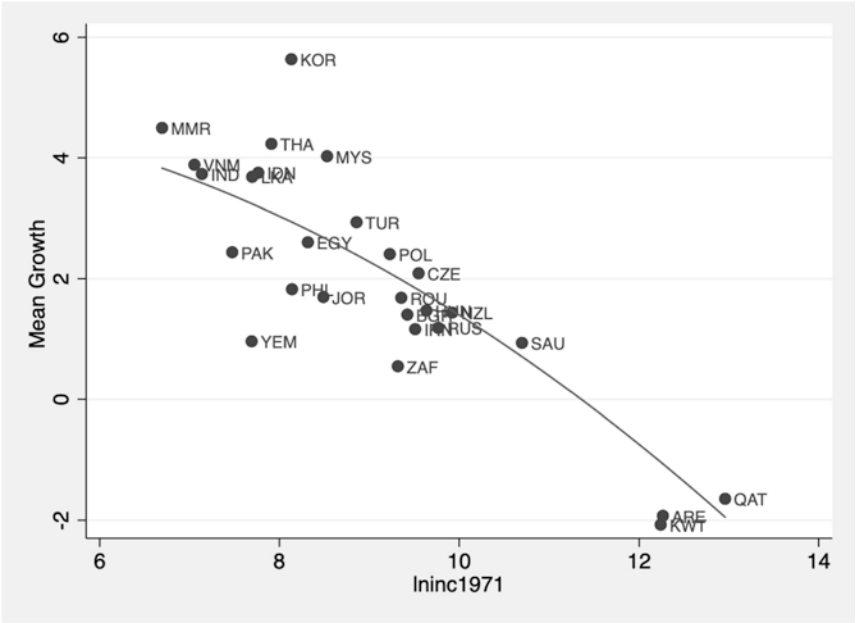

Fig. 1.1 Income convergence in BRI, 1971–2016. Source: Total Economy Database of the Conference Board (2018). Note: Data are extracted from Total Economy Database of the Conference Board (2018). Mean Growth denotes the average growth rate of real GDP between 1971 and 2016. Income is measured as real income per capita based on purchasing power parity in 2011. Initial income level for year 1971 in the X-axis is in logarithmic form (Data for the following 41 countries was available and its analysis included in this chapter (Abbreviation and Country Name): ARE United Arab Emirates, AZE Azerbaijan, BGR Bulgaria, BIH Bosnia & Herzegovina, CZE Czech Republic, EGY Egypt, EST Estonia, GEO Georgia, HUN Hungary, IDN Indonesia, IND India, IRN Iran, JOR Jordan, KAZ Kazakhstan, KOR South Korea, KWT Kuwait, LKA Sri Lanka, LVA Latvia, MDA Moldova, MKD Macedonia, MMR Myanmar, MYS Malaysia, NZL New Zealand, PAK Pakistan, PHL Philippines, POL Poland, QAT Qatar, ROU Romania, RUS Russian Federation, SAU Saudi Arabia, SGP Singapore, SRB Serbia & Montenegro, SVN Slovenia, THA Thailand, TK Turkmenistan, TUR Turkey, UKR Ukraine, UZB Uzbekistan, VNM Vietnam, YEM Yemen, ZAF South Africa)

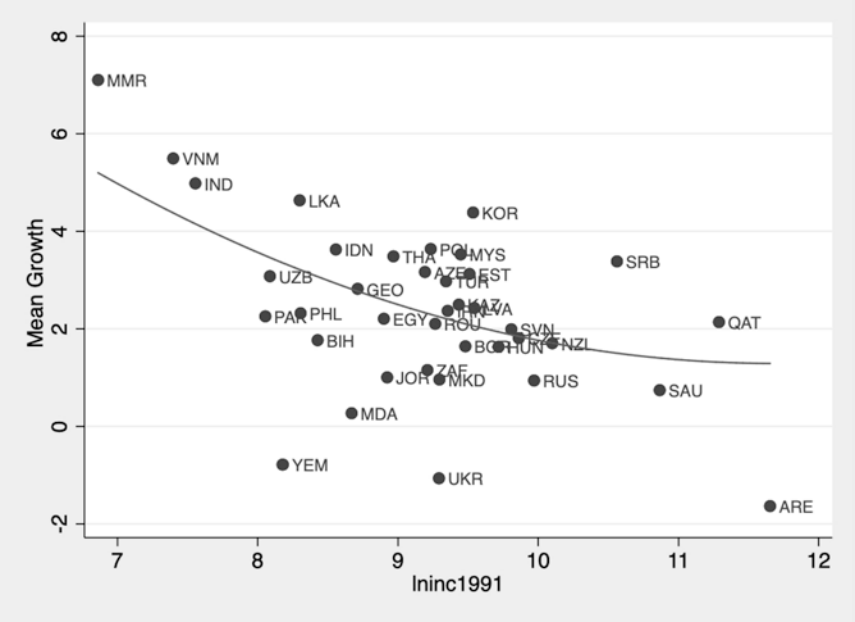

Fig. 1.2 Income convergence in BRI, 1991–2016

political stability, policy implementation, quality of infrastructure, quality of human capital, and quality of governance in the BRI countries and its impact on economic performances.[4]

The Quality of Infrastructure and Human Capital

For further in-depth investigation, we analyze selected socioeconomic indicators from Global Competitiveness Index (GCI) published by World Economic Forum. The quality of infrastructures, health, and educations are noteworthy (Table 1.1).

The index ranges from 1 to 7 and higher value denotes stronger competitiveness.[5] Comparing these two indices among the seven countries as shown in Table 1.1, it is conspicuous that the quality of infrastructure for

Table 1.1 The quality of infrastructure, health, and primary education

	Yemen	Bangladesh	India	Pakistan	Philippines	Indonesia	Korea
Infrastructure	1.8	2.9	4.2	3.0	3.4	4.5	6.1
Health and Edu.	4.7	5.2	5.4	4.1	5.6	5.4	6.3

Source: The Report of Global Competitiveness Index 2017–2018 (WEF, 2017)

Yemen, Bangladesh, Pakistan, and Philippines are significantly different from that of Korea. Thus, a possible measure of the BRI's success could be its positive, gradual impact on the quality of infrastructures across participating countries.

There are a few issues that deserve closer examination in terms of policy. For example, the improved infrastructure in the BRI countries could ultimately be similar to that in developed countries and the convergence of income could gradually take place. However, to ensure a sustained economic growth, the countries in BRI will need to improve their quality of human capital, which could be replete with challenges. Within human capital index (HCI) data, a measure of rates of return to schooling extracted from the World Bank shows much heterogeneity in this respect.

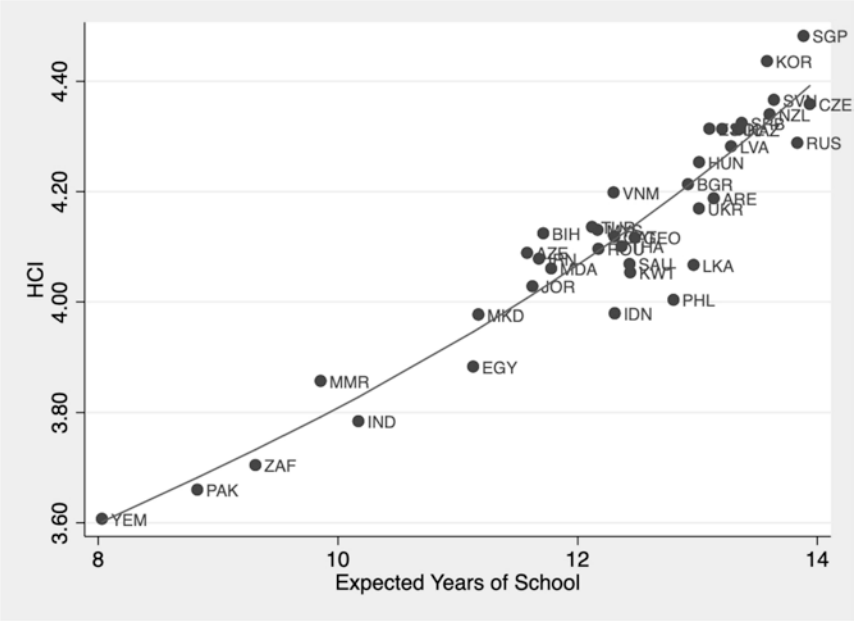

Fig. 1.3 The quality of human capital for BRI. Source: Human Capital Project of World Bank (2018). Note: HCI: human capital index refers to returns on schooling. Data is obtained from Human Capital Project of World Bank 2018. The Y-axis is quality of human capital and schooling years. The original index ranges from 0 to 1. The HCI in the figure is in logarithm after multiplying 100

Figure 1.3 shows that people in Yemen, Pakistan, and South Africa have relatively low schooling years during the ages between 4 and 17 years. In contrast, Singapore, Korea, and Czech Republic on the top-right corner of Fig. 1.3 show more schooling than other countries in the BRI. In short, education inequality is apparent among BRI countries. Lower literacy rates and lesser number of years in education in turn may adversely affect the quality of human capital. Thus, a consolidated education policy focusing on more years of schooling along with opportunities for further and higher education is a must to fully avail the opportunities offered by BRI.

The Focus of This Book

In this book, authors investigate the potential and the implications of BRI through various perspectives including economics, finance, management, geopolitics, and history.

In Chap. 2, Choudhary Tanveer Shehzad emphasizes that the integration of trade and finance will significantly reduce the volatility of output. The dampened output volatility and synchronization of business cycles for the member states are crucially important for the stability of BRI. Shehzad's findings are in line with Frankel and Rose (1998) and Imbs (2004). An existing linkage in the literature between economic growth and volatility (Ramey & Ramey, 1995) has been further explored in the recent literature and a significant effect of financial linkages and trade integration has been shown to decrease output volatility generally (e.g. see Kose, Prasad, & Terrones, 2006). The results emphasize the importance of trade and financial linkages within the global economy where market demand conditions, supply shocks, and product specialization can boost output volatility on the one hand, but lesser dependence on the local economy and increased access to international markets can help reduce it. The BRI prioritizes, inter alia, policy coordination, financial integration, unimpeded trade, and connecting infrastructure. According to a Shanghai Stock Exchange Report of 2017 (SSE, 2017), BRI aims to increase regional participation in international trade and aims to target trade worth more than USD 2.5 trillion within BRI countries and

international financial integration within foreign exchange, fixed assets and equity markets. An important question is to look for any potential vulnerability in the participating economies coming from enhanced trade and financial integration, keeping in view the specific features of the individual economies and their historic economic trajectories. Moreover, most of the participating countries in the BRI exhibit a different stage of growth as compared to, for example, countries in G7 or high-income OECD classifications. Shehzad's chapter analyzes empirically how improved financial linkages and trade integration may bring economic stability in more than 60 countries that are participating in the BRI initiative and help them circumvent cyclical and structural fluctuations in their economic growth. To this effect, the author examines the role of trade openness and financial integration in the enhancement or reduction of output volatility specifically for countries participating in BRI. Shehzad uses variance of five-year GDP growth as the proxy for output volatility. The panel data analysis for 55 countries from 1960 to 2015 using fixed effect regressions shows a significant reduction in the output volatility of participating countries because of an increase in trade openness. However, there is no significant effect of financial integration or fiscal policy variations. The results also show that countries need to control for any inflationary effects to realize these objectives.

In Chap. 3, Zhenqing Zheng argues that facing China's rising, some Asian countries have found that they are trapped in so-called security dilemma with China and a "hedging" strategy has been adopted by a few countries in the Asia-Pacific region to cope with the Sino-US Competition in the region. Against this background, the BRI is seeking to improve relations between China and its neighbors by providing various projects of infrastructural investments, free trade, and economic well-being of the people. Using the 2014–2016 Asian Barometer Survey data, Zheng's chapter explores the perceptions of China's influence among Asian people along with the rise of China, especially in the BRI context. Surveyed data of 11 Asian countries are divided into two groups: four countries that have major sovereign disputes with China and seven countries with no such disputes. Zheng analyzes and compares different perceptions of the two groups and also examines how people of the 11 Asian countries view China and USA regarding their influences in Asia, at present and in the

future. Generally speaking, geopolitical relationship, cultural proximity, and economic benefits from collaboration with China have common while differentiated effects on the perceptions of the rise of China and its impact. The BRI is playing a positive role in easing many geopolitical tensions while also leading to some complicated feelings such as fear of asymmetric economic inter-dependency among Asian people on the other hand. Zheng argues that China is still in need of enhancing its soft power to win over Asian people and the international community.

In Chap. 4, Hasan H. Karrar notes in his seminal speeches about BRI that Xi Jinping drew heavily on China's historical linkages, both over land to Central, South, and West Asia, and maritime connections to Southeast Asia and the Indian Ocean. It is no coincidence that the two historical figures who subsequently appeared in official Belt and Road narratives were Han dynasty envoy Zhang Qian (d. 139 BCE) and Ming Admiral Zheng He (1371–1433). Using the past helped China project an expansive, futuristic connectivity predicated on Chinese investments and currency flows, and bulwarked by over a trillion dollars in investment. Karrar argues that BRI is a sign of Beijing's global ambition that China is no longer constrained by historical geography. In its latest iterations, the Belt and Road is described as extending into South America and a branch to the Arctic as well: of course, these are regions not traditionally associated with a Silk Road between Asia and Europe. Behind this juggernaut, connectivity is a key question: Is BRI a result of Xi Jinping's vision of a global China that can today be realized because of half-a-century of soaring economic growth? Or are there antecedents in the recent past that paved the way for BRI? In his chapter, Karrar argues that the current vision—and actualization—of BRI rests on two regional developments since the 1990s. The first was China's multi-dimensional diplomacy with the newly independent Central Asian republics, which led to the Shanghai Five mechanism after 1996, and which was institutionalized as the Shanghai Cooperation Organization in 2001. China's successful Shanghai diplomacy resulted in important dividends: it built close relations with newly independent states on its western periphery; it allowed China to allay Russian fears of an ascendant China after the Cold War and taught China how to position itself vis-à-vis the United States in Central Asia after 9/11; and finally, it built a mechanism for dialog and wide-ranging

cooperation. The second regional antecedent of BRI was China's Western Development Initiative that began in 1999–2000, which led to channeling of domestic and foreign investment, and the development of strategic sectors such as energy and irrigation, communication and transport, in the six westernmost provinces. The Western Development Initiative was to follow deepening economic relations with Central Asia and Pakistan. Interestingly, in its earliest framings—for example, when the China-Pakistan Economic Corridor was announced in May 2013—Chinese investments overseas were expected to reciprocate in development of western China. Hence, Karrar argues, inasmuch as BRI is an initiative to build a conducive investment climate in Afro-Eurasia through six economic corridors, BRI also builds seamlessly on China's successful regional diplomacy since the Cold War.

In Chap. 5, Nazish Afraz and Hasaan Khawar explore South Asia's regional connectivity in the context of the opportunities offered by the BRI. The authors particularly focus on the infrastructures brought by BRI for South Asian countries. Designed as a flexible umbrella framework, BRI leverages China's own capacity and resources by collaborating with participating countries, building and supporting connectivity and cooperation. Afraz and Khawar argue that South Asia offers a special significance for BRI as huge populations of countries like India, Pakistan and Bangladesh offer wide consumer markets, with high growth rates. Most of the countries are in need of financing to improve their infrastructure weaknesses and wouldn't have many sources to rely on. The authors argue that within BRI, the infrastructure comes out as the dominant theme in the portfolio, and investments in any other sectors such as agriculture or socioeconomic development remain minimal or are still in the pipeline. India specifically remains wary of increasing Chinese involvement in the region. Afraz and Khawar also note that previous regional cooperation initiatives such as South Asian Association for Regional Cooperation (SAARC) and South Asian Free Trade Agreement (SAFTA) have not been able to provide the desired results. Furthermore, lack of connectivity, integration, and cooperation has contributed to low development in the region. Being home to around a quarter of the world's population, South Asia remains as one of the poorest regions of the world. Providing employment and decent human development to millions is

therefore an essential priority for South Asian economies. Trade is an important vent for growth, and in the context of the large, growing, and young populations, it is a vent that the region cannot afford to not exploit. This means that while the infrastructure investments under BRI can pave the way for more meaningful economic cooperation, it will be up to the partner countries to make use of these investments and stimulate trade and private sector driven growth. South Asian countries can leverage BRI to improve regional connectivity as a way to integrate better with the global economy. For this, an important part of the equation is the political relations underlying the cooperation framework, which can act as a potential roadblock to complete cooperation and economic gains. The resolve to address the underlying conflict that keeps impeding any meaningful cooperation or integration at the regional level seems to be missing. Afraz and Khawar argue that if the South Asian countries are able to let economic gains overrule the hostile politics of the region, they can leverage BRI for better regional cooperation, nudging the region to develop regional value chains and trade.

In Chap. 6, Chris Y. Tung and Fang-I Wen note that China's "Going out Strategy" was initiated in the 1990s, which motivated the Chinese enterprises to extend overseas market, upgrade technologies, and obtain strategic resources. Since then, the Chinese outward foreign direct investment (OFDI) has grown significantly. Starting from the 11th Five-Year-Plan, the Chinese government started to establish Overseas Economic and Trade Cooperation Zones (OETCZs) in resource-rich (human, raw materials, etc.) and logistically essential countries to attract domestic investors. After the 18th National Congress of the Chinese Communist Party (CCP), China formally announced the BRI (also known as OBOR), aiming to enhance infrastructure connectivity, deepen economic and trade cooperation, promote cultural exchange, and increase financial integration among China and the belt-road countries. Tung and Wen argue that the purpose of both OETCZs and the BRI is to expand China's economic influence on foreign countries. However, OETCZs are more industrial and investment oriented while BRI is a comprehensive strategy covering trade, investment, culture, politics, and other aspects. Although the OETCZs were established almost 10 years earlier than the announcement of the BRI, many of them are located in the belt-road countries.

Therefore, how the existing OETCZs affect China's OFDI in the belt-road countries after the initiation of BRI is the main focus in this chapter. Tung and Wen argue that different OETCZs attract companies in different industries to make investments, based on local comparative advantages. Hence, different OETCZs may affect China's OFDI differently due to different industrial orientation. After the initial FDI outburst in the belt-road countries with the introduction of the BRI, whether the investment can further increase or even be sustainable is an intriguing question. In their chapter, Tung and Wen construct an econometric model to reveal the role of the OETCZs in the promotion of BRI. China's OFDI data in BRI countries is used in the empirical model to examine how the characteristics of the OETCZs along with other country-level characteristics affect Chinese OFDI in BRI countries.

Tung and Wen illustrate the positive impact of BRI, such as in terms of more FDI from China flowing into less trade-open nations in BRI, and more FDI concentration from manufactures than other business sectors. To attract FDI and increase trade activities in BRI, infrastructure improvements would be necessary. World Economic Forum has shown that the quality of infrastructure in Pakistan, Bangladesh, India, and many member nations in BRI is still far behind other developed Asian nations such as Korea and Singapore.

In Chap. 7, Abdul Wahid, Muhammad Zubair Mumtaz, Boris Kabylinskii and Fayqa Abdullah Ashkanani argue that while the main objectives of the BRI are to eliminate trade barriers, create business and investment opportunities, enhance mutual trade cooperation, and promote free trade for all participating countries, such objectives may be achieved through infrastructure development such as the construction of roads, rail, and seaports and promotion of services such as banking, logistics, finance, and other professional services. The authors investigate the enablers and pillars of globalizations and BRI, and focus on financial integration, capital market convergence, and trade cohesiveness. Abdul and his colleagues point toward potential crisis once the financial openness is strengthened but regulations and governance are not in place. They offer the following outcomes concerning the BRI sustainability and competitiveness: (1) development of financial institutions and launching

of Yuan as the first strategic step toward financial integration, (2) Chinese investors and government investment in capital market of ally-countries as a foundation to capture the movement and markets toward Chinese capital market model, and (3) construction of roads and infrastructure to enable connectivity and extension of trade and accessibility to Chinese products and services. The authors argue that investment framework of BRI brings forth various changes in the domain of financial management and project management. It shifts the directional approach of both fields from futuristic opportunistic cost to historical performance and stakeholders from private to public sector organizations. The authors also note that BRI may be perceived as alarming for small economies. For example, cross-border transactions in terms of trade, mergers and acquisitions, and investment may create complexities for (a) investors to mitigate exchange rate risk and market risk, (b) regulatory bodies to control chances of financial crisis and vulnerabilities, and (c) policymakers to develop mechanisms to safeguard the interests of their domestic markets and industries.

In Chap. 8, Isabel Rechberg and Shuojia Guo note that the social connectivity goal of the BRI aims at mitigating cultural distance between China and partnering nations by advocating the strengthening of people-to-people bonds (Liu, Lu, & Wang, 2018). Within academic scholarship, the cultural distance and social risks associated with the BRI remain largely unexplored. To address such a research gap, drawing on BRI partners' absorptive capacity, national culture, human capital, management approaches, and language differences, Rechberg and Guo develop a theoretical framework to test BRI pragmatism. Explaining that strong people-to-people bonds are necessary for knowledge transferring and sharing among nations, the authors suggest a shared culture of operation that draws on knowledge management principles to ease interpersonal tensions. In particular, a shared operational culture can grant trust and reciprocity essential to develop commitment among participating parties, and shared knowledge management practices enable the necessary exchange and sharing of technological expertise, resources, and capabilities among nations. The authors provide four multi-level policy solutions to facilitate cooperation and strengthen people-to-people bonds for BRI participating nations:

- *Greater transparency and coordination* between BRI economies may build trust and facilitate a win-win exchange between nations. Specifically, regulatory transparency and trade information sharing will enable mutual recognition of standards and fair competition.
- China may *take on a leadership role* to mitigate the great financial and social risks that Chinese lending imposes on less developed countries. China can take a lead in establishing and funding support to address the potential asymmetries in economic conditions and financial sophistication between BRI creditors and borrowers to better promote sustainable growth and mutual development.
- Since the BRI is as much a 'knowledge corridor' as it is an economic corridor, due attention to develop *infrastructure for human capital* is needed. Along with educational programs to bridge the knowledge asymmetry and knowledge gap, the investment in Information and Communication Technologies (ICT) and knowledge management practices will add value.
- *Better social risk assessment tools* can ease social and environmental tension. A social assessment framework, consulting the people affected, and establishing grievance redressing mechanism to hear complaints as well as incorporating people's expressed needs and priorities are essential for effective social risk mitigation.

In Chap. 9, Mustafa Yildiran examines the importance of BRI for Turkey. Yildiran discusses whether BRI as a Chinese global project may provide the economic and political advantage. He argues that with improved regional infrastructure and connectivity in West Asia, China will be able to access oil and natural gas resources and reach European and African markets. China's growing consumption of oil and natural gas has caused an increase in its imports from Central Asia and Caucasus and even the Gulf region. Turkey's location has strategic advantage for China in terms of easier access to European markets and rich African natural resources. At the same time, China will obtain an alternative route against the Russian Corridor. The chapter shows Turkey's potential as a critical partner of China in the BRI.

In Chap. 10, Rabbiya Kamal and Omair Haroon explore China's journey from an isolationist nation all the way to present day, where it is a

superpower that is actively vying for influence across the globe. The authors argue that similar to the rapid rise of Chinese industries, and the accompanying boom in its economy, Chinese influence in Africa has seen a swift rise. China has leveraged its expertise with State Owned Enterprises (SEOs) and provided African countries with immense capital to foster economic growth. The authors explore China's relationship with some of the major African markets, including Nigeria and Kenya. They also highlight the criticism of China's foray into African markets and politics. Since Chinese investments have differed from Western interactions with Africa (China has made it clear it has no interest in African politics and Chinese investments come with "no strings attached") it is most impactful to assess Chinese endeavors on a country-by-country basis. For example, since China's relationship with Botswana began in 1975, it has made considerable contributions to Botswana's construction industry, with Chinese state-owned companies having unfettered access to projects—paving the way into other industries such as textile. While there is criticism of China's "top-heavy" approach where most executive roles in joint ventures are still held by Chinese nationals, Botswana has been more than willing to take advantage of the more capitalist aspects of Chinese policy. Similar examples are found in other countries. As the largest African nation, Nigeria is of particular interest to China. As a large source of oil, Nigeria is the perfect candidate for China to feed its thirsty economy. Sino-Nigerian trade is at its highest level since the relationship began in 1971. The major concern highlighted is whether the relationship is symbiotic or parasitic, where the latter is simply using Nigeria's resource market while exporting substandard goods for the hungry Nigerian market. Kamal and Haroon's chapter highlights the double-edged sword of Sino-African relations. While Chinese investments and bilateral trade with African countries is seen as largely beneficial to move along the "African Renaissance," the apparent lack of focus on African self-sufficiency has led credence to claims that China is merely interested in feeding its own economy using African resources, rather than helping to develop long-term trading partners.

We hope that this book will provide deeper and critical understanding of BRI to academics, business practitioners, and policy makers alike and add to cumulative insights on BRI and enhance its potential. A view that

is often expressed in both formal and informal meetings is that more transparency and communication is needed among government officials, businesspersons, and other stakeholders. A general consensus is that transparency and accountability of the process, more open and constructive discussions about pros and cons of BRI, and updates on its various initiatives are needed. With this book, the gaps are hopefully narrowed and a deeper understanding of BRI and why and how it may benefit the participating countries and the wider global community has been facilitated.

Notes

1. Guiso, Sapienza, and Zingales (2009) have built up the linkage between the levels of trust resulting in the volume of trade. More specifically, the level of trust can be gained by similarity of cultural origin, linguistic common roots, and somatic distance.
2. The Maastricht Treaty was signed in 1992 to aim convergence of monetary and fiscal policies for participating countries in EMU. There were several criteria to restrict expansionary acts, such as no more than 1.5 percentage of inflation rate higher than the average three best performing (lowest inflation) member states in the EU. The annual ratio of government deficit to GDP must not exceed 3% at the end of preceding fiscal year.
3. Vietnam's real income per capita was $1158 in 1971 and became $1631 in 1991. The living standard of Myanmar had grown marginally from 1971 to 1991, $808 to $954 accordingly. India had grown relatively faster, and its real income grew from $1258 to $1911 in the same period.
4. Acemoglu and Robinson (2013) emphasize the importance of the quality of institution, and to contrast the substantial economic performances which could result from the institutions. Their argument is addressed as "good institutions, which may be defined as laws and practices that people to work hard, become economically productive, and thereby enrich both themselves and their countries."
5. GCI index is a composite index including 12 pillars to depict national competitiveness. We emphasized the second and fourth pillar, infrastructure and health and primary education only. The second pillar includes

the quality of roads, railroads, ports, airline seat availability, electricity, and telecommunication. The fourth pillar contains malaria incidence, HIV prevalence, enrollment rate, and quality of primary education.

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2

BRI and the Effect of Trade and Financial Integration on Output Volatility

Choudhary Tanveer Shehzad

Introduction

This chapter examines the impact of trade openness and financial integration as a result of the Belt and Road Initiative (BRI) taken by China on the output volatility of the participating countries. Presently, 60 countries are part of this initiative. A majority of these countries are developing and may face massive trade integration and inflow of foreign direct investments from China. China has already invested heavily into this initiative, and with the passage of time, these investments are likely to increase. Also, these countries will face increased opportunity to trade across the six economic corridors that are going to develop (Du & Zhang, 2017; Liu, Tang, Chen, & Poznanska, 2017).

Author would like to thank Arusha Ijaz and Noor Waseem for their excellent research support.

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_2

With increasing integration, there is a growing concern regarding the output volatility of participating countries. According to Giovanni and Levchenko (2009), there are three different ways in which trade openness can influence output volatility. The results show that sectors that are relatively more open for trade are more exposed to demand and supply shocks and contribute more to output volatility. Increased trade also leads to more specialization within the sectors, which again leads to enhanced output volatility. On the other side, trade openness leads to greater correlation with international industry and less co-movement with the domestic economy. This would decrease the aggregate output volatility, as there is less correlation within different sectors of the economy. However, the overall effect is increase in output volatility as a result of trade openness. Moreover, it also finds evidence of significant country and time fixed effects. It uses data from 28 manufacturing sectors across 61 countries from the years 1970 to 1999. Ordinary Least Squares (OLS) method of estimation is used for the purpose of analysis. It disaggregates the data sector-wise and compares how a sector's openness to trade influences the aggregate output volatility.

On the one hand, previous studies have found that with greater trade integration, countries are exposed to more external shocks and that leads to more output volatility (Giovanni & Levchenko, 2009). In contrast, some studies have found either insufficient evidence or negative effect of trade openness on output volatility (Cavallo, 2008; Raddatz, 2007). An important question to investigate is that *if and how trade and financial integration would affect the output volatility in the countries participating in BRI initiative*. This is an important topic to investigate as a majority of the BRI countries are developing and evidence has been found that in the case of developing countries with poor institutional growth, output volatility is detrimental to growth (Hwang, Park, & Shin, 2013; Montalbano, Federici, Triulzi, & Pietrobelli, 2007). Liu et al. (2017) point out, however, that with the BRI, the Chinese government plans to take interest in the institutional quality, policy mechanisms and infrastructure of the countries they invest in. Hence, China's initiative builds a scenario whereby, China is aggressively integrating the countries it is investing in with the rest of the world and is also developing their institutional infrastructure.

Trade and financial integration under BRI offers a unique opportunity; however, it's important to be cognizant of any potential vulnerability of participating countries as a result of integration, which may hamper their growth. The chapter aims to add to the existing literature by focusing solely on the effect of trade and financial integration on output volatility of the BRI countries. The chapter is organized as follows: the first section introduces the research question, the second section provides a literature review, the third section explains the methodology and data, while the fourth section explains the results and the last section concludes the chapter with some policy implications.

Literature Review

With the announcement of BRI, China started investing more and more in the participant countries according to a defined strategy (Du & Zhang, 2017; Liu et al., 2017). According to Du and Zhang (2017), the BRI announcement increased the foreign direct investment from China to other countries in the form of mergers and acquisitions. It finds that following the BRI announcement in 2013, acquisitions by Chinese firms increased significantly while new investments increased at a slower rate. As many acquisitions are made by state-owned enterprises, there have been significant investments in infrastructure and policy coordination, which will lead to more foreign direct investment in the future. The number of mergers and acquisitions is the dependent variable while the main independent variable is an interaction term between three dummy variables that is, if the investment was by a Chinese firm, if it was a post-BRI announcement and if the investment was in a country which is part of the BRI initiative. The data includes all greenfield investments equal to or more than 100 million US dollars from the year 2005 to 2015, which are classified according to the target nations and the industry sectors. A difference-in-difference method is used for the purpose of estimation. Similarly, Liu et al. (2017) compare the foreign direct investment of China in the BRI countries with non-BRI countries. Interestingly, while exchange rates, political and legal environment, natural resource endowments are significant determinants of foreign direct investment in

non-BRI countries, these factors do not matter for BRI countries. The sample includes 93 countries. Generalized Method of Moments (GMM) estimation is used for the purpose. Hence, recent literature shows that there has been an increase of investments from China into other countries and predicts that this trend will continue into the foreseeable future.

Heathcote and Perri (2004) links US business cycle with the business cycle in the rest of the world and demonstrate using a theoretical model that both business cycles have reduced correlation after Bretton Woods and finds the increased financial integration as the cause behind this reduced correlation. Hwang et al. (2013) investigate three channels through which financial openness can lead to output volatility. They find that financially open countries are exposed to volatile capital flows, volatile real interest rates and can be more prone to financial crises. The results of the study find that while financial openness does significantly and positively affect the output volatility, the first two channels are not statistically significant in influencing output volatility and the currency and external debt crises is a more significant channel that contributes to output volatility. Trade openness is also found to be significantly and positively related to output volatility. Using data from 21 advanced and 81 developing countries, the results show using GMM that output volatility is greater for developing countries when they become financially open as compared to advanced countries. GMM method is used for the time period spanning from 1971 to 2010. Output volatility is measured as standard deviation or skewness of GDP growth rates, which is regressed on financial openness and either of the three variables- capital flow volatility, real interest rates volatility and financial crises. Financial openness is defined in two ways: firstly, according to the Chinn and Ito (2006) index which measures the degree of capital account openness by coding capital account restrictions into binary variables and tabulating them, and secondly according to the ratio of foreign assets and liabilities to GDP. Capital flow volatility is measured as the standard deviation of the ratio of capital inflow to GDP, and interest rate volatility is measured as the standard deviation of interest rates. The crises variable is a dummy for currency or external debt crises as taken from Reinhart and Rogoff (2009). However, Haddad, Lim, Pancaro, and Saborowski (2013) shows that capital flow volatility is a significant determinant of output volatility

when average standard deviation is taken over the past five years. Moreover, it also shows that conditional on trade openness, diversification helps reduce output volatility. It uses a dataset of 77 countries to show that interaction of financial openness and product or market concentration has a positive and significant impact on output volatility. The time period is from 1976 to 2005 while method of estimation is GMM. Output volatility is the average standard deviation of GDP per capita growth for the previous five years. Trade openness is measured as the sum of exports and imports to GDP, and capital flow volatility is the average standard deviation of capital inflows to GDP ratio over the past five years. Concentration is measured as the share of top five or top ten products or market. The interaction term between trade openness and concentration is significant and positive, indicative that diversification helps in reducing output volatility.

Imbs (2004) examines the causes of business cycle synchronization in simultaneous equation model setting. They find that linkages between trade in goods, financial openness and specialization with business cycles can be direct or indirect and show that the estimated role of trade is closer to that implied by contemporary models. Literature has also found evidence that output volatility is more prone to trade openness in developing countries than in developed countries (Mendoza, 1995; Montalbano et al., 2007). An analysis for 34 eastern European countries concludes that lack of strong political institutions exacerbates the effect of trade openness on output volatility (Montalbano et al., 2007). The analysis is from the period 1990 to 2000, and uses the annual per capita consumption growth volatility as the dependent variable, and the volatility of trade openness and terms of trade as independent variables. The annual per capita consumption growth volatility has been disaggregated into normal and extreme volatility, according to a previously defined limitation for the standard deviations. The dataset used has been previously used by Hnatkovska and Loayza (2004). Mendoza (1995) builds an intertemporal model to show how terms-of-trade shocks account for half of the volatility in GDP or business cycles. It models the results for the G7 and 23 developing countries from the year 1960 to 1990. It shows that though developing countries show greater volatility in response to terms of trade, developed and industrial countries show similar patterns as well.

Consumption growth volatility responds more to trade integration than income volatility as shown by Kose, Prasad, and Terrones (2003). It investigates not only the effect of trade openness, but also financial openness, and terms-of-trades shock on output volatility and consumption volatility. Instead of using GDP to capture output volatility, GNP is used to accurately capture the effect of trade and financial openness. An index which measures the amount of restrictions on capital account transactions is used as a proxy for financial openness, while the ratio of imports and exports to GDP is used as a proxy for trade openness. The volatility of consumption growth is the standard deviation of growth of total public and private consumption. All the variables are averages for the past ten years and are regressed using the OLS and IV method of estimation. The results show that financial and trade openness affect consumption volatility more than income volatility. Likewise, volatility in terms of trade also significantly and positively affects income and consumption volatility. A sample of 76 countries is used with data from 1960 to 1999.

On the other side, Raddatz (2007) states that external shocks do not contribute significantly to output volatility in the short run. In the long-run, only 11% of the output volatility is attributed to external shocks, a major chunk of which is attributed to price fluctuations. The sample contains 40 low income countries out of which 32 are from Sub Saharan Africa. A vector auto regression method is used. The main independent variable is commodity-based terms-of-trade index, and its effect on the volatility of real GDP is noted. The study finds that endogenous shocks contribute more to output volatility than external shocks. Surprisingly, Cavallo (2008) provides evidence that trade openness, in fact, reduces output volatility by reducing vulnerability to financial crises and ensuring steady capital flow. It conducts OLS and IV estimation for 77 countries from the years, using the same dataset as Hnatkovska and Loayza (2004). The time period analyzed is from 1960 to 2000. The main dependent variable is output volatility measured as standard deviation of per capita GDP growth rate, while main independent variables are the trade to GDP ratio and the standard deviation of log difference of terms of trade. The results show that the relationship between the variables is negative, which is interpreted as stabilizing in the long-run.

Investigation into economic volatility is important as it can influence economic growth of a country. A negative relationship between economic volatility and economic growth is found by Hnatkovska and Loayza (2004). This relationship is exacerbated by lack of institutional development in a country. 79 countries are used for the purpose, from the period 1960 to 2000. Both the OLS and IV methods are used for estimation. The growth rate of GDP per capita is regressed on output volatility, which is measured in two ways. The macroeconomic volatility is measured as the standard deviation of GDP growth rate, and also by estimating the standard deviation of the gap between actual and trend GDP. An interaction term of output volatility with terms of trade is included to disintegrate the effect of trade openness on economic growth via output volatility. The standard deviation of terms-of-trade measures the volatility arising from trade openness. An index measuring institutional development is included in the regression as well. The results show that the negative effect of volatility on growth is enhanced when a country is not financially and institutionally developed.

Literature has also shown that the relationship between output volatility and economic growth is two-way (Antonakakis & Badinger, 2016; Lin & Kim, 2014). Economic spill-overs deeply link output volatility to economic growth as shown by Antonakakis and Badinger (2016). These spill-over channels work two-way- while volatility shocks reduce economic growth, growth shocks reduce volatility in the long-run. Both the variables are used on a monthly basis. In times of crises, the spill-over channels become increasingly active enhancing the shocks and their effects. The growth rate is estimated using the first difference of real industrial production, while its standard deviation is used as measure of volatility. A spill-over index is also included which measures the dependence of the countries with each other. VAR model is used for the G7 countries over the period 1958 to 2013. Lin and Kim (2014) are able to find similar results, using data for 158 countries from the period 1960 to 2010. A simultaneous effect model is employed, using OLS regressions, to find the effect of both output volatility on growth, and growth on output volatility. Output growth is measured as the growth rate of real GDP per capita over past five years. Output volatility is the conditional standard deviation of GDP per capita, estimated using Generalized

Autoregressive Conditional Heteroskedasticity (GARCH) model. It is fond that output volatility certainly reduces growth, while economic growth stabilizes economy and reduces uncertainty.

Interestingly, while foreign direct investment has a positive impact on economic growth, volatility of foreign direct investment has a negative impact on growth according to Lensink and Morrissey (2001). While FDI spurs economic growth by reducing the costs incurred on research and development, volatility of FDI hampers growth as it is not only an indicator of political uncertainty but also makes research and development costs uncertain in the future. The study computes the FDI to GDP ratio for 88 countries from the period 1975 to 1997. The FDI volatility is calculated by taking the standard deviation of errors from an autoregressive equation of the FDI to GDP ratio with three lags. The FDI variables are regressed on GDP per capita growth rate using OLS estimation. They find that the effect of FDI itself and the resulting volatility of economic growth may work in opposite direction.

Apart from the amount of trade, the quality of trade also influences output growth according to Huchet-Bourdon, Le Mouël, and Vijil (2018). It uses log of GDP to population ratio as the dependent variable, and the ratio of exports to GDP and export quality index as the independent variables. Generalized method of moments is used. The dataset is an unbalanced panel of 169 countries from 1988 to 2014. While both the ratio of exports and export quality have a positive and significant effect on GDP growth, these results change when an interaction term of these two variables is added. The results with interaction term show that trade will have a negative effect on growth, if the country specializes in low quality goods.

Data and Methodology

To investigate the effect of trade integration on volatility, we use the fixed effect panel regression models. Panel regression models allow us to measure the performance of a variable for a particular entity, which is a country in this case, across several time periods. The fixed effect model shows the results after capturing the time-invariant effect which is associated

with the inherent characteristics of a country. It gives the results after allowing for a fixed or dummy effect of each country. We employ the model previously used by Hwang et al. (2013) to find the effect of financial openness and trade openness on output volatility. Our main model is as follows:

$$\text{Output Volatility}_{it} = \beta_0 + \beta_1.\text{F}_{it} + \beta_2.\text{T}_{it} + \sum\nolimits_{k=3}^{m} \beta_k.\dot{\text{X}}_{it} + u_{it}. \qquad (2.1)$$

The main dependent variable is output volatility which is computed by finding the variance of average log GDP growth for the past five years. Volatility_{it} contains information for the ith country and tth time period. An average of the previous five years is taken for all the variables used.

$$\textit{Output volatility} = \sqrt{\left(y - \frac{\sum_{n}^{n-4} (y)_n}{5} \right)^2},$$

where $y = \log(\text{GDP})_t - \log(\text{GDP})_{t-1}$.

The main independent variables are financial openness and trade openness. Financial openness, symbolized by F_{it}, is measured as the ratio of the sum of foreign direct investment and portfolio investment to GDP for ith country in the tth time period. T_{it} symbolizes trade openness, measured as the sum of imports and exports over GDP for ith country in the tth time period. $\dot{\text{X}}_{it}$ is the vector of other explanatory variables, which differ as we estimate five models. Both the variables are taken as an average of last five years.

Model 1 adds inflation and fiscal policy volatility to the trade openness and financial openness variables. Model 2 adds Real GDP growth as an explanatory variable to Model 1, while Model 3 adds an interaction term between Real GDP growth and trade openness to Model 2. Likewise, Model 4 adds GDP per capita to Model 1, and Model 5 adds an interaction term between GDP per capita and trade openness to Model 1. Inflation is calculated as the last five years average of the log difference of consumer price index. Fiscal policy volatility is measured as the variance of government consumption expenditure over the past five years—it is

computed in the same way as output volatility. Real GDP growth and GDP per capita are also measured as the average of last five years in log terms.

We get data for most of our variables from World Development Indicators of World Bank from the period 1960 to 2015 for all 60 countries; however, final sample drops from 60 to 35 countries, due to the unavailability of data for some countries. Table 2.1 provides the summary statistics of the data and compares with G7 countries to highlight the

Table 2.1 Summary statistics

Variables	Observations	Mean	Std. deviation	Minimum	Maximum
BRI countries					
Output volatility	2196	0.00431	0.0199	1.82E-10	0.351
GDP growth	2260	0.0433	0.053	−0.553	0.413
Financial openness	900	−3.889	1.402	−9.89	−1.358
GDP/capita	2000	8.013	1.414	5.024	11.57
Trade openness	1976	4.196	0.821	−1.948	6.038
Inflation	1795	0.0874	0.148	−0.0252	1.665
Fiscal volatility	2169	−3.734	1.419	−11.49	0.162
Institutional quality	236	2.792	0.597	1.5	4.5
G7 countries					
Output volatility	375	0.00038	0.000454	8.82E-06	0.00324
GDP growth	382	0.0291	0.0191	−0.016	0.114
Financial openness	221	−4.368	0.995	−6.623	−2.422
GDP/capita	354	10.29	0.339	9.225	10.82
Trade openness	354	3.589	0.471	2.201	4.446
Inflation	343	0.03	0.0277	−0.0575	0.129
Fiscal volatility	382	−4.288	1.315	−10.27	−1.721
Institutional quality	*NA*	*NA*	*NA*	*NA*	*NA*

Output Volatility is the variance of average log GDP growth for the last five years. Financial Openness is the ratio of the sum of foreign direct investment and portfolio investment to GDP, as an average of last five years. Trade Openness is the sum of imports and exports over GDP, as an average of last five years. Inflation is the log difference of consumer price index, as an average of last five years. Fiscal policy volatility is the variance of average government consumption expenditure for the last five years. Real GDP growth and GDP per capita are also measured as the average of last five years in log terms. Institutional Quality is as reported by World Bank World Development Indicators

differences, whereas Appendix Tables 2.3 and 2.4 provide precise variable definitions and correlation matrix of the data respectively. As can be observed from the Table 2.4, correlations are low across variables. Table 2.5 in the appendix summarizes GDP growth statistics in the participant countries.

Table 2.1 shows that BRI countries had a higher real GDP growth and higher volatility as compared to G7 countries, as expected. This emanates mainly from their stage of growth where developing countries usually grow faster but are more prone to GDP shocks. Table 2.5 shows that real GDP growth in China has been impressive but because of the longer span of our data, negative GDP growth episodes of 1960s mark the lowest levels. Similarly, as most of the countries in the developing phase of growth demonstrate negative GDP growth at certain stages, inflationary pressures are higher in BRI countries. Another important feature to notice in BRI countries is higher trade openness but lower financial openness in absolute terms as compared to G7 countries.

Results

Table 2.2 provides the results of our fixed effect regression models. We start our fixed effect regression analysis by estimating the effect of trade and financial openness on output volatility. We also add GDP/capita in the model to incorporate the heterogeneity of countries. The results are in the Model 1 of the Table 2.2. In the next step, we incorporate other explanatory variables in the model and we consider this as our main model. Our main model (Model 2 in Table 2.2) suggests that trade openness in BRI countries is significant at 5% level in decreasing output volatility for BRI countries. This is in line with the previous results of Cavallo (2008) Heathcote and Perri (2004) and Imbs (2004) who suggest that trade openness reduces output volatility generally by making capital flow more reliable. Contrastingly, Kose et al. (2003) point out that trade openness increases consumption volatility and Wolf (2004) points out that volatility in terms of trade is an extremely important variable in explaining output volatility. Hwang et al. (2013) find that trade openness not only increases output volatility in developing but also

Table 2.2 Empirical results

Dependent variable: Output volatility					
	Model 1	Model 2	Model 3	Model 4	Model 5
Trade openness	−0.0004	−0.0009**	−0.0087***	−0.0042**	−0.0008*
	−0.0004	−0.0004	−0.0026	−0.0017	−0.0004
Financial openness	−0.0001	−0.0001	0.0007	0.0001	−0.0005
	−0.0001	−0.0001	−0.0008	−0.0001	−0.0005
GDP per capita	0.0005*	0.0015***	0.0050**	−0.0005	0.0017***
	−0.0003	−0.0003	−0.0019	−0.0011	−0.0004
Inflation		0.0038***	0.0250*	0.0040***	0.0041***
		−0.0009	−0.014	−0.0009	−0.0009
Fiscal policy volatility		0.0000	−0.0001	0.0000	0.0000
		−0.0001	−0.0002	−0.0001	−0.0001
Institutional Quality			0.0008		
			−0.001		
GDP/capita* trade openness				0.0004**	
				−0.0002	
GDP/capita* financial openness					0.0001
					−0.0001
Constant	−0.0015	−0.0077***	0.0012	0.0087	−0.0096***
	−0.0025	−0.0029	−0.0185	−0.0088	−0.0036
Observations	856	764	90	764	764
Number of countries	55	50	15	50	50
R-squared	0.0054	0.0433	0.2738	0.0485	0.0445
F test	0.228	7.59E-06	0.000906	3.75E-06	1.41E-05

This table provides results for fixed effect panel regression models. The dependent variable is output volatility, measured as the variance of average log GDP growth for the last five years. Financial Openness is the ratio of the sum of foreign direct investment and portfolio investment to GDP, as an average of last five years. Trade Openness is the sum of imports and exports over GDP, as an average of last five years. Inflation is the log difference of consumer price index, as an average of last five years. Fiscal policy volatility is the variance of average government consumption expenditure for the last five years. Real GDP growth and GDP per capita are also measured as the average of last five years in log terms. Institutional Quality is as reported by World Bank World Development Indicators

Model is our starting model. Model 2 adds inflation and fiscal policy volatility as explanatory variables to Model 1, while Model 3 adds institutional quality. Model 4 tests for an interaction term between Real GDP/capita and trade openness and likewise, Model 5 looks for the effect of an interaction term between GDP per capita and financial openness

*, **, and *** denote 10%, 5% and 1% level of significance respectively

advanced countries. In the case of BRI countries, our results show that an increase in trade actually smoothens output volatility.

We fail to find any significant effect of financial openness[1] on output volatility, however, in our main model. Bejan (2006) and Heathcote and Perri (2004) finds evidence that the flow of foreign direct investment across countries decreases output volatility and actually smoothens output for 111 countries. However, Buch, Döpke, and Pierdzioch (2005) find that GDP volatility and financial openness show unstable link. On the other side, Kose et al. (2003) find evidence that financial openness causes greater volatility in consumption growth. For our sample of BRI countries, financial openness is insignificant in increasing or decreasing output volatility.

The variable of inflation is also significant at 1% level with a positive sign in our main model. Bejan (2006) suggests that inflation and output are positively related: as inflation increases, output becomes less stable and even more so in developing countries. It also suggests that from 1950 to 1975 inflation was the only variable to increase output volatility. Wolf (2004) also finds out that inflation had more explanatory power in the 1970s as compared to periods before and after that.

There is no significant relationship found between fiscal policy volatility and output volatility. Previous studies have linked output volatility to fiscal policy and government consumption via the compensation theory (Bejan, 2006; Rodrik, 1998). The theory suggests that a higher number of open countries have bigger governments and spend more as a safeguard against output volatility. Hence, if fiscal policy is more volatile, output is also expected to be more volatile. However, no such evidence is found for our sample of BRI countries.

In our Model 3, we add institutional quality as an additional explanatory variable. Due to the limited availability of data, our number of observations falls to just 90 from 15 countries but our results remain robust. The variable itself does not turn out to be significant. It's more likely due to fixed effect regressions where time-invariant country effects are already inbuilt. While the main variable of trade openness individually reduces volatility, financial openness remains insignificant.

Model 4 adds an interaction term of GDP/capita with trade openness, while Model 5 adds an interaction term between GDP per capita and

financial openness to our main Model 2. While the coefficient of GDP per capita turns out positive and significant when introduced independent of the interaction term, it becomes negative and insignificant with the inclusion of interaction term in Model 4, however, its interaction term becomes significant. The main variable of trade openness remains negative and significant even with the inclusion of interaction term. The interaction term is also significant at 5% level, with a positive sign. The implication is that BRI countries that are larger in size and more trade open are less volatile. However, the effect of trade openness tapers off as the country size increases, and the effect of country size becomes lesser in magnitude when the trade levels increase. The results of Model 5 indicate that financial openness or its interaction with GDP/capita do not turn out to be significant.

Conclusion and Policy Implications

Belt Road Initiative by Chinese government is one of the historically big initiatives coming from Asia aimed at bringing economies closer in terms of increased trade and stronger financial linkages. It basically serves as a development strategy for infrastructure development and investments in countries of Europe, Africa and Asia and involves thousands of projects with more than 350 billion US dollars' worth of value for countries in South East and Central Asia, Middle East, Eastern Africa and Europe. As big a project as it seems, this chapter provides a thorough investigation of the potential vulnerabilities that may ensue from this project, for the participating countries in terms of output volatility.

We specifically examine the role of trade openness and financial integration in the reduction of output volatility in BRI countries. Our results emphasize a more focused approach toward increasing trade through BRI which can not only increase growth but also bring stability to economies in terms of reducing volatility of growth. Our results show that trade integration reduces output volatility in these countries. It also needs to be mentioned here, however, that a closer look on inflationary environment is necessary as it can marginalize any positive effects of this initiative.

We do not find any significant positive or negative impact of financial openness on output volatility, and this highlights the need for analyzing

the reasons behind an insignificant effect. It's important to highlight here, however, that there is a huge infrastructure gap in the participating developing economies which can be plugged by capital investments and is a pre-requisite for any successful trade integration. Probably, a very important dimension which might be pre-mature to analyze is the mode of financing of the capital infusions. In many ways, newer ways of financial integration are being envisaged in this historic initiative. For example, Xi Jinping's announcement for a 40 billion US dollar development fund, separately from banks created for this initiative, is a wonderful way of investing in businesses rather than project lending; however, the real impact of such measures can only be estimated after a few years from now.

Appendix

Table 2.3 Variable description

Variable	Description	Source
Output volatility	The standard deviation of average log GDP growth for the last five years	World Development Indicators
Financial openness	The ratio of the sum of foreign direct investment and portfolio investment to GDP, as an average of last five years	World Development Indicators
Trade openness	The sum of imports and exports over GDP, as an average of last five years	World Development Indicators
Inflation	The log difference of consumer price index for the last five years	World Development Indicators
Fiscal policy volatility	The variance of government consumption expenditure for the last five years	World Development Indicators
Real GDP growth	Real GDP growth, as an average of last five years	World Development Indicators
GDP per capita	GDP per capita, as an average of last five years	World Development Indicators
Institutional quality	As measured and reported in World Development Indicators	World Development Indicators

Table 2.4 Correlation matrix

	GDP growth	Output volatility	Financial openness	Trade openness	GDP/ capita	Inflation	Fiscal volatility	Institutional quality
GDP growth	1							
Output volatility	−0.14	1						
Financial openness	0.07	−0.05	1					
Trade openness	−0.03	−0.15	0.64	1				
GDP/capita	−0.02	0	0.41	0.5	1			
Inflation	−0.25	0.25	−0.29	−0.25	−0.09	1		
Fiscal volatility	0.12	0.01	0.08	0	−0.1	0.11	1	
Institutional quality	−0.04	−0.03	0.12	0.09	0.4	−0.12	−0.12	1

Output Volatility is the variance of average log GDP growth for the last five years. Financial Openness is the ratio of the sum of foreign direct investment and portfolio investment to GDP, as an average of last five years. Trade Openness is the sum of imports and exports over GDP, as an average of last five years. Inflation is the log difference of consumer price index, as an average of last five years. Fiscal policy volatility is the variance of average government consumption expenditure for the last five years. Real GDP growth and GDP per capita are also measured as the average of last five years in log terms. Institutional Quality is as measured and reported in World Development Indicators

Table 2.5 Real GDP growth in BRI countries

BRI countries	Mean	Std. deviation	Minimum	Maximum
Afghanistan	0.075	0.022	0.044	0.103
Albania	0.026	0.043	−0.089	0.079
Armenia	0.005	0.118	−0.333	0.123
Azerbaijan	0.029	0.121	−0.186	0.191
Bahrain	0.035	0.032	−0.067	0.068
Bangladesh	0.040	0.020	−0.025	0.061
Belarus	0.022	0.057	−0.085	0.095
Bhutan	0.074	0.022	0.035	0.130
Bosnia and Herzegvina	0.113	0.128	0.000	0.413
Brunei Darussalam	0.019	0.033	−0.049	0.112
Bulgaria	0.020	0.031	−0.062	0.066
Cambodia	0.074	0.013	0.052	0.101
China	0.067	0.072	−0.318	0.117
Croatia	0.023	0.026	−0.026	0.061
Czech Republic	0.010	0.038	−0.123	0.053
Egypt, Arab Rep.	0.046	0.019	0.008	0.094
Estonia	0.043	0.031	−0.015	0.082
Georgia	0.017	0.093	−0.290	0.092
Hungary	0.015	0.021	−0.031	0.042
India	0.050	0.016	0.021	0.082
Indonesia	0.050	0.020	−0.001	0.078
Iran, Islamic Re	0.041	0.054	−0.119	0.130
Iraq	0.056	0.063	−0.102	0.156
Israel	0.054	0.024	0.021	0.117
Jordan	0.061	0.048	−0.021	0.218
Kazakhstan	0.017	0.073	−0.117	0.099
Kuwait	0.066	0.066	0.012	0.293
Kyrgyz Republic	0.018	0.056	−0.136	0.078
Lao PDR	0.061	0.015	0.016	0.078
Latvia	0.041	0.034	−0.026	0.094
Lebanon	0.015	0.122	−0.553	0.150
Lithuania	0.044	0.025	−0.004	0.083
Macedonia, FYR	0.006	0.037	−0.070	0.052
Malaysia	0.062	0.016	0.025	0.091
Maldives	0.066	0.022	0.034	0.104
Moldova	0.022	0.038	−0.061	0.068
Mongolia	0.047	0.039	−0.046	0.105
Montenegro	0.022	0.025	−0.025	0.067
Myanmar	0.054	0.039	−0.022	0.124
Nepal	0.036	0.012	0.010	0.058
Oman	0.084	0.088	0.009	0.386
Pakistan	0.050	0.014	0.024	0.073

(*continued*)

Table 2.5 (continued)

BRI countries	Mean	Std. deviation	Minimum	Maximum
Philippines	0.041	0.018	−0.013	0.063
Poland	0.030	0.028	−0.073	0.057
Qatar	0.100	0.045	0.038	0.170
Romania	0.006	0.051	−0.138	0.069
Russian Federation	0.001	0.056	−0.095	0.072
Saudi Arabia	0.048	0.047	−0.047	0.166
Serbia	0.027	0.023	−0.003	0.064
Singapore	0.073	0.023	0.031	0.125
Slovak Republic	0.039	0.016	0.010	0.071
Slovenia	0.026	0.020	−0.020	0.047
Sri Lanka	0.047	0.010	0.031	0.068
Syrian Arab Republic	*NA*	*NA*	*NA*	*NA*
Tajikistan	0.008	0.093	−0.215	0.096
Thailand	0.059	0.024	0.003	0.104
Timor-Leste	0.069	0.045	−0.017	0.161
Turkey	0.043	0.015	0.011	0.070
Turkmenistan	0.050	0.059	−0.092	0.121
Ukraine	−0.014	0.069	−0.150	0.080
United Arab Emirates	0.052	0.048	−0.055	0.174
Uzbekistan	0.042	0.040	−0.042	0.087
Vietnam	0.061	0.014	0.032	0.085
West Bank and Gaza	0.059	0.042	−0.002	0.150
Yemen, Republic	0.034	0.036	−0.079	0.070

Note

1. The measure of financial openness employed in this paper is different from the measures adopted by Hwang et al. (2013), which measure de jure financial openness using capital account restrictions, and as a ratio of foreign assets and liabilities to GDP. For our results, we use the ratio of foreign direct and portfolio investment to GDP as a measure of financial openness which we believe is a better measure based on actual data.

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3

The Changing Asian Perception of China's Rising: A BRI Context

Zhenqing Zheng

In the first decade after the end of the Cold War, the USA as the world's sole hegemon became the absolute political-economic leader in the Asia-Pacific region; at that time China was still engaged in adjusting the pace of its economic reform and consolidating the political legitimacy. The second decade of the Post-Cold War era came with China joining the WTO in 2001. China's market-oriented reform and the opening-up strategy have brought its own continuous high-speed economic growth, as well as strengthened trade links with its neighboring countries in the Asia-Pacific region. In the third decade of the Post-Cold War, Asia-Pacific countries witnessed the establishment of the ASEAN-China Free Trade Zone (2010)—the world's most populous free trade zone, the signing of China's two major free trade agreements with South Korea and Australia (2015). Moreover, with the introduction of the "Belt-Road Initiative" (the BRI, hereafter) in the fall of 2013, China's trade and investment in Southeast Asia, South Asia, Central Asian countries, and other regions of the world have risen sharply. In the Asia-Pacific region, although the USA

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_3

still has the greatest political and military dominance, China has already jumped onto the central stage of the region, especially in terms of free trade, international investment, and economic integration (Chu, Liu, & Huang, 2015).

Many of the Asian countries have mixed feelings facing China's fast rising, which has attracted quite a lot of academic concerns (Ross, 2006). Most of the existing literature on this field have either engaged in "security dilemma" from the perspective of international security, or focused on regional economic integration from international political economy (McDougall, 2012; Mearsheimer, 2014; Wheeler & Booth, 1992; Yee & Storey, 2002). However, with the BRI and the Asian Infrastructure Investment Bank (AIIB) launched at the beginning of the Xi Jinping era, China's rising has also brought some type of provision of international public goods such as promoting infrastructural connectivity, maintaining international free trade, facilitating customs clearance, and developing international e-commerce, and so on (Yuan, 2018; Zheng, 2018). These new projects, along with repeating good-neighborly discourses from Chinese top leaders, have begun to affect the public perception of China's rising in Asia and other regions of the world. But, research in this field is yet very weak. This chapter tries to combine the BRI framework with the supply of international public goods together to analyze political and economic impacts of China's rising in Asia, and uses the fourth wave of Asian Barometer Survey (ABS) data from 2014 to 2016 to analyze how the public in this region change their perception/evaluation of China's rising. The purpose is to provide new empirical analyses for understanding the spill-over effect of China's rising in public opinion, especially in the BRI context.

Responses of Asian Countries to China's Rising: From Security Dilemma to Hedging Strategy

About 20 years ago, political scientist Samuel P. Huntington (1996) predicted that China's economic growth would expand its influence in Asia and increase the possibility of restoring traditional regional hegemony,

forcing many Asian countries to accommodate Chinese influence to some extent. This prediction has struck the reality of today. Since most of Asian countries are small and medium-sized ones compared to China, they have to consider delicate political and economic trade-offs between China and the USA, and calculate their gains and losses between "bandwagon" and "balancing" when facing China's rising (Chan, 2010). Even America's developed allied countries like Japan and Australia must think over the cost that could result from a potential conflict with China (Zheng, 2018). These complicated and differentiated official strategies will influence the public opinion toward China's rising in these countries.

Security Dilemma in Changing

The approach of balancing China's influence is closely related to the question of "security dilemma" in international politics. The term "security dilemma" comes from a presumed con-natural anarchy order rooted in the world's nation-state system, from which uncertainty and fear of current and future intentions of other countries will cause self-defensive behaviors of one country and then inevitably incur further distrust and perceived threats in other countries, thus no one's security is guaranteed and even self-reinforcing threats spiral up (Collins, 1997; Jervis, 1978). It is argued that the "balancing" strategy would be followed up with sovereign disputes over the South China Sea and the Diaoyu Islands with China from its most flaming neighboring countries like Japan, the Philippines, Vietnam, and so on (Kuik, 2008). The logic behind this is with China's self-defensive island-building operations and naval deployment, they felt that their own security was threatened and they had to move closer and go to support the US' "Pivot to Asia" and "Indo-Pacific" strategy that were proposed to man-mark a rising China. These balancing behaviors have in turn stimulated China's further self-defense, so sequentially a security dilemma spiraled up between China and some of its neighbors.

Even so, these countries surrounding China will hardly choose to resolve these disputes in a conflict-based manner. Firstly, the country size and comprehensive strength between them and China are obviously

asymmetric; they cannot afford the risk of resorting to force with strong China. Secondly, although these countries have sovereign disputes with China, they have also greater interests in maintaining regional stability with China and achieving more trade and investment chances from the rest of the world. The cost of overt confrontation with China is too high to be considered as a realistic option (Chung, 2009). And thirdly, although the USA has been trying to contain China's political and military influence in the Asia-Pacific region, those self-interested, "American First" policies that Trump administration has adopted have been causing great uncertainty in the US-Asia relations (Syailendra, 2017). Therefore, these countries do not dare to put all of their cards to support an America-dominated containment strategy toward a rising China.

Besides, we need to note that the solution to the South China Sea dispute proposed by China helps to alleviate the "security dilemma" in Southeast Asia. China has always adhered to the position of "shelving disputes and jointly developing" on the South China Sea issue, and played a key role in persuading those countries to enter the negotiation track and to contain international conflicts. Under the Chinese cooperative initiative, although countries such as Vietnam and the Philippines have often taken provocative actions before 2016, the development of the situation was under control. This showed that China's cooperative policies have produced good results, allowing conflicting interests to be further moderated and even somehow reconciled, and the possibility of cooperation and mutual benefit indeed existed. Therefore, these countries have not completely turned to the USA while seeking the US aid in their own security. They have been managing to maintain some neutral gesture between China and the USA and trying to make an autonomous diplomatic space for themselves through somehow implementing so-called hedging strategy (Liu, 2017).

Moving into Hedging Strategy

The concept of "hedging" in international studies takes in such features as uncertainty, mutual offset, and the pursuit of stable return in financial sector, which is often used to describe the "two-sided bet" strategy

adopted by international bodies in response to uncertainty and risk (Kuik, 2008). It is a strong defensive diplomatic strategy. Due to capacity constraint, strategic fragility, or the pursuit of autonomy, small and medium-sized countries have the very motive to implement hedging strategy (Lima & Copper, 2015; Liu & Chen, 2015). The purpose is to deal with potential uncertainties, risks, and threats in international and regional system. Therefore, hedging is often called an "affordable luxury" to the weaker in international system (Goh, 2007).

Judging from recent attitudes and policies of Asian countries toward China, the hedging strategy they have taken is an intermediate situation between "bandwagon" and "balancing," but not a completely neutral position. The difference between "hedging" and "balancing" is that the former doesn't direct political or military offensive at a specific power; the difference between "hedging" and "bandwagon" is that although small and medium-sized countries with hedging strategy seek to establish close tie with a big power to obtain certain benefit, they are not willing to give up their autonomy (Kuik, 2008).

In short, the hedging is a two-handed strategy that pursues the best outcome while preparing for the worst situation, including maximization of return and minimization of loss at the same time. It has very distinct color of pragmatism and self-defense. In recent years, Indonesia, Malaysia, Singapore, the Philippines, Vietnam have actually implemented hedging foreign policy to different extent against China, which have impacted their public opinion so much that some pragmatist attitude toward China but not perception of threat has become dominant poll (Liu, 2017; Liu & Chen, 2015).

The BRI as a Supply of International Public Goods

Supply of International Public Goods

Economist Mancur Olson and others proposed the theory of "international public goods" relative to the concept of "domestic public goods"

(Olson, 1971). International public goods are non-exclusive and non-competitive sharing products, with their costs and benefits exceeding boundaries of a single country, crossing generations and peoples. Typical international public goods include open free trade, stable international financial and monetary systems, coordination of international macroeconomic policies, international security, and freedom of navigation on high seas. After Olson, scholars such as Charles Kindleberger, Robert Gilpin, Inge Kaul, and Todd Sandler have used the term of international public goods to analyze international political economy and substantiated this conceptual connotation with international experiences (Kaul, Grunberg, & Stern, 1999). International public goods are classified into environmental, economic, social, and institutional or infrastructural types by sector. From the perspective of modern world history, the stable supply of international public goods has been closely related to the formation of international leadership. In about a hundred years before the World War I, the British Empire, with its strong economic and military strength, as well as sound financial system, guaranteed the international gold standard system based on the 1816 *Golden Standard System Act* and the central position of the British Pound in the world, so as to provide a relatively stable international financial system. In the 30 years after World War II, the USA also built the "Bretton Woods System" with its strong economic and comprehensive strength, including the US dollar-centered international monetary system, foreign exchange liberalization, capital liberalization, and trade freedom. Besides, the market economy, the operation of international organizations such as the GATT (predecessor of the World Trade Organization), the World Bank, and the International Monetary Fund and so on, have jointly promoted the continued growth of the world economy since 1950s. After the 1970s, although the US dollar-gold linkage and the fixed exchange rate system have collapsed, the US dollar continued to play the role of prominent international currency due to the support of the USA's comprehensive national strength and the path dependence after the formation of these systems. International trade and financial public goods, such as the international payments system, the international credit supervision system, the international exchange rate system, the international reserve system, and the international clearing system have also continued to date. Today, a large number of interna-

tional public goods that are easy to bring about externality effect, such as world peace, regional cooperation, free trade, economic growth, financial stability, environmental protection, control of infectious diseases, protection of intellectual property rights, and the integration of weights and standards, have become important global and international topics.

At the beginning of 2017, political scientist Joseph S. Nye, Jr. proposed the "Kindleberger's Trap" hypothesis of international political and economic cooperation, pointing out that China's behavior model after its rise may not be "showing strength," but "showing weakness," that is, unwilling to assume the current international leadership (Nye, 2017). And the USA has been unable or unwilling to continue to be responsible for the overall supply of important international public goods, thus putting the world in a dangerous situation of leadership vacancies. Nye also noticed that in recent years China has been taking on some international responsibilities and has not sought to overthrow the old world order from which it benefits, but to increase its influence within the order. At the heart of the "Kindleberger trap" is the supply problem of international public goods. The "Kindleberger Trap" nowadays is actually asking whether China is willing to assume the responsibility of supplying important international public goods or not after its rise (Zheng, 2018). Historically, a power country with the capability and willingness to be responsible for the supply of important international public goods usually assumed international leadership to some extent. Nowadays, the BRI, the AIIB, and other international cooperation projects proposed by China have great potential to become popular international public goods and this is China's intention, at least according to Chinese government's manifestos.

The BRI as a Supply Program of International Public Goods

The BRI can be seen as a China-driven incremental international or regional public goods such as regional economic cooperation, international free trade, infrastructural connectivity, and international security and mutual trust, and so on, which is based on current international

systems. And the AIIB is promoting a series of infrastructural loans to Asian developing countries, which helps to refresh China's image from a foreign aid/loan recipient to a supporter of international development. Both of them are changing the public opinion of Asian countries from pragmatist hedging and profit-seeking attitude to positive perception and good evaluation regarding China's rising.

According to Chinese government, the principle of promoting the BRI projects is achieving shared growth through discussion and collaboration has been implanted in the promoting of various collaborative projects within the BRI framework (The People's Daily, 2018). The BRI has been advocating the docking of developmental strategies among various countries and China, promoting cross-country infrastructural connectivity, industrial park construction, cross-border joint freight, and free trade, aiming at building large-scale, high-level, deep-seated, and high-standard international/regional economic networks. In May 2017, representatives from more than 130 countries and more than 70 international organizations gathered in Beijing to participate in the One Belt and One Road International Cooperation Summit Forum. The forum managed to assemble national development consensus, promote international trade and investment, revitalize industrial economy, and enhance international mutual trust. The Chinese government announced in that forum that it will increase assistance to developing countries along the BRI's lines and the total amount of assistance in the next three years will be no less than RMB¥ 60 billion. Besides, China will provide RMB¥ 2 billion of emergency food aid to developing countries along the lines as well as to the South-South Cooperation Assistance Fund, and will give an increase of US$ 1 billion to launch the China-United Nations 2030 Agenda for Sustainable Development Cooperation Initiative; also it will provide relevant international organizations with US$ 1 billion to jointly promote the implementation of a number of international cooperation and refugee relief projects benefiting countries along the lines. By the end of 2017, China has built 75 overseas industrial parks in more than 24 countries along the lines, with a total investment of more than US$ 25 billion and 3412 enterprises in these industrial parks who have paid their host countries various taxes and fees of US$ 2.21 billion, as well as creating 209,000 jobs for the locals (Ministry of Commerce of China, 2017).

As for the AIIB, since its establishment in Beijing at the end of 2015, 77 countries from 6 continents have joined this new multilateral international financial institute. With the core ideas of "Lean, Clean, and Green," it has continuously improved its governance system and operational mechanisms. The AIIB has been in cooperation with international financial institutions like the World Bank, the Asian Development Bank to promote a number of loan projects for infrastructural construction in a number of Asian developing countries, which have been well appreciated by these countries and the international community. In this year, the two major credit rating agencies, the Moody's and the Fitch Ratings, have given the AIIB the highest credit rating.

The topic of Chinese President Xi Jinping's speech at the Davos Forum in January 2017 was about sharing international responsibility and promoting global development, which was a continuation of his propositions at the 2016 G20 Hangzhou Summit and the Asia-Pacific Economic Cooperation (APEC) Lima Summit. His speech called for joint efforts to make the process of economic globalization more dynamic, more inclusive, and more sustainable, so that the positive effect of globalization will be further released and principles of efficiency and fairness will take precedence in the globalization (Xi, 2017). Along with this land-marked speech, China's continuous policies of reform and opening up are providing strong impetuses for the development of an open world economy, such as the launch of the Hainan provincial free trade zone, the hosting of the first-ever China International Import Expo (CIIE), and the easing of ban on FDI in financial and automobile sectors, and so on. Besides, China's strong consumption-driven demand has been growing, and its outbound investment is increasing substantially. It is projected that China's import will reach some US$ 10 trillion, its outbound investment will reach US$ 500 billion, and the number of its outbound tourists may exceed US$ 400 million in the following five years, which will no doubt push forward the growth of the world economy in the future (Xi, 2018).

It can be said that the BRI and the AIIB indicate a new type of international public goods provided to the world with Chinese advantages in infrastructural constructions and expanding free trade in an increasingly protectionist world. With China's calling and practical efforts, more and more countries from Asia, Africa, Europe, and even Oceania and Americas

are seeking to find their interests in the two programs and willing to participate actively. Thus, China has managed to increase its indispensable leading role in the economic rediscovery and sustainable growth in Asia and the broad developing world (Zheng, 2018). This is a new version of international public goods supplying program. On the other hand, China currently is not strong enough as to act as a real world leader that can replace the USA's hegemony.

Actually, China can lead and appeal only in some limited emerging areas, such as open free trade, infrastructural construction, E-commerce economy, and vast poverty reduction, and so on. Therefore, there is still a long way to go before China could fully shoulder the heavy responsibility of a world leader. Even though in those areas in which China is proficient, it still has to comply with the international economic and trade rules and standard systems pioneered by the UK and the USA in the two past centuries. Furthermore, China has to negotiate with other advanced countries frequently in order to maintain its neogenetic leadership in specific areas or businesses. Generally speaking, all these contributions that China has made with its international collaborative proposals and development projects have positively impacted Asian people's public opinion.

The Changing of Asians's Perception of China's Rising

It is quite important to know how Asian people view China's rising and its political and economic influences in this region from the audience's perception, especially after the launch of the BRI and the AIIB. Traditional international studies and geopolitical analyses might neglect people's opinion. But the recent surge of internet-based political participation and self-media communication have been lashing against the elite-dominated decision-making process and changing the realpolitik from East Asia to West Europe (Welsh & Chang, 2015). Thanks to the fourth wave of Asian Barometer Survey (the ABS-W4, hereafter) from 2014 through 2016, a large-scale, cross-national survey conducted by cross-national teams led by Professor Yun-han Chu of the Academia Sinica in

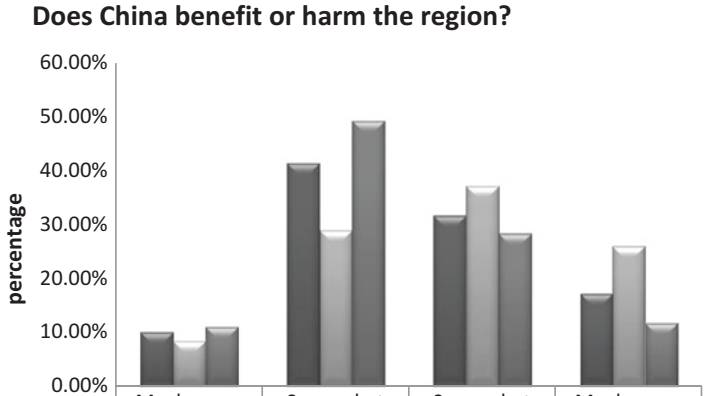
Taiwan, we can find relatively precise poll of Asian people regarding China's rising and influence.

Evaluation of China's Regional Role and Behavior

First, we analyze Asian people's evaluation of China's role in the region's stability and order that have been set up in past decades. In international studies, "stability" is closely relative to "hegemony" and international allying. According to the hegemonic stability theory, the USA's unchangeable dominance in the post-Cold War era has established foundations for the "regional stability" of the Asia-Pacific. And many Asia-Pacific countries have bundled their national interests with America's hegemony. So, whose stability? This is the first question to be asked when we discuss the regional stability of the Asia-Pacific. Most people in this region are accustomed to referring to the term stability to the established US-dominated political-economic order. Besides, sovereign dispute always provokes nationalist feelings or anti-foreign sentiments. China's sovereign disputes with some of its neighboring countries have incurred some negative evaluations from these countries' opinion on China's regional role and behaviors, which has strengthened the impression of China as a revisionist or an impertinent challenger in the region (Chu et al., 2015).

Analyzing the ABS-W4 data, we can know how Asian opinion evaluates China's role and behavior in this region. Question 165 of the ABS questionnaire asked "Does China do more good or harm to the region?" to more than 14,000 respondents from 11 Asian countries surrounding China. Figure 3.1 shows three descriptive trends of three groups, one referring to the all (11 countries), another for four countries with major dispute with China during the past five years (2010–2015),[1] and a third for seven countries with no major dispute with China at the same time.[2]

We can see from Fig. 3.1 that all respondents of all 11 countries have largely divided opinion about China's role playing in the region, with 51.2% of respondents agreeing to a positive role while 48.8% for a negative role. The two sides were nearly well-matched. And it is logical that 63% respondents in the 4 countries with major disputes with China were for a more negative evaluation of China's role. However, 60% of respon-



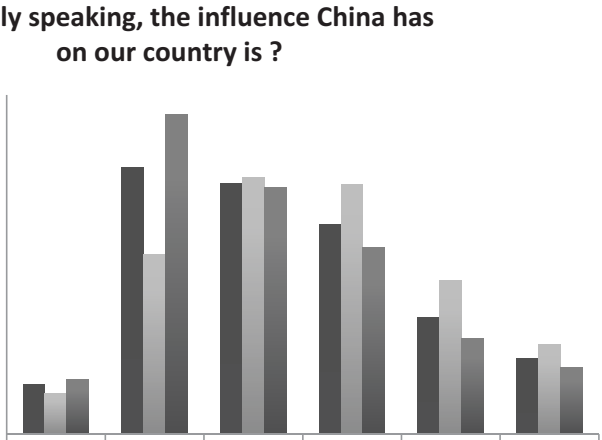
	Much more good than harm	Somewhat more good than harm	Somewhat more harm than good	Much more harm than good
All (11 surveyed countries)	9.94%	41.27%	31.62%	17.17%
With major dispute (four countries)	8.40%	28.78%	36.98%	25.84%
no major territorial dispute (seven countries)	10.91%	49.10%	28.25%	11.74%

Fig. 3.1 Asia-Pacific countries' opinion on China's regional influence. Data Source: Asian Barometer Survey, Wave 4, 2014–2016

dents from those 7 countries with no major territorial disputes with China were for much positive evaluation. These data indicate that China's intention of acquiring its neighboring countries' acceptance as a "benign power" has almost realized except for those sensitive sovereign disputes.

Evaluation of the Influence Alongside China's Rising

We further analyze public opinion of three groups of surveyed countries in terms of their perceptions of China's influence on their own countries. In international studies, the influence of a rising power is usually perceived by the public from two perspectives: the size and the direction. The size of influence means how much influence they can feel while the direction of influence refers to positive or negative effect that the rising



	Very positive	Positive	Somewhat positive	Somewhat negative	Negative	Very negative
All (11 surveyed countries)	5.11%	27.51%	25.85%	21.68%	12.08%	7.76%
With major dispute (four countries)	4.24%	18.55%	26.46%	25.72%	15.82%	9.21%
no major territorial dispute (seven countries)	5.64%	32.94%	25.49%	19.24%	9.83%	6.88%

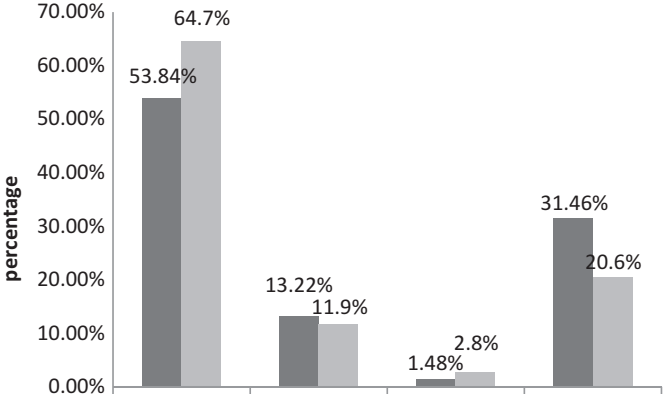
Fig. 3.2 How to evaluate the positive/negative influence of China. Data Source: Asian Barometer Survey, Wave 4, 2014–2016

power has on different countries. Figure 3.2 shows the perception of the size of Chinese influence in all 11 countries is very high, with 89.9% of respondents acknowledging Chinese influence over their own countries. However, there were divided opinions about the direction of Chinese influence: 64.1% of respondents of those 7 countries with no dispute with China accepted Chinese positive influence while only 49.3% from those 4 countries with major dispute acknowledged the positive effect of rising China on their own countries.

Evaluation of the Regional Hegemony at Present and in the Future

Before Donald Trump came to power in the USA, President Obama had promoted the "Pivot to Asia" and the "Asia-Pacific Re-balancing Strategy"

in military deployment and geopolitics as well as the "Trans-Pacific Partnership" (TPP) in regional economy in order to cope with China's rising and its growing regional influence. However, Asian countries have been more and more realizing China's rising and its pervasive influence, though some of them have psychological block in engaging with China due to the sovereign disputes between them. Besides, Japan and India as regional powers have non-ignorable influences in this region. So, most of Asia-Pacific countries became very vexed in dealing with their foreign policy toward these powers. To test how Asia-Pacific people viewed the present regional hegemony and the future geopolitical order, we employ the ABS data to analyze Asian people's perceptions. As shown in Fig. 3.3, China and the USA scored 54% and 32% respectively regarding the surveyed question that, among China, India, Japan, and the USA, which country had the most influence in Asia, and then the score changed to 65% versus 32% when asked which one would have most influence in



	China	Japan	India	United States
Which country has the most influence in Asia?	53.84%	13.22%	1.48%	31.46%
In ten years, which country will have the most influence in Asia?	64.7%	11.9%	2.8%	20.6%

Fig. 3.3 Asian review of countries' influence at present and in the future. Data Source: Asian Barometer Survey, Wave 4, 2014–2016

this region ten years later. We can see China has surpassed America in Asian people's recognition of influence champion during the surveyed period from 2014 through 2016 and China got a far higher expectation than the USA in terms of perceived future influence. To some extent, the changing of ratio of perceived future influence indicates that time stands by China in the Sino-US competition of the regional hegemony.

After launching various infrastructural connectivity projects under the BRI framework and pushing the operation of the AIIB during 2014–2018, as well as the appeal for expanding free trade and defending *The Paris Agreement* on climate change since 2016, China has been delivering a new national image to the world that China today is by no means just a "free-rider" of international public goods, but also an important contributor to many aspects of international public goods (Xi, 2018). Thus, more and more countries have acknowledged China's positive political and economic contributions to the world. Even though the Sino-US relationship has stepped into a new round of keen competition after the Trump administration waged a trade war against China since the summer of 2018, quite a few states and local governments and businesses in the USA have continued promoting various investment deals and trade collaborations with their Chinese counterparts.

We can't continue to rely on the ABS-W4 data to see what happened in Asian public opinion regarding Chinese latest endeavors in the above-mentioned affairs because the latest wave (2017–2019) of the ABS is still on going. Luckily, however, according to an international poll released by the Pew Research Center in October, 2018, the favorability opinion of the two super powers among global population is almost the same, with China scoring 47% and the USA 49% (Devlin, 2018). Among the 38 important countries surveyed to represent global public opinions, 24 of them still deem the USA as the current world leader, while 12 of them choose China as the new leader. However, two years ago the number was 32 to 6 (Devlin, 2018). Furthermore, even in Australia and Canada, which are allies of the USA in the Pacific region, most people think China has already surpassed the USA to become the new world leader. These latest survey data suggest that although the USA has not completely slipped down in its hegemony status, the national image of China as an emerging international leader is becoming clearer.

Concluding Remarks

China's recent rising has greatly changed the surrounding Asian countries' attitudes, both in their foreign policies and in public opinions. Although governments of many Asian countries still have hedging, vigilant, and even hostile feelings, their people actually have more receptive gesture facing a rising China and welcome China's proposals like the BRI, the AIIB, and other international development projects from which they can benefit. And there is an emerging opinion of expecting or projecting China's inevitable dominance in the Asia-Pacific region. To some degree, this is because the BRI and many other international projects proposed and promoted by China have embodied features of international public goods.

In the promoting of the BRI's projects, China should attach great importance to transparent procedure, clean operation, risk management, environmental protection awareness and social responsibility in overseas infrastructural building, industrial investment and international trade, to ensure good credibility and sustainability of international cooperation, which are the very nature of international public goods. In addition, the AIIB, as a multilateral international financial body, is currently at a good start and with a fine reputation. China and the other stakeholders should go further to build it into a top financial institution with the highest standard and the best brand image. It is only in this way can the AIIB promote the BRI's collaborative projects fully to be respectable international public goods.

The building of international leadership calls for the support of a strong national "hard power" as well as the "soft power" that can influence international relations and legitimate discourse in global governance, which is what current Chinese experiences in national development and governance actually lacks. In the "2017 Global Soft Power Ranking" recently released by the Portland Communications in UK, China's cultural index ranks among the highest, which shows China's advantage in developing traditional culture and heritage (Portland Communications, 2017). The construction of the BRI has greatly raised China's score in international affairs participation while the establishment of the AIIB has

also improved China's capacity in multilateral cooperation and regional governance (Huang, 2015). Yet China only ranks 25th in terms of comprehensive soft power, with France, UK, and the USA taking the top three (Portland Communications, 2017) ranks. Admittedly, the ranking may not reflect China's real political-economic influence truthfully and objectively for it is affected by the selective preference of various indicators. Nevertheless, to some extent, it does remind us that China still has a very long way to go to become a respectable world leader.

Notes

1. They are Japan, The Philippines, Vietnam, and Malaysia.
2. They are Cambodia, Indonesia, Korea, Singapore, Thailand, Mongolia, and Myanmar. The sovereign disputes in the South China Sea between Indonesia and China have been in a less marked degree.

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4

From Central Asia to the World: China's Regional Diplomacy as a Precursor for Global Connectivity

Hasan H. Karrar

Introduction

All Silk Roads lead to China, the aphorism goes, but the Belt and Road Initiative (BRI)—oft-described as a successor to an earlier Silk Road—channels Chinese investments, infrastructure, and technology in the opposite direction, that is, *outwards* to Africa, Asia, and Europe. This movement out of China is illustrated in the now-standardized cartographic representation of BRI: a map centered on the Indian Ocean, with multiple arrows running east-to-west. These represent both overland routes out of China's western Xinjiang Uyghur Autonomous Region into Central Asia, and from there to Europe, as well as maritime routes that begin in China's coastal areas, travel through the South China Sea before reaching the Indian Ocean. Belt and Road land and sea routes are a representation of how Beijing has projected its global influence since the current fifth generation of leaders came to power during the 18th Party

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_4

Congress in 2012. Connectivity propels the BRI global schema, yet, as I illustrate in this chapter, the announcement of BRI was preceded by nearly a quarter-century of *earlier* plans for connectivity between China and its neighbors. These complex plans had emerged out of a post-Cold War epoch that had been shaped by new and frequently urgent geopolitical realities, both along China's borders and globally. Many of these new frames for connectivity were dependent on the successful establishment of close ties with neighboring Central Asia, which China borders in the west.

The Belt and Road Initiative derives its name from the Silk Road Economic Belt and the Maritime Silk Road. Bifurcation on the basis of topography—land verses sea—featured in how BRI was planned and announced. Consider, for example, President Xi Jinping's introduction of the Silk Road Economic Belt in Astana, Kazakhstan, on 7 September 2013. In the announcement that was delivered at Nazarbayev University in the presence of Kazakhstan's President Nursultan Nazarbayev, Xi began with the Han dynasty envoy, Zhang Qian (d. 113 BCE), the first Chinese who is known to have visited Central Asia. In Xi's telling of history, two thousand years ago, the Han dynasty envoy had been tasked with the establishment of friendly relations between China and Central Asia, as well as with the opening of a transcontinental Silk Road between Asia and Europe (MFA, 2013). The Maritime Silk Road is similarly described in a historical lexicon. "Six hundred years ago, during the Ming Dynasty, the great Chinese navigator Admiral Zheng He [1371–1433] went on seven expeditions via the Maritime Silk Road, during which he made stops in many places that are now within ASEAN countries," Xu Bu, China's ambassador to ASEAN observed (2015).[1] As purported envoys for an outwardly oriented Chinese state, BRI narratives effectively transform Zhang Qian and Zheng He into agents for connectivity.

A *Pax Sinica* beyond the Jade Gate 玉門 and the South Seas 南海 maps onto the so-called overland and maritime Silk Roads, across which successive Chinese empires are said to have reached out to neighbors through cultural exchange, trade, and diplomacy (warfare and expansion are methodically omitted from official Chinese narratives). These *historical* spaces of diplomacy and exchange are also reflective of where *contemporary* China has had to concentrate its diplomatic efforts along its

periphery; BRI descriptions of the historic Silk Roads are illustrative of Beijing's foreign policy foci since the Cold War. Put differently, while BRI is closely associated with Xi's leadership (Economy, 2018; Ferdinand, 2016; Zhang, 2016), and correctly so, it is deeply informed *both* by China's gradualist foreign policy over a quarter-century in Central Asia, that had formerly been the Soviet Union and which continued to enjoy close relations with Moscow, *and* the extensive Asia Pacific Region, described in 2011 by President Barak Obama in a speech to the Australian Parliament as "the world's fastest growing region … and home to more than half the global economy," (Obama, 2011) a description that explained Washington's regional interests.

Chinese international engagement has fared differently in these two realms. Since the first confrontation in the Taiwan Straits in 1954, the Asia Pacific has continued to present as an intensely contested zone between the People's Republic, the United States, and the latter's regional allies; Beijing's steady push into the South China Sea since Xi took power has exacerbated tension with its maritime neighbors, and with Washington.[2] By comparison, Beijing's foreign policy initiatives along the overland Silk Road add up differently. Like the Asia Pacific, Central Asia too is an expansive space, yet is one where China enjoys uniformly close relations with the post-Soviet Central Asian republics—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan—as well as adjacent Afghanistan, Iran, and Pakistan. China's success in building close ties in the region was not because of lack of interest by other so-called great powers. Central Asia had first been under Russian and then Soviet control for about 130 years; this influence continued after the collapse of the Soviet Union in 1991, in the form of Russian military deployments, multilateral bodies such as the Eurasian Customs Union which did not include China,[3] and local populations heavily dependent on remittances from Russia. Despite rapid inroads China has made in Central Asia's energy sector, and the fact that China has overtaken Russia as the principle trading partner of the Central Asian republics—China's trade with the Central Asian republics is more than twice that between Central Asia and Russia—Central Asia did not become a zone for competition between Beijing and Moscow, a result of the former refusing to see the later as a spent power.[4] Hence, unlike the Maritime Silk Road,

China's path in Central Asia—as well as Afghanistan, Iran, and Pakistan—appears largely free from geopolitical roadblocks.

China's progress in Central Asia over a quarter-century has been consequential in how China positions itself internationally, including through BRI. In this chapter, I argue that China's regional diplomacy in Central Asia that was gradually built up after the emergence of the independent Central Asian republics in 1991, paved the way for BRI with its global focus. Superficially, this is evident in how the Silk Road imaginary that is being mass produced in China through advertising and official iconography, is inextricably associated with Central Asia; camels and caravans invariably feature in how BRI is presented. But iconography is only a small part of a layered story. The aesthetics of the new Silk Road are secondary, and follow geopolitics.

Instead, as I illustrate, the principle achievement of Beijing's Central Asian foreign policy lay in bridging a Cold War fault line, and in Beijing's ability in establishing close relations with the post-Soviet republics, as well as with Russia. Although, in this chapter, I chronologically work up to only when BRI was announced, my argument is that China's earlier successes in Central Asia carried forward, enabling BRI. I describe bilateral diplomacy that was skillfully channeled into a multilateral framework, the Shanghai Cooperation Organization (SCO), whose scope expanded from overseeing regional security to facilitating bilateral economic cooperation. Until it was overshadowed by BRI, the SCO had arguably been the highest profile of China's diplomatic efforts since the Cold War, and widely celebrated in the country as a success.

There are two additional points to consider: first, irrespective of what it achieved, the SCO was an operational framework for multilateral connectivity, whether in the realm of security, or economic planning. Although China's economic cooperation with the Central Asian republics was along bilateral channels, the multilateral framework served as a canvas for how ties with China would be beneficial, not just to the individual countries but also regionally. Following BRI, the ambit of regional benefit has been mapped onto an expansive, Afro-Eurasian scale. Second, although the geographical ambit of Shanghai diplomacy would eventually be expanded to include South Asia and Eastern Europe, for 20 years, it was centered on Central Asia. While outside the scope of the present

chapter, successful multifaceted relations with the Central Asian republics also opened spaces for deepening ties between China and Afghanistan, Iran, and Pakistan all of whom were brought into the SCO in different capacities.

Finally, China's inroads in Central Asia facilitated an internal policy emphasis, when in 1999, President Jiang Zemin announced new plans for infrastructure development in the relatively neglected interior of the country. This included Xinjiang now described as the bridgehead between China and Central Asia. Over the next decade, the initiative to develop the western stretches of the country acknowledged the importance of new connectivity with Central Asia. While there had been plans previously to relocate development funds to the interior of the country, Jiang's new proposal sought to deepen connectivity through building or upgrading transport infrastructure. Consequently, when BRI was introduced, China had some infrastructure capacity in the western regions of the country in place, and plans for transcontinental connectivity, such as the Eurasian Continental Bridge that had been discussed since 1990, were absorbed into BRI.

None of this is to suggest that the travel from the establishment of Beijing's diplomatic relations with the Central Asian republics in 1992, to BRI has been linear. The narrative I present alternates between the establishment of bilateral relations, the gradual building of a multilateral framework, blueprints for overland connectivity between China and Europe that remained unrealized for a quarter-century, and diplomatic posturing based on regional security and great power posturing. These stories develop in parallel, and to say that the narrative is disparate is a statement of fact. The thread holding these together is how plans for connectivity evolved in response to new geopolitical realities confronting China.

Central Asia After the Soviet Union: Beijing's Quest for Shared Prosperity

The erosion of the centralized Soviet state during the twilight of perestroika was followed closely in Beijing. The 1980s had been transformative, when Beijing concluded the first decade of reform and opening up

internally, and *externally* saw de-escalation in border tensions with Afghanistan, Vietnam, and Mongolia, neighboring states where the regimes had enjoyed alliances with Beijing's Cold War rival, Moscow (Hilali, 2001; Young, 1988).[5]

The crumbling of a once-centralized Soviet state and simmering regional nationalism across the Soviet Union also posed a unique set of challenges for Beijing: What type of new regimes might be expected in Central Asia, and what foreign policy would the newly independent successor states adopt? How would Moscow continue to exert influence in the region? Or would it not? Would new states, organized around namesake ethnicities—*Kazakh*stan, *Kyrgyz*stan, and so on—spur demand for autonomy or independence in China's adjacent Muslim-majority, Turkic frontier region? For Beijing, the independence of Central Asia momentarily raised the prospect of instability in Xinjiang (Dillon, 1997; Hastings, 2011; Millward, 2007). The Chinese foreign minister at the time, Qian Qichen would later reflect that coupled with foreign pressure in the wake of the 4 June 1989 Tiananmen Square crackdown, the collapse of the Soviet Union had "complicated and worsened" the international situation for Beijing (2005, 177).

The complete breakup of the Soviet Union became a foregone conclusion following the attempted coup on 19 August 1991; between August and December 1991, the Central Asian republics declared independence, the slow-motion process of Soviet disintegration—that had begun with the distant Baltic republics in March 1990—finally coming right up to the border with China. Where the Soviet Union had formerly existed, China found itself sharing a 2000-kilometer border with sovereign Kazakhstan, Kyrgyzstan, and Tajikistan. Beyond this boundary, that had been disputed since the late nineteenth century and across which the People's Republic and the Soviet Union had engaged in thousands of skirmishes in the 1960s and the 1970s (Paine, 1996; Robinson, 1972), were two more new states, Tajikistan and Uzbekistan, the former of which quickly descended into civil war. While Beijing had extended diplomatic recognition to the five new states in the first week of January 1992, this was unchartered diplomatic territory, and a foreign policy challenge.

Although two decades later Xi would describe the Silk Road as having passed through the region that connected people and interfaced between cultures, when Beijing established bilateral diplomatic ties with its five new neighbors, bilateral ties had to be assembled gradually. At the end of the first year, China's total trade with the five Central Asian republics was just under US$ 460 million (Wu & Chen, 2004), a fraction of China's international trade. For the next five years, despite visits by Central Asian heads of states, China's trade with Central Asian continued to hover around the same levels.

There were two reasons for minimal trade. Primarily, it was a result of weak national economies in the newly independent states. With the disintegration of the Soviet Union came the abolishment of subsidies from Moscow, and the breakdown of centralized manufacturing and distribution networks. Five years after independence, Uzbekistan had the best economic performance with its GDP 85% of pre-independence levels. At the other extreme, the GDP of Tajikistan and Turkmenistan were 45% of pre-independence levels (Pomfret & Anderson, 2001). As a result, in Central Asia which had a combined population of approximately 50 million, vast swathes of society found themselves unemployed or underemployed with significantly reduced purchasing power. In the initial years, the goods that were imported from China took the form of low-cost manufactured items peddled across the border (Alff, 2014; Fehlings, 2017; Humphrey, 2000). While this border trade was beneficial for local populations on both sides of the border in the early years (Dautcher, 2009), it was not significant enough to alter macroeconomic indicators.[6]

Besides poor macroeconomic performance in the Central Asian republics, and the precarious economic situation of most Central Asians, there was another reason for lack of trade between China and its newly independent neighbors: weak infrastructure in western China, and in particular, the Xinjiang Uyghur Autonomous Region. In part, the comparative underdevelopment, and weak ties to the coastal areas had been historical: prior to 1949, trade (and cultural) links had connected Xinjiang's populace that was largely rural, to Central Asia. Partly, the underdevelopment resulted from how the new national economy was structured; until 1962, Xinjiang—that constitutes a sixth of China's landmass—was not connected by rail. Through the Mao-years, Xinjiang contributed minimally

to the national economy: in 1981, for example, Xinjiang's contribution was a mere 1% (Su, 1983).

During the 1980s, economic reform had focused in the coastal regions, which were emerging as manufacturing hubs. Although there was trade between Xinjiang and Pakistan over the Khunjerab Pass (4696 m), and after 1983 trade with the Kazakh and Kyrgyz Soviet Socialist Republics, Xinjiang was not a priority region during the 1980s. During the 1980s, China became a country of sharper regional contrasts: in the decade that began in 1984, 80% of FDI was concentrated in the coastal areas, out of which 42% was channeled to 4 special economic zones, and 14 open coastal cities (Fujita & Hu, 2001).

In principle, this was meant to change with the Eighth Five Year Plan (1991–1995) when it had been proposed that China would pursue a "three along" strategy: besides opening up along the coastal areas, the country would open up along rivers and frontier regions, including Xinjiang (Christoffersen, 1993; Zhongguo Tongxun She, 1990). On his tour of Xinjiang in August 1990, General Secretary Jiang Zemin had extolled that reform and openness, trade and cooperation with foreign countries must intensify (*Xinjiang ribao*, 1990).

Besides the allocation of new resources to Xinjiang, there was also new political will in the wake of Deng Xiaoping's Southern Tour, which Deng had undertaken in 1992 to shore up economic reform. Although Deng's Southern Tour had taken him to Guangzhou, Shenzhen, and Zhuhai, the Southern Tour resonated in Xinjiang and served as a cue for regional authorities to be bolder in pursuing new links with Central Asia (*Xinjiang ribao*, 1992). But the specter of regional disparity continued to loom large: although real per capita GDP increased in every province of China, the coastal provinces grew at an even faster pace. In fact, in the 1990s, the gap between the coast and the province increased to ten times what it had been in 1984 (Fujita & Hu, 2001).

At least partly then, China's diplomacy with Central Asia should be seen in conjunction with its attempts since 1991 to redress the disparity between the coast and the interior. Hence, when Premier Li Peng visited Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan (Tajikistan was not on the itinerary because of the ongoing civil war) in April 1994, he was accompanied by the largest entourage of businesspeople to ever

accompany a Chinese head of government abroad. On every stop along his visit, beginning in Uzbekistan and continuing to Turkmenistan, Kyrgyzstan, and finally Kazakhstan, Li spoke of building a new Silk Road to seek common prosperity and development (*Renmin ribao*, 20 April 1994; Xinhua 1994a, 1994b, 1994c). This was, as BRI would be 20 years later, an economic Silk Road. Besides benefits to the Central Asian republics, the new Silk Road was imagined to be beneficial for the development of western China, too. Indeed, a later day Chinese government white paper considered Xinjiang's growing international trade—US$ 1.77 billion in 2001—as a facet of its economic development (Information Office of the State Council, 2003).

Multilateralism in a Unipolar World: Shanghai Diplomacy as a Test-Case

What distinguished China's Central Asian diplomacy was a multilateral initiative that began in April 1996 with a summit in Shanghai. In this summit, which was attended by the presidents of China, Russia, as well as Kazakhstan, Kyrgyzstan, and Tajikistan, the five heads of state agreed to broad confidence building measures in their border areas. These included a declaration not to attack each other, not carry out military exercises directed at each other, and informing other parties about any military exercises within a hundred kilometers of the border (Xinhua, 1996a). Although in later years the SCO would go to lengths to stress that the five (and later six) countries had not formed an alliance (SCO, 2001), the multilateral initiative did have its origins in reducing the possibility of military tension along its borders. The agreement was described as being a landmark one. It was not seen as limited to Central Asia 中亞. Rather, this political-military agreement was projected as increasing mutual trust and developing neighborly relations among the countries of the Asia Pacific region 亞太地區 (Xinhua, 1996b). While this was an overstatement, it reflected how, in addition to localized concerns such as the need for confidence building measures along a disputed border, Beijing appeared cognizant that the new geopolitical terrain after the

Cold War required a new global language.[7] For Beijing, the new global language was multilateralism, and shared benefit.

The 1996 meeting was seen as a mechanism 機制 that in principle allowed Beijing to address a range of foreign policy issues. While this diplomatic initiative came to be described as the "Shanghai Five," it is important to note that Shanghai Five was not a formal body but a mechanism, which between 1996 and 2001, allowed for regular meetings between different levels of state and government (presidents, premiers, foreign ministers, defense ministers) in which a range of regional and global issues were discussed (from the proliferation of narcotics and the rise of the Taliban in Afghanistan to US withdrawal from the ABM treaty). While I have described these extensively elsewhere (Karrar, 2010), here I want to emphasize that the Shanghai mechanism facilitated a dialogue in what was then described by Beijing and Moscow as a unilateral world led by Washington careering off course.

For Beijing, Shanghai diplomacy had two important dividends in the early years: it was a lasting confidence building measure along a Cold War fault line (by the turn of the century the formerly disputed borders had all been settled), and it was a model initiative which took pains to symbolize how disparity between states was inconsequential. China at this time was one of the largest economies in the world; Kyrgyzstan and Tajikistan were amongst the poorest countries in Asia. For China, Shanghai diplomacy represented multilateral diplomatic principles to uphold, and to indirectly criticize other states, primarily the United States. For China, which was a rising power in the 1990s, these symbolic measures were important.

This raises the next question: What was the benefit to Central Asian states? Perhaps most importantly, along with mutual benefit, Shanghai diplomacy espoused non-interference in the internal affairs of other states. These principles carried forward into the founding pronouncements of the SCO when it was formally established (with the inclusion of Uzbekistan) in 2001.[8] Unlike the United States, which too was keen to build close ties with Central Asia and the Caucasus, China did not proscribe regime type or governance modalities; it was also respectful of Russia's continued ties to the region. Finally, it treated the Central Asian

states as equals: the summits, for example, rotate evenly between member-states; both Chinese and Russian, which remain the lingua franca in Central Asia, were the official languages. While border demarcations and China's economic inroads in Central Asia were bilateral, for Central Asia too, the benefit of multilateral diplomacy was symbolic: entry into a club with China (and Russia) with all members considered equal.

This fraternity also offered a vision for regional cohesion, despite the fact that Silk Road references appear conspicuous in their absence. For example, the 2001 declaration on the establishment of the SCO described how the Shanghai Five mechanism had brought about "security and stability *in the region*" (SCO, 2001; emphasis added). Looking forward, Article 1 of the Charter called for the development of "security and stability *in the region*" (SCO, 2002; emphasis added). The declaration on the fifth anniversary of the SCO began with how the organization had brought about "durable peace and sustainable development in the region." It spoke of a new "historical phase of regional," and the "creation of an inclusive environment for cooperation *in the SCO region*" (SCO, 2006; emphasis added). In these statements, and multiple similar ones, region was defined in three ways: as shared experience of neighboring states; as representing the five Central Asian republics 中亞五國 that are seen as a singular geopolitical unit in Chinese scholarly and policy writing; and, finally, in its most expansive, the combined landmass of China, Russia, and the Central Asian republics. Indeed, the SCO website described the organization encompassing three-fifths of the world, and the emblem shows the territorial outline of member-states without national boundaries (Karrar, 2017).

But let me conclude this section by tempering the rhetoric of equality amongst member-states. While equality was espoused as an organization principle, as we have noted, there was vast disequilibrium between SCO members. In addition, also consider that the organizational ethos, non-interference in the internal affairs of other countries, respect for territorial integrity had been espoused by China since the 1955 Bandung conference. These were a staple of Chinese diplomatic lexicon; bilateral agreements between China and other countries are similarly prefaced. Diplomacy between the Central Asia states or between Russia and the Central Asia states is not framed in a similar language. Shanghai diplo-

macy brought this lexicon into a lasting diplomatic framework with China at the center, which remained functional up until (and beyond) the announcement of BRI.

Shifting Focus: Security Cooperation to Economic Cooperation

Although the SCO was envisioned as facilitating cooperation over a range of issues, including, but not limited to trade, energy, and cultural cooperation, regional security and security cooperation would dominate the multilateral agenda until 2005. This emphasis on regional security until 2005 had resulted, in part, from internal and regional challenges, and, in part, from the attacks of 11 September 2001. Following the attacks on New York and Washington, and the United States' decision to go to war both against regional terrorist organizations and those who harbor them, the greater Central Asian region became the focus of the Global War on Terror. The Central Asian republics offered security cooperation to the United States, with Kyrgyzstan and Uzbekistan going so far as to offer bases to the United States military. Although Beijing, too, tacitly supported Washington's regional antiterrorist efforts, its support for the international military effort was limited.

Instead, Beijing sought to develop the SCO to build regional antiterrorist cooperation that was independent of the United States or its Western coalition partners. Since 1998, the Shanghai forum had been identifying threats to regional security, namely those that emanated from Afghanistan where the Taliban had established their government in the late 1990s. At the time, Shanghai forum members saw themselves as fighting terrorism too, albeit on their own turf and on their own terms. Following 9/11, Chinese officials repeatedly argued that Beijing had been battling international terrorism all along independent of the United States-led effort (Karrar, 2010).

Between 2001 and 2005, the Central Asian republics enjoyed unprecedented security cooperation with Washington that included millions of dollars earmarked for security and counter-terrorism. But after 2005,

security cooperation between the Central Asian republics and the United States declined. This was partly a result of the United States getting embroiled in Iraq, and partly due to the souring of relations between the United States and Uzbekistan following the crackdown against anti-government protestors in May 2005 in Andijan in which hundreds of demonstrators are said to have been shot by security forces. Uzbekistan was quick to blame the unrest on terrorist groups. When the European Union and the United States expressed concerns about civilian deaths and demanded an inquiry into the killings, the SCO stepped in. It echoed Uzbekistan's claim that the protestors were in fact terrorists, and called for a speedy dismantling of an American military base in the country by setting "a deadline for temporary use of … infrastructure and presence of [coalition] military contingents in the territory of … member states" (SCO, 2005).

Isolated by Europe and the United States, Uzbekistan's President Islam Karimov traveled to China, an illustration of how China's tacit support, which often appeared symbolic, could lead to strategic mileage as well. Now, the SCO projected itself as the premier organization taking on the struggle against terrorism in the region. Thus, within a relatively short period of time, between 2001 and 2005, the SCO was able to present itself as a viable antiterrorist organization. According to the SCO, the threats they faced were *shared* threats; combating what was seen as regional terrorism became a mechanism for new connections between SCO member-states.[9]

Security was not the only area where new cooperation was fomenting. Beginning in 2004, new mechanisms for economic cooperation were announced. The first to be announced was the Interbank Consortium and a Development Fund that was designed to raise money for projects for SCO member-states. In 2006, SCO Secretary General Zhang Deguang, who had earlier called for improving mechanisms for economic cooperation, and a favorable climate through simplified customs procedures, observed that the necessary mechanisms for facilitating economic and trade ties were in place (Xinhua, 2006). The same year, another SCO body, the Business Council, was established for the purpose of harmonizing national economic laws. While these bodies continue to exist,

after BRI their work has been overshadowed by the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund. Nevertheless, these multilateral bodies were precursors to BRI financing.

The SCO also offered other indications of Chinese regional economic priorities that were suggestive of where BRI would go. For example, during the seventh annual meeting of the heads of government of the SCO that was held in Astana, Kazakhstan in October 2008, Premier Wen Jiabao proposed new measures for diversifying economic cooperation. These include enabling more investment, as well as technological cooperation. Toward this end, Wen had put forward a four-point proposal: (1) the establishment of special economic zones in "adjacent" regions of the SCO member-states; (2) an interconnected infrastructure network; (3) furthering cooperation in and finance and amongst enterprises; and (4) improvement in cooperation mechanisms (MFA, 2008).

Hence, China's efforts at building connectivity were channeled through the SCO, which served as a precursor to BRI. What was unstated was that while the SCO was a multilateral mechanism that facilitated dialogue on a range of issues, the economic cooperation between China and Central Asia remained bilateral: China's stakes in the energy sector in Kazakhstan or Turkmenistan, for example, or the commercial inroads it has made through facilitating the export of low-cost manufactured goods to the region, are through bilateral channels. Rather than seeing this as a shortcoming of the SCO, it could be considered a process whereby an overarching—and interlocking—narrative of benefit across multiple states opens channels for investments in individual countries. In this, the SCO served as a scaled-down version of BRI.

There is one additional dimension to this story: the return to internal infrastructure development in China. As the following section illustrates, while Shanghai diplomacy was evolving, there was an accompanying process: the attempt, again, to develop China's interior to enable closer linkages with Central Asia. While reform and opening 改革開放 has traditionally referred to coastal development during the 1980s, in the subsequent decade it was increasingly used for the interior of the country.

From Western Development to BRI: China's Internal Development Challenges

While there had been a development focus on Xinjiang during the Eighth Five Year Plan (1991–1995), by the time it had concluded, Xinjiang and the western regions of China were still lagging behind the coastal areas. During the Eighth Five Year Plan, for example, the GDP growth rate in the coastal areas had been 16%, 12% in the central provinces, and 10% in the interior. Additionally, 80% of the 80 million who were classified as impoverished lived in these central and interior regions; likewise, 489 out of the 592 poorest counties were in the same regions (Zou, 2000).

In 1999, President Jiang Zemin revealed plans for a large-scale development initiative 西部大開發 across "western" China that included Gansu, Guizhou, Qinghai, Sichuan, Shaanxi, as well as Inner Mongolia, Ningxia, Tibet, and Xinjiang. Western did not mark location within China—Guizhou is in the south, and Inner Mongolia is in the north—but was a way of describing regions which were held back due to limitations of infrastructure (Clarke, 2007); this deficit was thought to be impeding development. After the Eighth (1991–1995) and Ninth (1996–2000) Five Year Plans, western development was the third successive plan for reducing disparity between the coast and the interior (Lai, 2002). President Jiang's development initiative focused on roads and hydrology, gas and electricity transmission, as well as communication infrastructure: county seats were now to be connected by asphalt roads and were to receive radio and television reception (Wen, 2005), underscoring that connectivity was a credo for the new initiative. This infrastructure would connect the western regions of the country to the coastal regions, as well as to markets in Eurasia 歐亞大陸. Eurasia now became the spatial construct that was used to identify the region that China's western communications infrastructure would connect to.[10] My argument, which admittedly is difficult to substantiate, is that China's multilateral diplomacy with Central Asia and western development should be seen in conjunction; put differently, successful diplomacy in Central Asia engendered projections about Eurasian connectivity. Growing connectivity between China and Central Asia, I suspect, was

what added credence to the 1999 development initiative. By the year 2000, China's trade with the Central Asian republics was nearly US$ 2 billion. While most of this was energy imports from Kazakhstan, trade with Kyrgyzstan, Tajikistan, and Turkmenistan had also multiplied at least fourfold, giving tangible empirical benchmarks to growing connectivity across borders.

As I had noted, the interest in promoting and benefiting from connectivity had increased in the early 1990s. The ground reality at the time, as I had also described, was of small scale peddling across borders, notwithstanding the fact that by the end of the 1990s there were estimates that the undocumented exchanges between China and the Central Asian republics were substantially larger than what the documented exchanges were showing (Liu, 1998). The late 1990s also saw the emergence of logistics providers in Xinjiang; where previously goods had been exclusively transported across the border by small traders utilizing public infrastructure, now a portion of the trade was handled by specialized forwarding companies (Roberts, 2004).

Small scale, informal peddling across the border contrasted with visions of an "Iron Silk Road" or what was commonly described as Eurasian Continental Bridge 欧亚大陆桥 that would connect the railhead in Xinjiang to Kazakhstan, and from there via Eastern Europe to Rotterdam in the Netherlands, Europe's largest port (Holley, 1990). Although this was not a feasible route in the 1990s, due to limitations of infrastructure and lack of buy-in across linking states between them—it would be another 17 years before China would be connected to Rotterdam by rail (Fang, 2017)—it remained the primary frame for overland connectivity. Furthermore, it received renewed interest after the western development initiative got underway.[11] Senior policy makers now described the continental bridge to Rotterdam as if it were already operational (Zhang & Feng, 2000). Railways had an important role to play in allowing hub cities to radiate their influence; railways such as Beijing-Kowloon line or the Nanning-Kunming linkage were described as axes of development (Zou, 2000).

In 2005, echoing Deng Xiaoping 13 years earlier, Wen Jiabao described deepening reform and opening wide to the outside world as a key component of western development. In Wen's understanding of what needed

to be done in order to develop the western regions, new infrastructure development in the form of roads and rails were a key ingredient as was quickening the pace of reform and opening up (Wen, 2005). Seven years later, in September 2012, speaking at a trade expo in Urumchi, Xinjiang, Premier Wen acknowledged how Xinjiang had successfully functioned as a bridgehead to neighboring countries. Xinjiang now boasted 17 ports, and an extensive road and rail network facilitating connectivity. This was a "mutually beneficial cooperation," according to Wen. In a year where Xinjiang's ports saw 20% year-on-year increase in trade volume, Wen and other senior officials were calling for more intensified opening to the outside world. The more Xinjiang opened, the more development there would be (Xinhua, 2012). One year later, the Silk Road Economic Belt would be announced by Xi in Kazakhstan, just north of the border.

Conclusion

Deng Xiaoping's famous dictum—to hide one's capacity and to bide one's time; to maintain a low profile and never claim leadership—can now safely be laid to rest. While it would be a simplification to attribute the sea change to BRI only, BRI signals Beijing's assumption of a position of global leadership. The arrows on BRI maps, representing China's outward push, suggest where the influence is directed. Yet, as I have sought to illustrate, before BRI, Beijing had begun projecting its influence in a post-Cold War epoch. While Beijing continued to use a Bandung lexicon, such as non-interference in the internal affairs of other states, there was, in fact, little in common with the mid-twentieth century international order when Beijing had simultaneously presented itself as a victim of imperialism *and* offered a model for countries of Asia and Africa. By the time the Cold War ended, Bandung was long past, and Beijing's Central Asian diplomacy after 1991 is an illustration of new beginnings, modest and closer to home. A multilateral framework—most effective, seemingly, in security cooperation—allowed China to build bilateral economic linkages with the Central Asian republics. These would be important in allowing for a more expansive view of connectivity under BRI.

A successful Central Asia foreign policy after 1991 should not be taken to mean that China was equally successful in building cooperation with its other neighbors. China shares boundaries with 14 countries, and its borders extend across 20,000 kilometers, making for a complex and varied international environment in its immediate vicinity. India most famously seeks to keep China's rise in check from across the Himalayas. Along the maritime borders, relations with Vietnam are burdened by the weight of a China's expansionist imperial history, and Indonesia, the sprawling archipelago with a population of 250 million, looms as a regional power despite Beijing's reminders of Admiral Zheng He's jaunts to Sumatra. The Maritime Silk Road, as China likes to describe its presence in Southeast Asia, has not presented smooth sailing for China. Besides neighboring states, many of which have expressed alarm at China's expansion into the South China Seas, Beijing has had to contend with Washington that still sees itself as an Asia Pacific power. "The world has changed. The rules are changing with it. The United States, not countries like China, should write them," Obama argued, as he made a pitch for the Trans-Pacific Partnership (Obama, 2016), which, of course, was not ratified and hence could not come into effect. But the Trans-Pacific Partnership was still important in that it reinforced how following a decade of military intervention in Afghanistan and Iraq, the United States was re-focusing its attention toward the Asia Pacific. Inasmuch as this was a pivot to Asia, it was a reassertion of Washington's strategic interests in the eastern Pacific which it had seen as a sphere of influence since the nineteenth century.

While global China is a fact, Beijing's rise has been rocky. The traditional areas of competition for Beijing have remained as such; this competition shall likely continue into the future. In this checkered international terrain, the importance of Central Asia becomes all the more important. Without a successful Central Asian foreign policy, it is unclear how Beijing could have projected BRI.

Counterfactual? Perhaps. But it is worth contextualizing China's Central Asian foreign policy within a broader ambit of Beijing's international engagement. Think back, for example, to the 1996 summit in Shanghai where the five participating countries had agreed not to attack each other. While it may appear a token statement, when compared with

terse relations with neighbors in Southeast Asia, its historicity becomes apparent. Successful relations with the Central Asian republics enabled Beijing to imagine a new Silk Road to Central Asia, as Li Peng reminded his hosts along each step of his journey in 1994. It was success in Central Asia, which would latter engender more dubious imaginations of a Maritime Silk Road. Without successfully building close relations with the Central Asian republics, it would have been impossible to imagine new Silk Roads along which envoys Zhang Qian and Zheng He were made to embark centuries after they first left home.

Notes

1. While BRI is projected as heralding an increasingly interconnected future, state narratives about the Belt and Road are informed by a rendering of the past in which the imperial Chinese state is reaching out to surrounding polities and states, by land and by sea; Zhang Qian and Zheng He serve as erstwhile ambassadors for a purportedly non-hegemonic Middle Kingdom. This is a projection of connected history that is predicated on fraternity and mutual benefit with a pivotal role for China. According to Xi's rendering of history, two thousand years of the Silk Road are a testament to friendship across cultures and nationalities, mutual trust and shared benefits, in other words, a win-win for all (MFA, 2013). Such a framing of the past echoes official narratives describing BRI.
2. The end of the Cold War led to new foreign policy challenges in the region, such as the 1995–1996 showdown in the Taiwan Straits, and more recently, tensions with Malaysia, the Philippines and Vietnam, as China attempts to assert its sovereignty along the Nine Dash Line 九段线 that according to Beijing, marked China's traditional influence in the South China Seas. In the Asia Pacific, China finds itself not only jostling with its neighbors, but with the United States, too. As Obama had categorically asserted in his speech to the Australian Parliament, with the withdrawal of US troops from Iraq—and at the time, an anticipated withdrawal from Afghanistan—Washington was looking to "pivot" to Asia; Washington too saw itself as the Asia Pacific. Insofar as one can speak of a Maritime Silk Road, since the formation of the People's

Republic, this is a road that has been fraught with obstacles. It is along the Maritime Silk Road that the legacies of the Cold War, a newly assertive China, and critical reassessment of Chinese investments in countries such as Malaysia and Sri Lanka—where the veneer of Chinese infrastructure has given way to foreboding about dependency and the loss of sovereignty—come together, creating one of the most complex geopolitical landscapes in the world (and this is not factoring in securitization on the Korean peninsula, or the relationship between China and Japan that remains laden with the legacy of the Second World War in Asia).

3. The Eurasian Customs Union presently comprises Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. While tariffs are imposed on goods entering the Customs Union, the movement of goods and labor between member-states is free from tariffs. Notably, the Customs Union does not include China; it has been described as an attempt to limit China's commercial reach in the region.
4. Central Asia, along with the Caspian, also attracted American interest over a period of 15 years following the collapse of the Soviet Union. American interest in the region, that began with what was seen as a scale back of Russian influence, saw the United States looking to both tap both into the region's energy resources, and to leverage geopolitical influence across the former Soviet periphery. American regional engagement peaked following 9/11 and the Anglo-American led military campaign in Afghanistan. This was largely a zero-sum approach toward foreign policy, epitomized in the then oft-used "New Great Game," or chessboard imagery (Brzezinski, 1997; Kleveman, 2003; Menon, 2003).
5. De-escalation in tension between China and its neighbors had resulted from improving relations between China and the Soviet Union since 1986. Subsequently, during Soviet leader Mikhail Gorbachev's landmark visit to Beijing in May 1989, the two former antagonists had agreed to normalize relations (Garver, 1989; Lampton, 2001). But rapidly unfolding events globally—the collapse of the Berlin Wall; a populist wave in Eastern Europe; the Iraqi invasion of Kuwait and the United States' assembly of a military coalition—signaled new global geopolitics. These were best captured by US President George Bush, who speaking to Congress on 11 September 1990, promised "a new world order" in which the nations of the world, "East and West, North and South" could "prosper and live in harmony" (Freedman, 1991, 195). Diplomatically for China, this was uncharted territory.

6. Following the breakup of the Soviet Union, Central Asia's energy resources were described as being comparable to the Middle East. Besides the fact these were exaggerated, the region's energy industry required extensive investment, for which there was little appetite in the 1990s; in the late 1990s, the price of oil dropped to as low as US$ 12 a barrel.
7. Bush's "new world order" had given way to debate and speculation, under the presidency of Bill Clinton, whether China's Most Favored Nation (MFN) status would be renewed or not. Although it was renewed in 1994, Clinton had linked MFN status with human rights. Differences between Beijing and Washington escalated sharply in 1995–1996 that were triggered by the US issuance of a visa to Taiwanese president Lee Teng-hui who was seen to be moving Taiwan away from the People's Republic. Tensions between Beijing and Washington continued to escalate over the 1998–1999 Kosovo war, peaking with the bombing of the Chinese embassy in Belgrade on May 1999 (Lampton, 2001).
8. This would, of course, also be a core component of the state discourse around BRI when it was gradually unrolled in 2013. Although BRI is not a formal organization, as the SCO is, the SCO Charter can be read as a precursor of principles that would inform BRI. It begins with a nod to a shared past: "historically established ties" between people of the six countries. It foregrounds "mutual trust, mutual advantage, and equality." It calls for "mutual respect of sovereignty, independence, territorial integrity of States" (SCO, 2002).
9. Irrespective of China's motives, or its successes and failures in this regard, it begs asking: how did Beijing acquire this role? The growing leadership of the SCO, and hence China, in fighting regional instability stemmed from a range of factors. On the one hand, Washington's efforts in 2002 to shift the War on Terror to Iraq proved both politically alienating in the region, and also diminished Washington's resolve in comprehensively eliminating the security challenges in the greater Central Asian region. Washington also alienated itself through its criticism of human rights violations in Central Asia, especially following the crackdown in Andijan, Uzbekistan, in May 2005, and in its support for the so-called "colored revolutions" in the Ukraine, Georgia, and Kyrgyzstan.
10. The idea that western China could connect westward through neighboring countries dates to the 1950s before construction had begun on the Karakoram Highway (Ispahani, 1989). While the opening of the Karakoram Highway in 1978 added credence to China connecting overland in the westward direction (*Peking Review*, 1978), hostility with the Soviet Union ensured that following the Sino-Soviet split, there was no

other way of connecting overland out of Xinjiang besides through Pakistan.

11. This conceals the fact that the railway to Kashgar was completed during the Ninth Five Year Plan (*China Daily*, 1997). On the other hand, it emphasizes the importance of connectivity as a planning ethos.

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5

BRI: Connectivity, Trade, Investment and Politics in South Asia

Nazish Afraz and Hasaan Khawar

Introduction

Spanning South Asian history, from the Indus Valley civilization to the Mauryan Empire and then to the Mughal era, the South Asian region has seen prosperity and trade go hand-in-hand. The region's attraction lay in its geostrategic location, making it ideally placed for trade. The trade routes and travellers treading them opened the region to outside influence, and at various times the region has become a hub, not just for trade, but also for intellectual thought and arts, creating a melting pot of cultures as diverse as Greek, Persian, Egyptian and Chinese.

Yet, today, the region is amongst the least integrated and cooperative regions in the world. The movement of goods, individuals and investment

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_5

are minimal, and the region has suffered from open hostility between its members.

At this time, Belt and Road Initiative (BRI) offers an interesting opportunity. The infrastructure investments come at a welcome time, when gaps in infrastructure have been one of the important factors that have impeded the growth of South Asian economies. The development of bilateral cooperation between China and partner countries also creates scope for economic growth. However, in this chapter, we argue that the bilateral approach can only go so far. Further gains from BRI arise when South Asian economies implement BRI's vision of true regional connectivity. For this, they will have to overcome political issues and focus on building trust and deeper regional economic relationships. If BRI leads to better regional cooperation, promoting regional value chains and trade, the real economic dividend may dwarf that of infrastructure, recreating South Asia's prosperous history.

This chapter describes the historical patterns of trade and growth in the region, China's BRI vision and the nature of current BRI investments in South Asia. The chapter also discusses the impediments for achieving the vision in South Asia and presents a direction for how South Asian countries could approach BRI to capitalize on the upcoming opportunity.

Tracing the Ancient Silk Roads

South Asia is ideally placed for both land and maritime trade, positioned at the heart of Eurasia and flanked to the south with the expanse of the Indian Ocean. Historically, this has made South Asia, and the wider Central Asian and Asian region, a natural trade hub, becoming a melting pot of cultures as diverse travellers—conquerors, scholars, saints, monks and traders—have charted their routes to the region and beyond. The exchanges facilitated by the trade networks in Eurasia were at once cultural, religious, economic, scientific and diplomatic. Merchants learnt languages and cultural norms in their pursuit of trade, and the extensive travel through diverse regions enabled the exchange of ideas and technical advances such as papermaking and printing press, and irrigation systems. Religion too, spread via these routes—Buddhism, Christianity,

Islam, Hinduism, Zoroastrianism and Manichaeism all travelled the trade roads, absorbed by travellers and transmitted from India and Arabia as far as Indonesia and Malaysia.

Alongside political ambitions, trade was historically at the centre of these exchanges and routes. The Mauryan Empire (322–185 BC), which united large parts of western and southern Asian, provides some of the first pieces of evidence of an extensive trade network that stretched from the Greek states, to West Asia and Southeast Asia.

There is also evidence of Chinese exports, for example of silk, to the Roman Empire, as early as the first century BC, where the demand for this luxury item became the central impetus for the development of the trade route from Europe to the Far East. There are several early records that testify to flourishing trade specifically between China and India. In one of the earliest records, in 140–87 BC, for example, Chinese cloth and bamboo sticks were re-exported to Central Asia by Indian merchants (Frankopan, 2015).

The flourishing trade led to development and prosperity throughout the trade route, evidence for which is available as early as the first and second centuries. Palmyra, at the edge of the Syrian Desert, was the "Venice of the sands", and Petra became one of the wonders of antiquity owing to its location along the trade route. The transformation of Ctesiphon in central Mesopotamia and port development, such as Characene on the Gulf, were funded from tax and transit fees drawn from trade between Rome, India, Sri Lanka and Persia. Kushan territory, in what is now modern day Pakistan, flourished and gathered enormous wealth serving as an entrepot. Ivory, pepper, silk and other textiles and spices were available here from India, Central Asia and China, as rewards for the merchants who made the treacherous journey to Barbaricum port, near present day Karachi, where the Indus flowed into the Arabian Sea, or Barygaza port, further east in what is now India. The crowning glory in the development of glorious cities along the Silk roads was Constantinople, the lavish new capital of the Roman Empire, located strategically for trade and other administration (Frankopan, 2015).

These are examples of the earliest records of trade and trade-related development. Recorded history since then shows that while trade and prosperity in the region have sometimes declined due to the disruptive

effects of disease epidemics, violent struggles for and changing seats of power, each time the region has recovered economically, strong trade has accompanied economic growth. Rising incomes have led to increased demand for imported goods, exportable surplus and transit fees and taxes accrued from traders. This has generated a virtuous cycle of increased trade, increased income and improved development. Vibrant trade has remained a constant partner to economic growth.

Reviving the Silk Road and Beyond

Building on a rich and vibrant history, China's vision of the BRI is not merely the revival of the Silk Roads, but a grand upgrade. With projects worth hundreds of billions of dollars, it connects 60 countries over 4 continents. In the words of He Yafei, former Vice-Minister of the Ministry of Foreign Affairs in China, this is "not a solo song, but a chorus" (2017).

When in 2013, President Xi Jinping introduced the concept of One Belt One Road (OBOR), few realized the scale and seriousness of this new mantra. But China continued with relentless determination. Five years down the road, OBOR—later termed the Belt and Road Initiative (BRI)—has already taken root in many countries, with a number of projects underway across Asia, Europe and Africa, being financed by Chinese capital. The diverse portfolio ranges from rail projects in Thailand and Laos to ports in Gwadar and Djibouti.

BRI leverages China's own capacity and resources by collaborating with participating countries, building and supporting connectivity and cooperation in countries spanning two-thirds of world's population and one-third of world's GDP. The BRI vision is centred on two major arteries and six connecting economic corridors encompassing countries across Asia, Europe and Africa. More than the infrastructure, it presents a framework for connectivity and economic partnership of unprecedented scale. Trade, financial cooperation and people-to-people exchange also form part of the stated objectives of BRI.

Yet, all the talk of cooperation and connectivity aside, many believe that BRI serves several other objectives for China as well.

Firstly, it is argued that the BRI is actually a manifestation of China's geostrategic ambitions to affirm itself as a global force. In fact, many analysts had predicted China's growing interest in the Indian Ocean region well before BRI, as part of the so-called Chinese String-of-Pearls strategy (Kaplan, 2010). They believed that China is aiming to build a network of military and commercial facilities and relationships along its sea lines of communication in the India Ocean.

According to Kaplan (2010), "the Indian Ocean will be where global power dynamics will be revealed. Together with the contiguous Near East and Central Asia, it constitutes the new Great Game in geopolitics" (p. 18).

There is no doubt that China is emerging as a new superpower and is likely to push for a more active and assertive role in the affairs of the world. But it is also hard to ignore the commercial realities of BRI that seem to be the real driving force.

The second objective for China, therefore, is the impetus for further sustained growth that BRI can deliver. China experienced an unusually high growth rate of 8–14% since 1991. The growth has now been slowing down for the last seven years. China needs a new vent for sustained growth and BRI can very well provide that. Demand from BRI countries can take advantage of the over-capacity of Chinese factories churning out a variety of products ranging from integrated circuits, computers and iPhones to motorbikes, cars and heavy machinery. Capital available with Chinese financial powerhouses also plays an important role in this equation, where infrastructure investments in developing economies can provide high rates of return.

BRI was designed as a flexible umbrella framework, unlike EU or ASEAN, where there are no pre-set rules and countries can opt in on the basis of their appetite. The model works perfectly for China, setting virtually no limits on its expansion, with flexibility in terms of how much resources it would want to invest in a country based on evolving priorities.

A third objective is access to the sea for western China. One of the important strategic gains of this is that it addresses China's long-standing insecurity regarding its oil and energy supplies through the narrow Strait of Malacca, which make the supply chain vulnerable and prone to

disruption, something termed as "Malacca dilemma" by a former Chinese President.

It is an old fear, for Ming China's world was disrupted in 1511 when the Portuguese conquered Malacca. In the twenty-first century, an escape from the Malacca dilemma means, among other things, eventually using Indian Ocean ports to transport oil and other energy products via roads and pipelines northward into the heart of China, so that tankers do not all have to sail through the Strait of Malacca to reach their destination (Kaplan, 2010, p. 12).

The framework of BRI is carefully designed such that China Pakistan Economic Corridor will open up the underdeveloped western China and provide control over ports in Arabian Sea to secure energy supply to the world's manufacturing powerhouse.

BRI Investments in South Asia

To better understand how the BRI is taking shape in South Asia, it is important to take stock of Chinese investments within each South Asian country.

Bangladesh

BRI has a wide range of projects in Bangladesh. During Chinese president Xi Jinping visit to Bangladesh in 2016, various agreements and MoUs were signed on diverse areas. Bangladesh also forms part of the proposed Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC), a multi-modal passage connecting Kolkata in India with Kunming in China, while passing through Dhaka in Bangladesh and Mandalay in Myanmar. The BCIMEC however has shown little progress owing to differing viewpoints of China and India on BRI.

Chinese enterprises such as the Shandong Electric Power Construction Corporation and China Huadian Corporation are already working in Bangladesh, setting up thermal power plants and creating new power generation capacity in the perennially low per capita power consumption country.

In addition, the Anwara-2 Economic Zone was set up in 2017, through collaboration of Bangladesh Economic Zones Authority and the China Harbour Engineering Company. The landmark Karnaphuli Multi-Channel Tunnel Project is also underway, linking the port city of Chittagong to the far side of the Karnaphuli River, which is the site of a new Chinese economic zone. With a total length of 9 km—of which 3.4 km will run below the river—it will be the first tunnel in Bangladesh to facilitate simultaneous road and rail transit (Freitas, 2018). Furthermore, to promote academic linkages between the two countries, China is aiming to establish the Confucius Institute at Dhaka University.

There are many other BRI projects that are in the pipeline such as: development of ICT intra-network for Bangladesh government Phase-III (Info Sarker-3 project); modernization of telecommunication network for digital connectivity project (CNC, 2017); a tier-4 National Data Centre in Gazipur's Kaliakoir; development of Payra deep seaport (Saimum, 2017); Padma rail link project enabling a direct rail link between Dhaka and the southern parts of Bangladesh; and construction of a 220-km oil pipeline to increase efficiency of transferring and unloading imported crude oil to onshore facilities in the country.

These investments are critical for Bangladesh, where, despite remarkable progress in halving poverty rates in the last 20 years ago, poor infrastructure remains a key impediment hampering future growth of Bangladesh. Inadequate supply of infrastructure was considered the second most problematic factors for doing business in Bangladesh, after corruption, while the country was ranked 111th on infrastructure amongst 137 countries, as per World Economic Forum's Global Competitiveness Report 2016–2017. The BRI investments in Bangladesh therefore bridge a critically important area, providing the much-needed capital for power projects, seaport development, rail links and oil pipelines, complementing the government's plans for infrastructure development.

Pakistan

Pakistan has been one of the most active proponents of BRI and the China-Pakistan Economic Corridor (CPEC) is the flagship project of BRI. CPEC runs from western China to Gwadar port, located on

Pakistan's southern coastline in Balochistan. Along the CPEC route, investments are being directed towards the construction of road and railway networks, and the improvement of marine and air transportation system. China has provided approximately $11 billion for road projects in Pakistan. In addition, projects are in the pipeline for the rehabilitation and improvement of Karachi-Lahore Peshawar (ML-1) railway track, to allow high-speed rail transport, construction of Havelian Dry Port and mass transit systems in Karachi and Lahore. Gwadar-East Bay Expressway will connect the port with the main network of national highways. Developing a new Gwadar International Airport is also part of the plans.

Energy projects also feature significantly in BRI initiatives in Pakistan with about $26 billion of Chinese investment in power generation projects. Additionally, under CPEC, nine special economic zones are being planned.

Gwadar forms an important part of Chinese investments in Pakistan, where China is building a deep seaport along with support infrastructure. Breakwaters are being built to facilitate construction of additional terminals, and berthing areas and channels are being dredged for smooth shipments to and from existing berthing facilities. The Gwadar Smart Port City Master Plan is being developed, and projects to establish facilities of fresh water treatment, water supply and distribution, Pak China Friendship Hospital, Gwadar university, training and vocational institute; and Gwadar Livelihood Project are ongoing. Additionally, Free Zone, Export Processing Zones and Bao Steel Park are also being established in Gwadar.

Other projects in Pakistan under CPEC include Cross-border Fibre Optical Cable in Gilgit Baltistan, Pilot Project of Digital Terrestrial Multimedia Broadcast; establishment of Early Warning System with Pakistan Meteorological Department; Mirpur—Muzaffarabad—Mansehra Road, Iron Ore Mining, Processing & Steel Mills complex at Chiniot; and Keti Bunder Seaport Development Project ("Transfer of knowledge", 2017).

Since BRI aims to promote social and cultural ties, in addition to economic collaboration, projects to improve people-to-people bond, media and cultural exchanges (including movies, drama, theatre etc.) will also be rolled out. Training sessions are also being planned to facilitate transfer

of knowledge between the two countries. Moreover, plans for establishing Chinese Academy for Social Sciences and a consortium of top business Schools from both countries are also underway.

CPEC investments in Pakistan are well targeted at some of the most substantial infrastructure weaknesses. Energy, for instance, has been identified as the most critical bottleneck by businesses for several years. Similarly, enhancing north-south connectivity can pave the way to a vibrant trade and transit route. The planned investment in rail sector, if it goes through, is expected to revitalize the ailing Pakistan Railways that has been losing billions of rupees over the decades. The special economic zones being set up with Chinese assistance are expected to catalyse foreign and domestic investments and provide new avenues for growth to Pakistani firms, through joint ventures and increased trade.

Sri Lanka

Within the BRI partnerships in South Asia, the story of Sri Lanka is perhaps the most sensational. An article published in Foreign Affairs magazine aptly described it:

> In Colombo, a convincing story has taken hold, one that paints OBOR as predatory, a debt trap, and a route to military expansionism. In reality, the new Chinese highways have been beneficial; and the expansion of the Colombo port has been an economic success, with the overwhelming majority of the port's activity consisting of trans-shipment to India. Yet that more nuanced picture is overshadowed by the evocative sight of Mattala Rajapaksa International Airport, a gleaming, fully staffed building with virtually no passengers, no planes, and an empty departures board, surrounded by sweeping highways on which cars are outnumbered by auto rickshaws, cows, and elephant dung. It is that image that has come to embody OBOR in Sri Lanka, much to India's delight. (Small, 2018, p. 10)

News about the Chinese debt-for-equity swap deal for Hambantota port on Sri Lanka's southern coast and the unutilized Mattala Rajapaksa International Airport has made international headlines. The Hambantota deal relates to China Merchants Port Holdings Company, which signed a

deal to pay $1.12 billion for an 85% share in Hambantota port on a 99-year lease. Similarly, critics have questioned Chinese investment in the Rajapaksa airport without any significant demand. The story of these projects goes back to the last decade to the tenure of former Sri Lankan president, Mahinda Rajapaksa, when China invested heavily in Sri Lanka. Soft loans amounting to billions of dollars were given by China for infrastructure projects, international airport, conference centre and a massive cricket stadium. These loans resulted in a growing indebtedness to China, a part of which is now being paid off by giving Chinese a stake in the port.

Bad press has taken over BRI's reputation in Sri Lanka. But these deals are not the only BRI investments in the country. China is also investing in the development of Colombo International Container Terminal, the island nation's only deep-water terminal. Similarly, Colombo Port City megaproject, a $1.4 billion project to develop Colombo into a metropolitan city, has also been initiated under BRI. Various facilities will be established as part of the ambitious project including an international financial centre, an international school, ocean-front commercial and residential properties, a state-of-the-art medical centre, a modern exhibition and convention centre, multiple retail destinations, three 60-storey skyscrapers and an integrated resort and theme park.

Road and rail infrastructure will also be built to link the seaports of Colombo, Hambantota and Trincomalee airports to special economic zones. Matara-Kataragama Railway is also being constructed, whereas a new inter-city train link will be connected to Colombo's light-rail system (Freitas, 2017). Other projects that have generated interest from China include developing southern economic development zone and setting up an LNG power plant in Hambantota (Gunasekara, 2018).

BRI investments in Sri Lanka are quite significant. Chinese investments in the port sector are expected to transform Sri Lanka's shipping and industrial sectors. The 114.5-km long Matara-Kataragama Railway link will be the first new rail line in the country after its independence in 1948, improving the coastal connectivity for southern Sri Lanka and expected to stimulate growth in industrial and tourism sectors. Colombo Port City, the largest infrastructure project in country's history, will create a new investment destination in the region, where reclaimed land will provide space for shopping malls, business centres, skyscrapers and lux-

ury hotels and the Chinese investment in the underground road network will address the long-standing traffic congestion issue. The recent turn of political events in Sri Lanka, in which the pro-China Mahinda Rajapaksa has taken over as the new Prime Minister, are expected to strengthen Sri Lanka's involvement in BRI and provide an impetus to these projects.

India

The bitter history of Sino-Indian relationship and India's geopolitical considerations has set the tone for Indian involvement in BRI. Not only has India maintained a cautious stance on the BRI, but so far it has also not signed any MoUs with China. In fact, India has been fervently opposing CPEC, which it believes violates its territorial integrity and sovereignty, as it passes through Pakistan-Administered Kashmir that India claims to be a part of Indian territory. India has also shown concern over growing Chinese influence in the Indian Ocean and especially its control over the Sri Lankan port of Hambantota. Indian concerns regarding BRI seem to resonate well with Trump Administration's competitive views about China and the push for a free and open Indo-Pacific strategy.

Nepal

In December 2014, Nepal signed a preliminary agreement with China endorsing the BRI and finally signed the memorandum of understanding in May 2017. Five major areas of this partnership were agreed upon including policy coordination on matters related to economic development; enhanced connectivity in the transportation; increased trade and business collaboration for development of economic zones; financial integration to open up branches of Chinese bank with priority given to payments in Nepali and Chinese currencies; and enhancement of people-to-people contact by improving media connected relations, exchange of visits by parliamentarians and the private sector (Regmi, 2018).

China's interest in enhancing cross-border connectivity with Nepal by developing road, rail and air transport infrastructure is obvious. It is assisting in the construction of Pokhara International Airport in Kaski

district in central Nepal and Bhairahawa airport. Projects for expansion of Rasuwagadhi-Syafrubeshi road link, resumption of Araniko Highway and construction of dry ports in Tatopani, Rasuwa and Yaritoo are also underway (Hong, 2017). Additionally, China plans to extend Qinghai-Tibet Railway network up to Kerung in Nepal, by 2020. This rail network is expected to enhance trade, tourism and people-to-people relations between Nepal and China.

In 2018, the new fibre optic network connecting China with Nepal was inaugurated in Kathmandu. This network, which is operated by China Telecom Global, will offer high-speed Internet access in Nepal breaking India's monopoly in the sector. Special economic zones, such as the one in Rasuwagadhi near the Nepal-China border, are being established in Nepal, as agreed in the MoU and hydropower facilities are in the pipeline. In a joint venture between Chinese companies and Butwal Power Company, Lower Manang Marshyangdi Hydroelectric Project has already been initiated in Gandaki zone in western Nepal.

China-Nepal-India corridor is another proposed trilateral cooperation project to build trans-Himalayan networks through infrastructure projects. However, due to India's reluctance in participating in BRI, trilateral cooperation has so far been limited to merely an unrealized vision (Shrestha, 2018).

Afghanistan

Afghan and Chinese Foreign Ministers signed an MoU in May 2016 to boost cooperation in various areas under the BRI, leading to multiple infrastructure projects. The first ever China-Afghanistan rail link—Sino-Afghan Special Railway Transportation—was inaugurated in August 2016, to strengthen trade ties between the two countries. The rail route, extending from Hyman city of China to Hairatan border port in north of Afghanistan, through Kazakhstan and Uzbekistan, is expected to increase Afghanistan's trade by reducing its dependence on transit routes through Pakistan. In August 2016, when the first freight train carrying cargo from Afghanistan reached China, it symbolized the start of a new partnership. Another project to rebuild a railway network from Sher Khan port to Herat, in northern region of Afghanistan is in the pipeline.

Similarly, an agreement has been signed to link China with Afghanistan through a fibre optic line, extended from Kashgar city of China to Faizabad, the provincial capital of north-eastern Badakhshan via Wakhan border district (RECCA, 2017). Several joint academic activities and site visits have also taken place in China and Afghanistan under the BRI. China has committed to provide 10,000 scholarships to train Afghan researchers, managers and engineers to run 50 jointly managed laboratories. Cooperation between Kabul University and Poly Solar Technologies in China has been agreed upon to help both the universities train Afghan students (Fleischer & Elkins, 2017).

A new tripartite cooperation framework has also been initiated between Afghanistan, Pakistan and China with a view to enhance economic cooperation within the BRI. China has brokered a deal between Afghanistan and Pakistan regarding establishment of bilateral crisis management mechanism, to encourage the two countries to resolve their differences through communication. China has also announced its plans to extend CPEC to Afghanistan (RECCA, n.d.). In the energy sector, China, Pakistan and Afghanistan have agreed to cooperate to construct a hydroelectric dam on Kunar River in Kabul river basin.

China has also signed mining and energy deals, which include a deal for copper mines for which a separate deal had to be drawn up with Taliban (Griffiths, 2017). Despite the security concerns, it seems that China is looking at Afghanistan as an important partner and is willing to work around such concerns. Furthermore, the BRI investments in rail, telecommunication network and power sector can help in addressing critical infrastructure shortages in the country ravaged by years of war and conflict.

Maldives

China considers Maldives strategically important for BRI and in 2014, during the visit of the Chinese President to Maldives, both countries decided to establish a cooperative partnership to jointly build the Maritime Silk Road. Maldives is positioning itself as a trade-cum-transit hub, an ambition supported by China. Construction of Male-Hulhule

Bridge has been termed as China-Maldives Friendship Bridge. Located at North Male Atoll, the bridge links neighbouring islands of Male, Airport and Hulhumale. Male International Airport Project has also been initiated, to expand Maldives' main airport and increase its passenger handling capacity, which will promote tourism.

China and Maldives have also agreed to increase cooperation on five key areas of policy coordination; facilities connectivity; unimpeded trade; financial integration; and people-to-people bonds (Shamin, 2017). The two countries will also collaborate to develop SEZs and construct harbours and bunkering facilities (Paul & Menon, 2017), while China will also be providing concessional loans and investments in fisheries sector and aquatic products. Cooperation to enhance tourism is also on the cards, with China developing luxury resorts in tourist areas (Kondapalli, 2014). A free trade agreement has also been concluded between the two countries.

Maldives has been a close Indian ally for decades, but since 2013 the country started to tilt towards China and the two countries grew closer over the last five years. A small nation with GDP of merely $3.5 billion, BRI investments of $1–1.5 billion in infrastructure, housing, power and hotels means a new paradigm for the country signifying a new chapter of bilateral relations. The change in government in Maldives, after elections in September 2018, however has given rise to speculations that Maldives' stance towards BRI projects might change and some of these projects might suffer from delays or disruption.

Bhutan

Besides India, Bhutan is the only country that is not a part of BRI. Neither did it participate in the OBOR summit in 2017. The Doklam Standoff last year between Chinese and India military over disputed territory claimed by Bhutan also led many to believe that Bhutan would remain out of BRI's purview. However, earlier this year, China sent an official invitation to Bhutan to join BRI. Furthermore, in recent Bhutanese elections, the pro-India ruling party was voted out, setting expectations that Bhutan might end up joining the Chinese Belt and Road Initiative. So far, however there are no planned investments in the country.

Wide BRI Investment Portfolio Across South Asia

Looking at these projects (Table 5.1), it becomes clear that BRI includes a number of wide ranging investments across South Asia and all countries in the region, except India and Bhutan, are partnering with China in a range of sectors. Infrastructure comes out as the dominant theme, and

Table 5.1 Belt and Road investments in South Asian countries

	BRI investments
Bangladesh	• Thermal power plants (being set up by Chinese companies) • Anwara-2 Economic Zone • Karnaphuli Multi-Channel Tunnel Project Projects in Pipeline: • Bangladesh-China-India-Myanmar Economic Corridor • ICT intra-network Phase-III (Info Sarker-3 project) • Modernization of telecommunication network for digital connectivity project • Tier-4 National Data Centre in Gazipur's Kaliakoir • Payra deep seaport • Padma rail link project • 220-km oil pipeline
Pakistan	• $11 billion for road projects in Pakistan. • Energy projects worth $26 billion • Gwadar port • Gwadar-East Bay Expressway • 3 Special Economic Zones • Mass transit systems in Lahore • Gwadar Free Zone • Other projects in Gwadar such as fresh water treatment, water supply and distribution, Pak China Friendship Hospital, Gwadar university, training and vocational institute; and Gwadar Livelihood Project Projects in Pipeline: • Rehabilitation and improvement of Karachi-Lahore Peshawar (ML-1) railway track • Havelian Dry Port • Gwadar International Airport • 6 additional special economic zones • Cross-border Fibre Optical Cable in Gilgit Baltistan • Establishment of Early Warning System with Pakistan Meteorological Department • Mirpur—Muzaffarabad—Mansehra Road • Iron Ore Mining, Processing & Steel Mills complex at Chiniot • Keti Bunder Seaport Development Project

(*continued*)

Table 5.1 (continued)

	BRI investments
Sri Lanka	• Hambantota Port • Mattala Rajapaksa International Airport • Colombo International Container Terminal • Colombo Port City megaproject Projects in Pipeline: • Matara-Kataragama Railway link • Southern economic development zone • LNG power plant in Hambantota
India	–
Nepal	• Pokhara International Airport • Bhairahawa airport • Expansion of Rasuwagadhi-Syafrubeshi road link • Resumption of Araniko Highway • Fibre optic network • Construction of dry ports in Tatopani, Rasuwa and Yaritoo Projects in Pipeline: • Extend Qinghai-Tibet Railway network up to Kerung in Nepal • Special economic zones • Hydropower plants • China-Nepal-India corridor
Afghanistan	• Sino-Afghan Special Railway Transportation • Fibre optic network • Mining and energy deals Projects in Pipeline: • Rebuild railway network from Sher Khan port to Herat • Tripartite cooperation framework between Afghanistan, Pakistan and China Hydroelectric dam on Kunar River in Kabul river basin
Maldives	• Construction of Male-Hulhule Bridge • Expansion of Male International Airport • 1000-apartment housing project on Hulhumale • Tourism projects
Bhutan	–

investments in any other sectors such as agriculture or socio-economic development remain minimal or are still in the pipeline.

It is also interesting to see how these investments correspond with the market potential of South Asian countries. The Belt and Road Index, developed by a private sector firm, provides some evidence for gaps in BRI countries (Fig. 5.1). The index ranks the 67 BRI markets to assess their market potential and attractiveness (Knight Frank Research, 2018). South Asia was ranked fifth in sub-regional performance of BRI coun-

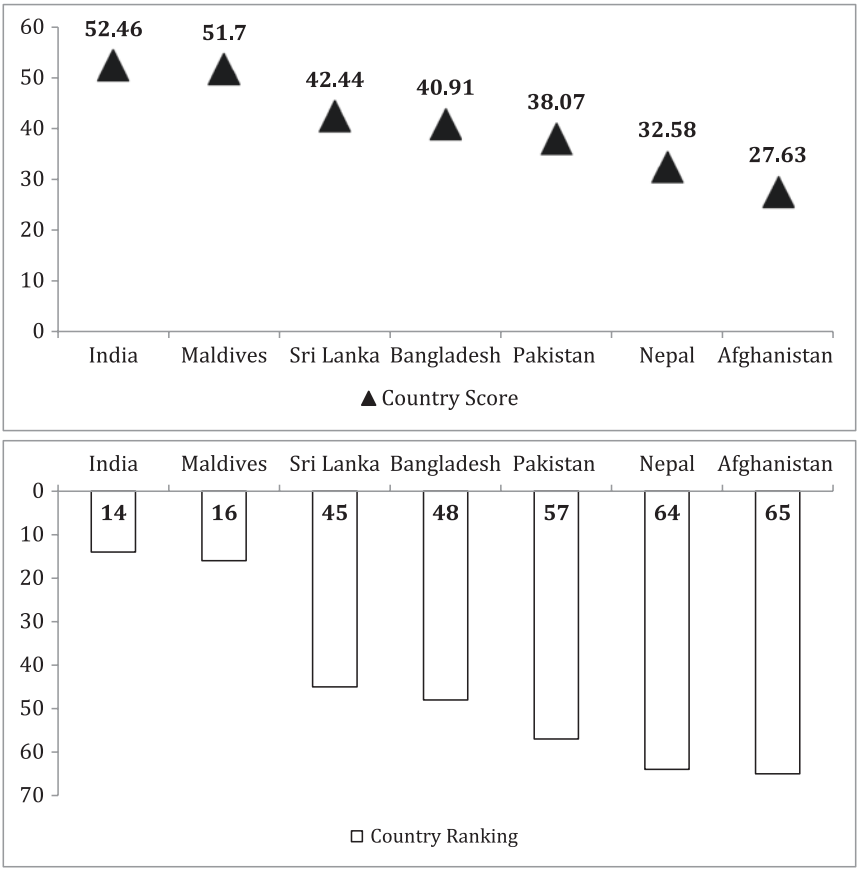

Fig. 5.1 Belt and Road Index—Country rankings and score for South Asian countries. Source: Graph based on data extracted from Knight Frank Research (2018)

tries. Within the South Asian countries, India was ranked the most attractive followed by Maldives, whereas Afghanistan was ranked the least attractive. Interestingly, apart from India and Maldives, all other countries in South Asia were ranked in the bottom one-third.

The index measures six dimensions, each with a different weightage: including economic potential, demographic advantage, infrastructure development, institutional effectiveness, market accessibility and resilience to natural disasters.[1] Table 5.2 provides scores for South Asian countries across all these dimensions.

Table 5.2 Belt and Road Index—Score for South Asian countries across various dimensions

Dimension	India	Maldives	Sri Lanka	Bangladesh	Pakistan	Nepal	Afghanistan
Economic potential	62.4	44.41	47.21	56.9	45.68	36.98	39.12
Institutional effectiveness	42.54	37.02	44.84	21.75	20.77	22.53	6.18
Demographic advantage	49.77	69.07	37.18	58.93	50.33	55.34	48.4
Infrastructure development	33.83	32.43	29.45	21.06	23.93	16.64	6.41
Market accessibility	72.08	78.73	34.37	34.68	38.92	–	17.72
Resilience to natural disasters	79.74	95.77	82.71	56.67	78.19	82.68	77.87

Source: Knight Frank Research (2018)

It is evident that the exceptionally low score for institutional effectiveness and infrastructure development is driving the low market attractiveness and potential of the South Asian markets.

Interestingly countries with lower market attractiveness like Bangladesh, Pakistan and Afghanistan have embraced BRI more wholeheartedly with diversified investment portfolios but India, with a much higher market potential, remains wary of increasing Chinese involvement in the region and has not bought into this new global doctrine.

South Asia: The Centre Stage of Indian Ocean

It is evident that although BRI spans 70 countries, South Asia offers a special significance for it. Huge populations of countries like India, Pakistan and Bangladesh offer wide consumer markets where Chinese goods can be sold. The growth rates are high, signalling growing markets. Most of the countries are in need of financing to improve their infrastructure weaknesses and would not have many sources to rely on. But most importantly, the region lies strategically in the heart of Indian Ocean. The South Asian countries are, therefore, among the lead participants in China's proposed BRI symphony.

A Region of Rivalries and Conflicts

Yet, the romanticism of pearls, silks and symphonies in China's branding of BRI contrasts rather starkly with the current reality of the South Asian region. This is a region driven by far less romantic nuclear rivalry, terrorism and the deep mistrust born out of traumatic separations, first of Pakistan from India, and then of Bangladesh from Pakistan.

Consequently, the region has seen several wars in recent years, including the 1962 Sino-Indian war and battles between Pakistan and India in 1965, 1971 and 1999. War-on-terror, in the post 9/11 world, added to the melancholy of this conflict prone region, where US-led forces invaded Afghanistan to root out Al-Qaeda. Even now, remains of the terrorist networks are believed to exist in the tribal belt between Afghanistan and

Pakistan and in parts of Balochistan—the region where Gwadar port is located and is the culmination point of China-Pakistan Economic Corridor.

Afghanistan, lying on western edge of South Asia, can rightfully be termed as the hotbed of the region. The country has seen years of armed conflict, first under Russian invasion, then a civil war that extended for years and finally the Taliban insurgency after the fall of Taliban government in 2001. A civilian government was installed but ever since, the country has been teetering on the brink, with widespread attacks by militants. Afghan forces have been unsuccessfully trying to bring peace through the help of International Security Assistance Force—a NATO-led security force established by the United Nations Security Council. Although the United States officially declared an end to the war in 2014, thousands of US-led NATO troops remain deployed there.

Kashmir is perhaps the most critical flashpoint in the region, fuelling the rivalry between the two nuclear South Asian neighbours. India and Pakistan have been bickering for control over the beautiful valley since 1947, when the British Raj left the sub-continent, leaving behind a blood-stained division and a bitter animosity. Kashmir remains arbitrarily divided by a temporary border, marking the permanence of the ceasefire line under Simla Agreement of 1972. The two countries have fought three wars over Kashmir, with the last one as recent as 1999 in Kargil. Pakistan continues to accuse India of severe human rights violation in Kashmir, while India alleges Pakistani ties with militants in the valley. Kashmir therefore is the major bone of contention behind adverse relations between India and Pakistan. The Kashmir conflict and India-Pakistan rivalry can be largely blamed for limited east-west movement of goods in the sub-continent.

Kashmir also has special relevance to the Belt and Road Initiative as India has been opposing BRI on the pretext that the China Pakistan Economic Corridor passes through the disputed territory. Besides China's assurances that CPEC will not change its stance on Kashmir, India remains wary of Chinese trucks passing through the northern areas of Gilgit Baltistan.

While the bilateral relationship between China and respective South Asian countries are unfolding in varying shades, these destabilizing forces

act as a major roadblock to the success of BRI as a cementing force for regional integration in South Asia.

Lukewarm Economic Cooperation

South Asian politics have also precluded economic cooperation in the region, which is currently one of the least integrated and cooperative regions on the globe. The movement of goods, individuals and investment are minimal.

So far, China has maintained effective trading relationships with each of the South Asian countries separately. BRI design in South Asia builds on China's strong economic relationships with many South Asian countries, taking benefit of these growing economies. In 2016 and 2017, South Asia's GDP growth exceeded all other sub-regions in Asia and the trend is expected to continue in the near future (Asian Development Bank [ADB], 2017). Trade between China and South Asia is thriving. In terms of imports, China is the top partner for India, Pakistan and Bangladesh. In terms of exports, it is India's fourth largest and Pakistan's third largest export partner. Similarly, for Sri Lanka, China is the second largest import partner and sixth largest export partner (ITC TradeMap, 2016). Moreover, China has driven Asia's share of outward FDI significantly to more than 30% in 2016, up from 10–15% in 2000–2005. China accounts for one-third of Asia's total outward FDI.

While trade between China and South Asia is flourishing, the movement of goods, individuals and investment within South Asia are minimal, owing to the regional conflicts and hostility discussed earlier. South Asian countries offer less preferable terms to each other than to countries outside South Asia, in terms of higher tariffs and nontariff barriers. India, Nepal, Pakistan and Sri Lanka exhibit indexes of trade restrictiveness that are at least twice as high, and up to nine times as high, for South Asian imports as compared with imports from outside South Asia, making it more expensive to trade with neighbours than to trade with geographically more distant countries (Kathuria, 2018). Figure 5.2 shows that for Pakistan, as an example, it costs more to trade with India, Bangladesh and Sri Lanka directly than it does to trade with UAE, UK, Germany and

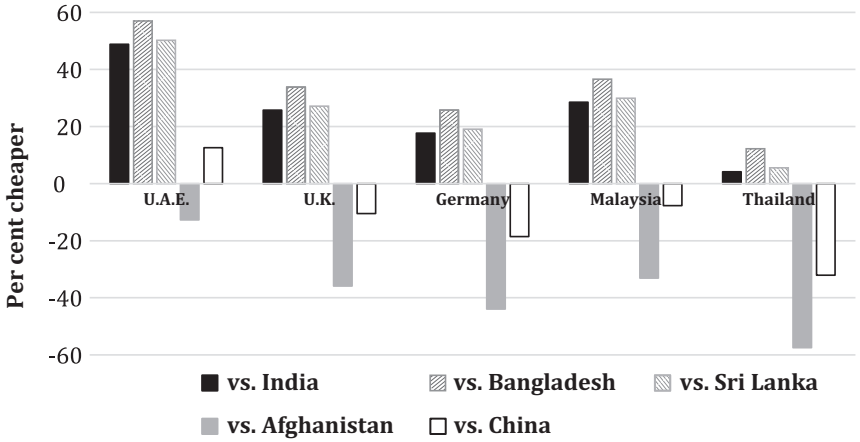

Fig. 5.2 Total trading costs of Pakistan, 2015. Source: United Nations ESCAP (2016)

Malaysia. The only regional partners with whom it is cheaper to trade are Afghanistan and China. It is not therefore surprising that these are the main trade partners of Pakistan.

Low levels of trust are likely to have compounded the issues created by trade restrictiveness. Guiso, Sapienza, and Zingales (2009) show, for example, that trust is an important determinant of bilateral trade and investments in European country pairs, increasing exports by 10% for a one standard deviation increase in importer's trust towards an exporter (Guiso et al., 2009). In the South Asian context, low levels of trust between traders are likely to have further exacerbated the low trade induced by formal trade restrictiveness.

Consequently, South Asia continues to trade significantly more with other sub-regions in Asia than within itself, and intra sub-regional trade for South Asia has been the lowest in Asia since 2000. Gravity models indicate that trade between India and Pakistan alone is up to 27 times lower than that predicted on the basis of their size, geographic distance, common border, common language and common colonial history (Afraz, Deng, Hussain, & Mukhtar, 2019).

In case of FDI, while Asia's share of global inward FDI has been rising (30% in 2016 up from less than 20% in 2000–2005), South Asia claims

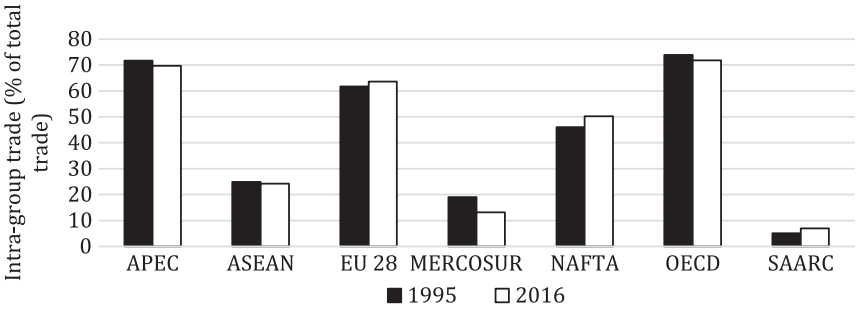

Fig. 5.3 SAARC in comparison with other regional trading blocs, 1995–2016. Source: ITC TradeMap (2016)

the lowest share within Asia for incoming FDI after Central Asia (ADB, 2017).

The Asian Development Bank's Asian Regional Cooperation and Integration (RCI) Index, a composite index developed by Asian Development Bank to measure countries' and sub-regions' connectivity and integration within Asia, ranks South Asia[2] fourth amongst the five sub-regions in Asia. Moreover, the maximum score attained by any South Asian country on the Index falls below the regional average for Asia. The index consists of 26 indicators across 6 dimensions: trade and investment; money and finance; regional value chains; infrastructure and connectivity; movement of people; and institutional and social integration.[3] The only dimension where South Asia scored relatively better is regional value chains.

In these circumstances, it is no surprise that regional cooperation initiatives have failed to provide the desired results. South Asian Association for Regional Cooperation (SAARC) for instance was founded in 1985, comprising Afghanistan, Bangladesh, Bhutan, India, Nepal, the Maldives, Pakistan and Sri Lanka, amidst hope for economic cooperation and regional integration. Thirty-three years down the road however, the union representing one fifth of the world's population has little to show to its credit. Figure 5.3 shows intra-group trade in SAARC, putting South Asia in sharp contrast with more successful trading blocs. The situation seems unlikely to improve—the 19th SAARC Summit had to be cancelled owing to rivalries between the member countries.

While a South Asian free trade agreement (SAFTA) exists on paper, it has not resulted in improved trade. The notable roadblock is trade between India and Pakistan.

South Asia Sub-regional Economic Cooperation (SASEC) is another regional initiative, focused on transport and trade facilitation. Members include Bangladesh, Bhutan, India, Maldives, Sri Lanka and Myanmar, but not Pakistan, possibly as an alternative of SAARC, avoiding any spill-overs of India-Pakistan standoff. However, despite encompassing a number of projects, SASEC has also failed to create a mark in meaningful regional integration.

The Price to Pay

Lack of connectivity, integration and cooperation has contributed to low development in the region. Being home to around a quarter of the world's population, South Asia remains as one of the poorest regions of the world. This population of 1.9 billion people alone surpasses the population of entire continents (Fig. 5.4). One million young people enter the workforce every month (World Bank, 2017). Fifteen per cent of South Asians—284.6 million people—live below the poverty line (World Bank,

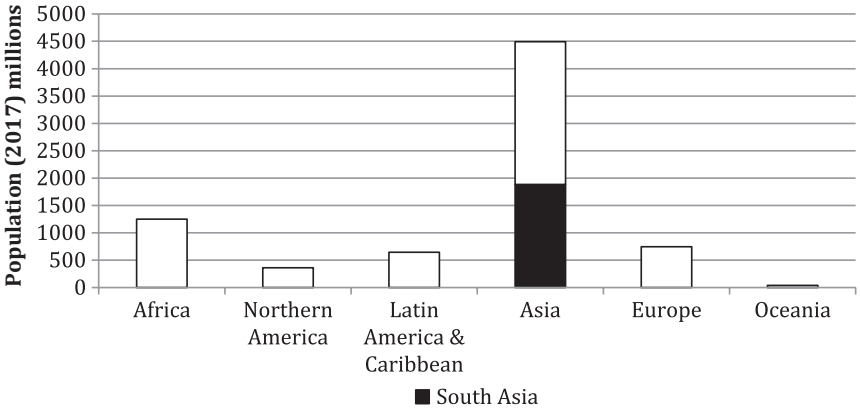

Fig. 5.4 Distribution of world population, 2017. Source: Population Reference Bureau (2017)

Table 5.3 Human development indicators (2015 data)

Country	Human Development Index (HDI)	Life expectancy at birth (years)	Expected years of schooling (years)	Mean years of schooling	Gross national income (GNI) per capita (2011 PPP$)
Afghanistan	0.48	60.70	10.05	3.55	1870.83
Bangladesh	0.58	71.99	10.18	5.24	3341.49
Bhutan	0.61	69.85	12.52	3.13	7081.45
India	0.62	68.32	11.70	6.30	5663.47
Maldives	0.70	76.96	12.75	6.20	10382.73
Pakistan	0.55	66.37	8.11	5.09	5031.17
Sri Lanka	0.77	75.05	13.97	10.92	10788.91
Nepal	0.56	69.99	12.22	4.07	2337.07
South Asian average	*0.62*	*68.73*	*11.25*	*6.22*	*5798.68*
World	*0.72*	*71.62*	*12.34*	*8.26*	*14,447.25*

Source: United Nations Development Programme (2015)

2013). On average, South Asian children can expect to live shorter lives, with less schooling and a third of the household income as compared to the world average (Table 5.3).

Providing employment and decent human development to millions is therefore an essential priority for South Asian economies. Trade is an important vent for growth, and in the context of the large, growing and young populations, it is a vent that the region cannot afford to not exploit (Afraz et al., 2019). Yet, while the smaller countries (Nepal, Maldives and Bhutan in particular), have high trade to GDP ratios, the largest countries do not (Table 5.4).

It's All About Fundamentals

There are several contributors to low trade, some of which are captured in the World Economic Forum's Enabling Trade Index. The index captures performance on seven pillars: domestic market access, foreign market access, efficiency and transparency of border administration, availability and quality of transport infrastructure, availability and quality of trans-

Table 5.4 Trade indicators

	Merchandise trade (% of GDP) (2016)	Exports of goods and services (% of GDP)	Imports of goods and services (% of GDP)
Pakistan	24.2	9.1	16.0
India	27.6	19.2	20.6
Bangladesh	36.0	16.6	21.3
Sri Lanka	36.5	21.4	29.1
Afghanistan	36.6	6.9	49.0
Nepal	44.2	9.5	39.4
Maldives	56.4	79.7	75.7
Bhutan	70.3	29.7	53.1
South Asia	*28.4*	*18.0*	*20.9*
World	*42.3*	*28.6*	*27.9*

Source: World Bank (2018)

Table 5.5 Enabling Trade Index rankings (out of 136 countries), 2016

	Enabling Trade Index	Infrastructure score	Availability and quality of transport infrastructure	Availability and use of ICTs
Bhutan	92	114	131	103
India	102	60	28	101
Sri Lanka	103	68	45	87
Nepal	108	124	135	113
Pakistan	122	99	70	124
Bangladesh	123	108	109	112

Source: World Economic Forum [WEF], & Global Alliance for Trade Facilitation (2016)

port services, availability and use of ICTs and operating environment. Table 5.5 shows the ranking of the South Asian countries out of the 136 countries that were ranked overall, and provides further details for the BRI relevant pillar: infrastructure. India and Sri Lanka perform well on trade-related infrastructure, while Bhutan, Nepal and Bangladesh lag behind.

Infrastructure can therefore be an important starting point for trade. For example, a recent report on global value chain development revealed that trade frictions add 18% to the production cost at a single stage of the value chain in global value chains. Most of these trade frictions are caused by transportation costs and poor logistics and trade facilitation conditions

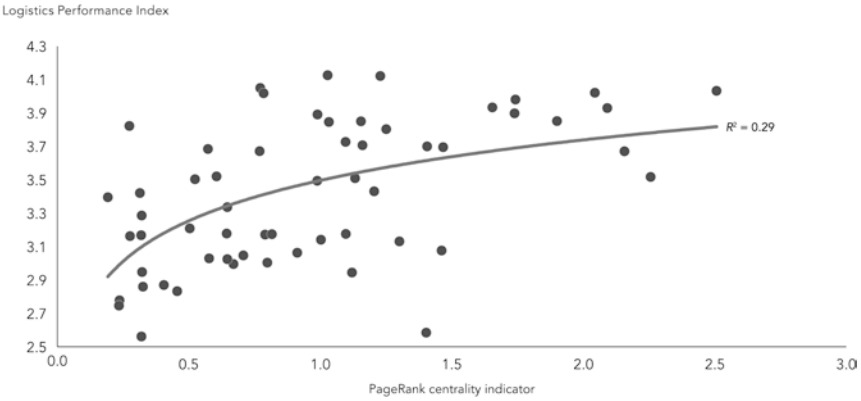

Fig. 5.5 Relationship between the LPI and PageRank measure of centrality. Source: World Bank Group; IDE-JETRO; OECD; UIBE; World Trade Organization, 2017. Lin, Justin Y. 2012. *New Structural Economics: A Framework for Rethinking Development and Policy*. © World Bank. http://hdl.handle.net/123123123123/123 License: Creative Commons Attribution license (CC BY 3.0 IGO)

(World Bank Group, IDE-JETRO, OECD UIBE, & World Trade Organization, 2017).

Similarly, Diakantoni, Escaith, Roberts, and Verbeet (2017) find that network centrality in Global Value Chains (GVCs), as measured by the PageRank centrality indicator,[4] correlates positively, though not perfectly, with the Logistics Performance Index (LPI) score. This is depicted in Fig. 5.5. It is evident from the chart that none of the countries with low LPI score are central to GVCs. They conclude, therefore, that trade facilitation and infrastructure are obvious starting points for involvement in GVCs (Diakantoni et al., 2017).

In terms of impacts on GDP, Ferrantino, Geiger, and Tsigas (2013) find that the cumulative impact of improving border administration, and upgrading transport and communications infrastructure would increase global GDP by 4.7%, a sixfold increase as compared to complete and global elimination of tariffs. The argument is that logistics systems are an important determinant of production costs, and consequently low transportation costs attract both domestic and foreign investment. BRI infrastructure, therefore, has the potential to substantially boost the economies of the region by upgrading the logistics and trade infrastructure.

Table 5.6 Logistics performance index, overall

Logistics performance index: Overall (1 = low to 5 = high)		
	2014	2016
Afghanistan	2.07	2.14
Bangladesh	2.56	2.66
Bhutan	2.29	2.32
India	3.08	3.42
Maldives	2.75	2.51
Nepal	2.59	2.38
Pakistan	2.83	2.92
Sri Lanka	2.70	
World	2.89	2.88
South Asia	2.61	2.62

Source: World Bank, World Development Indicators, downloaded June 2018

However, while infrastructure is necessary, it is not a sufficient condition for trade. This is also reinforced by data on Logistics Performance Index shown below (Table 5.6), along with that shown earlier on trade as a percentage of GDP (Table 5.4). Both Pakistan and India perform near the world average on infrastructure, with India surpassing world average performance with rapid improvements between 2014 and 2016 (Table 5.6). It is evident that the South Asian countries that trade more do so despite poor physical infrastructure, and the countries that trade less do so despite good trade infrastructure. The real impediments for countries that trade less are largely market access, which applies most to India, the second worst performing country in the world on market access, but also to Pakistan and Sri Lanka, and the operating environment which applies more to Pakistan and Bangladesh. It is evident that physical infrastructure might be a necessary condition, but by no means is it a sufficient condition, for trade.

Way Forward for South Asia

The road, rail and energy infrastructure financed by Chinese capital comes at a welcome time, when gaps in such public investments have been compromising the potential growth of South Asian economies. However, although the diversified basket of BRI investments in South

Asia manifests that BRI promises more than infrastructure investments and includes areas like special economic zones, mining deals, training projects and even some bilateral financial agreements, the more important economic cooperation and regional integration remain more of broad ambition statements without any concrete implementation arrangements or agreements. This observation becomes especially important in the perspective of institutional weaknesses identified in many South Asian countries like Bangladesh, Pakistan and Afghanistan.

Economic cooperation, increased trade, joint investment projects and industry relocation or establishment falls primarily in the purview of the private sector, where states can only be enablers to create investment and business friendly investment climates. This in turn would depend on the policies, politics and institutional effectiveness of countries.

This means that while the infrastructure investments under BRI can pave the way for more meaningful economic cooperation, it will be up to the partner countries to make use of these investments and stimulate private sector driven growth. South Asian countries can leverage BRI to improve regional connectivity as a way to integrate better with the global economy. As discussed earlier, trade policies in South Asia make it more expensive to trade within South Asia than with further neighbours. The hostile politics of the region will need to give way to the economic imperative of trade and development. Else, they might end up with expensive infrastructure for which they would have to pay through expensive equity-for-debt arrangements resembling the Hambantota deal.

On the upside however, if these developing countries do what is required, the potential impact on trade and growth can be sizeable. If BRI is used as a starting point to also improve regional cooperation, there is potential to develop stronger regional value chains, which are an important, and sometimes necessary, intermediate step towards participation in GVCs.

For this, an important part of the equation is the political relations underlying the cooperation framework, which can act as a potential roadblock to complete cooperation and economic gains. If the BRI participating South Asian countries are able to let economic gains overrule the hostile politics of the region, they can leverage BRI for better regional cooperation, nudging the region to develop regional value chains and

trade. The real economic dividend there may well dwarf that of infrastructure, as it has done previously in South Asia's prosperous history.

As of now however, the resolve to address the underlying conflict that keeps impeding any meaningful cooperation or integration at the regional level seems to be missing. With the Sino-India relationship baggage, whether Chinese investments and involvement will help overcome these conflicts or will increase them remains to be seen; but the real returns on BRI investments will depend on how they enable the South Asian region to integrate and cooperate.

Notes

1. Knight Frank has come up with a Belt and Road Index ranking 67 countries (including China) on six dimensions: economic potential (25%), demographic advantage (20%), infrastructure development (15%), institutional effectiveness (25%), market accessibility (10%) and resilience to natural disasters (5%). Singapore ranked highest on the index and Iraq lowest, with scores of 69.85 and 26.45 respectively.
2. South Asia comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
3. The overall RCI index was estimated for 23 Asian economies in five subregions where data is available.
4. The centrality indicator ranks a country's centrality to global value chains, taking into account direct and indirect trade flows between trading partners in the global production network.

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6

China's Investment in Belt and Road Countries: An Industrial Perspective

Chris Y. Tung and Fang-I Wen

Introduction

The "One Belt One Road (OBOR)" Initiative is a bold, massive plan announced by China in 2013. It aims to promote a comprehensive regional development for the countries along the ancient Silk Road on land and the maritime trade route once flourished from the thirteenth to fifteenth centuries. More than 60 countries are included in the Initiative and the scale is much larger than the U.S. Marshall Plan after World War II that some may like to compare it to. Thus, China's intentions behind OBOR have drawn lots of attention from many government officials, academic institutions, and business community.[1] According to the official documents authorized by the Chinese government,[2] the goals of the

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_6

OBOR Initiative are to "maintain closer economic ties, and deepen political trust; enhance cultural exchanges; encourage different civilizations to learn from each other and flourish together; and promote mutual understanding, peace, and friendship among people of all countries." This statement damps down the speculation from the international community that China's main goal is to use OBOR Initiative as a platform to form geo-political relationships with the countries that are involved in the Initiative. But, can we take this statement at face value? That is, can we say that the OBOR Initiative is mainly proposed for economic motivation?

The answer for the aforementioned question is critical in three perspectives. First, from Chinese firms' perspective, if the OBOR Initiative is mainly driven by economic motivation, following the Initiative and investing may generate significant future profits for the companies. If the OBOR Initiative is just another form of foreign aid, as some have suggested, it may attract less private-owned companies to voluntarily join the Initiative. Second, from the government officials' perspective in the targeted countries, the OBOR Initiative may be less welcome if geo-political relationship is what China really goes after. Third, from the perspective of international community, if OBOR Initiative is mainly economically motivated, joining China to enhance regional development, such as signing up for the Asian Infrastructure Investment Bank (AIIB), can potentially present ample business opportunities without many unfavorable political consequences. Hence, if the answer for the question raised in the previous paragraph is affirmative, the OBOR Initiative can greatly benefit China as well as the rest of the world.

Although the OBOR Initiative was only announced five years ago, some studies have tried to understand how the Chinese outward foreign direct investment (OFDI) is affected by the Initiative. Some tested the theoretically suggested factors in the countries along OBOR, such as exchange rates, real GDP, degree of openness, and infrastructure facilities to find out the determinants of Chinese OFDI after the announcement of the OBOR Initiative.[3] Some even went beyond the question that asks if OBOR Initiative promotes Chinese OFDI. It also asks if state-owned companies behave differently from the non-state-owned companies regarding their targeted investment sectors and countries.[4] However, these recent studies did not provide an answer to the question we ask. In

order to shed light on China's real intention behind the OBOR Initiative, we will introduce Overseas Economic and Trade Cooperation Zones (OETCZs) as a key factor in our empirical study.

The term OETCZ first appeared in a document issued in 2006 by China's Ministry of Commerce called "The basic requirement and application procedure for OETCZs".[5] The purpose of such a policy is to further enhance the "going-out" strategy implemented by many Chinese firms since entering the twenty-first century. If an OETCZ is approved by the Chinese government, low-interest-rate loans become available for the companies which have invested in the zone and the Chinese government may even negotiate a better tax scheme with the local government for the firms established inside the OETCZ. Moreover, the existence of an OETCZ provides an opportunity for Chinese firms "going-out" as a group, not as a single entity. This would lower the firm's risk of overseas investment and establishment costs significantly.[6] According to the Ministry of Commerce of China, there were 20 cooperation zones officially confirmed and recognized by the Ministry of Commerce by the end of 2018.[7] The OETCZs can be categorized into different groups based on their industrial orientation. In our analysis, we will test if different types of OETCZs affect China's OFDI differently before and after the announcement of the OBOR Initiative.

Furthermore, the OETCZ policy is the first large-scale, government-backed plan to enhance China's OFDI. China's OFDI was significantly affected by government-backed policies since 2006. Hence, the OFDI from Chinese firms before 2006 can be considered more self-interest driven and less policy driven. In other words, if a country had a large Chinese investment before 2006 and this country is still a focal investment point after the OBOR Initiative was announced, this could indicate that the OFDI from China after the Initiative is mainly economically driven. Our empirical strategy is to use the beginning of the OETCZ policy as a watershed time to analyze if the countries with relatively large FDI from China before 2006 are the main investment targets of Chinese firms after the announcement of OBOR Initiative. If the answer is affirmative, the consequences of the OBOR Initiative still follows the basic economic assumption of profit maximization and does not act as politically motivated foreign aid.

Literature Review

Lots of studies have provided theoretical framework to discuss the possible determinants of FDI.[8] Liu, Tang, Chen, and Poznanska (2017) had a nice section discussing the evolution of the theories. Regarding the empirical studies on Chinese OFDI, we can separate them by the year (2013) of announcing the OBOR Initiative. Before 2013, most of the empirical studies have focused on the determinants of China's OFDI. Some important arguments have been raised and tested (Buckley et al., 2007). First, Chinese firms were chasing the natural resources and so the resource-abundant countries would draw a large amount of Chinese investment. This conjecture was indeed true to some extent. Natural resources are the main reason why Chinese firms invest in a non-OECD country or a country in East or Southeast Asia (Kang & Jiang, 2012; Kolstad & Wiig, 2012). Moreover, this natural resource seeking investment behavior mainly happens in a state-owned enterprise (Ramasamy, Yeung, & Laforet, 2012). However, the opposite results also have been presented in countries in Africa and oil-producing countries (Cheung & Qian, 2009).

Second, if a country has poor institutions, the Chinese investment would be high in this particular economy. This phenomenon happens in non-OECD countries and state-owned companies also like to invest in this type of economy (Kolstad & Wiig, 2012; Ramasamy et al., 2012). Some also found that the Chinese companies like to invest in a country with similar political-legal regime to take advantage of the familiarity (Kang & Jiang, 2012). Third, the performance after internationalization, for the Chinese firms, varies across countries and in general, they have higher profits in the Greater China region (Chen & Tan, 2012).[9] Cultural difference playing an important role was also confirmed in some other studies (Kang & Jiang, 2012). Finally, the behavior of a private-owned company differs significantly from a state-owned one. A private company invests in a large economy to seek market and is very sensitive to the labor costs in the targeted countries. On the other hand, the state-owned company thrives on the political instability of the targeted countries and cares more about the natural resources and favorable exchange rates (Duanmu, 2012).

After announcing the OBOR Initiative, the determinants of China's OFDI in the OBOR countries may differ from the non-OBOR countries. In general, the OBOR Initiative promotes China's OFDI, but looking into the details, the state-owned firms' investment focuses on the infrastructure sector and the private-owned firms' investment focuses on the non-infrastructure sector (Du & Zhang, 2018). More importantly, factors such as exchange rates, natural resources, and political environment play less significant role on China's OFDI in the OBOR countries (Liu et al., 2017). Some theoretical studies suggest that the most important issues regarding China's OBOR Initiative is to clarify its motivation behind and the characteristics of targeted countries (Cheng, 2016; Yu, 2017).

Our main intention in the project is to understand the real effects of the OBOR Initiative which is more important than the initial motivation that is hard to pin down. We test how OETCZs affect the Chinese OFDI from 2006–2016 and whether the announcement of the OBOR Initiative has an augmented effect on China's OFDI in the countries with the OETCZs. Moreover, the effects of different types (manufacture, natural resource, or business oriented) of OETCZs on China's OFDI are also considered. Finally, we also test if the countries with a relatively large Chinese investment before the establishment of OETCZs attract more China's OFDI after the OBOR Initiative. The results will help us to understand the real consequences of the OBOR Initiative.

Data and the Definitions of Variables

Our dataset contains 43 countries located on the OBOR and China's OFDI net flow during 2006–2016 can be retrieved from the statistical bulletin of China's outward FDI published by the Chinese Ministry of Commerce.[10] We also calculate the median and average value of each country's Chinese OFDI stock in 2006. Each value is used to separate the countries that Chinese firms have invested in into two groups: one with relatively high investment before 2006 and the other with relatively low investment before 2006. This separation helps us to test if a country with less policy-influenced investment from China would draw even more

Table 6.1 The list of countries

The 43 countries on the OBOR contained in the dataset:Belarus, Brunei, Nepal, Bulgaria, Kuwait, Sri Lanka, Qatar, Israel, Turkey, Azerbaijan, Jordan, Czech Republic, Philippines, India, Morocco, Georgia, Oman, Panama, Bangladesh, New Zealand, Hungary, Madagascar, Yemen Republic, Romania, Poland, Ethiopia, Laos People's Democratic Republic, Egypt, Cambodia, Kirghizia, United Arab Emirates, Pakistan, Myanmar, South Africa, Malaysia, Indonesia, Thailand, Vietnam, Saudi Arabia, Kazakhstan, Singapore, Russian Federation, Korea Republic

investment after the OBOR Initiative. Table 6.1 is the full list of the countries contained in the dataset.

The Definitions of Variables

The dependent and independent variables will be defined below. Tables 6.2, 6.3, and 6.4 will summarize the definitions and provide descriptive statistics and correlation matrix of the non-dummy variables, respectively.

Dependent Variable

lnOFDI_flows. *lnOFDI_flows* is the natural logarithm of China's outward FDI flows to different host countries, calculated in units of millions of USD from 2006–2016. This data can be found in the statistical bulletin of China's outward FDI published by the Chinese Ministry of Commerce.

Independent Variables

lnGDP. *lnGDP* is the natural logarithm of GDP of a host country in a given year. The indicator is in current USD.

lnresources. *lnresources* is the natural logarithm of the sum of the "ores and metals exports" and the "fuel exports" of the host country. It is calculated in units of the percentage of the host country's total merchandise exports in a given year.

lnhigh_tech. *lnhigh_tech* is the natural logarithm of the ratio of the high-tech products over total manufactured exports of the host country

in a given year. Some theoretical study has suggested that technology dissemination may also be important along the OBOR, and hence the variable is included.[11]

lnopenness. lnopenness of FDI is the natural logarithm of the ratio of inward FDI stock to the host country's GDP.

dist. dist is an indicator measuring the distance between the most important cities of the host country and the capital of China. The data are calculated in units of kilometer. The natural logarithm of *dist* is used in the empirical model (*lndist*).

cce. cce is the specific variable "wbgi_cce" within the QoG (Quality of Government) Basic Time-Series Data (version January 2018), originally retrieved from the World Bank Governance Indicators. The indicator *cce* stands for "Control of Corruption-Estimate," evaluating the perceptions of corruption, ranging from the traditionally defined "additional payments to get things done," "the effects of corruption on the business environment" to "grand corruption." The estimate scores between −2.5 to 2.5, the higher the figures, the better the results.

lnexchange. lnexchange is the natural logarithm of exchange rate of the host country (local currency units relative to the Chinese currency, RMB). The original data retrieved from the World Bank Indicators.

lnINFRA. lnINFRA is the natural logarithm of the fixed telephone subscription per hundred people. This variable reflects the host country's infrastructure development.

OBOR. OBOR is a dummy variable. The value equals 0 from 2006–2012 and the value equals to 1 from 2013–2016.

resOETCZ. resOETCZ is a dummy variable. The value equals 1 if the host country has a resource-oriented OETCZ in year *t*. Otherwise, the value equals 0.[12]

manuOETCZ. manuOETCZ is a dummy variable. The value equals 1 if the host country has a manufacturing-oriented OETCZ in year *t*. Otherwise, the value equals 0.

busnOETCZ. busnOETCZ is a dummy variable. The value equals 1 if the host country has a business-oriented OETCZ in year *t*. Otherwise, the value equals 0.

These three dummy variables regarding the OETCZ need more elaboration. For instance, in Russia, there are three OETCZs with different

orientation and they were established in different years. Longyue OETCZ did not establish until 2013 and it is a business-oriented zone. Hence, *busnOETCZ* is 0 for Russia from 2006–2012 and 1 from 2013–2016.

selfmt_1. *selfmt_1* is a dummy variable. The *median* value of the Chinese OFDI among all host countries in 2006 serves as a threshold. *selfmt_1* equals 1 for the countries with Chinese FDI stock above the threshold. For the countries below that threshold, the value is 0.

selfmt_2. *selfmt_2* is a dummy variable. The *average* value of the Chinese OFDI among all host countries in 2006 serves as a threshold. *selfmt_2* equals 1 for the countries with Chinese FDI above the threshold. For the countries below that threshold, the value is 0.

The data source and definition is summarized below in Table 6.2.

Table 6.2 A brief summary of the variables

Variables	Explanations	Source
lnOFDI_flows	China's outward FDI flows by country	Statistical Bulletin of China's Outward FDI
lnGDP	Logarithm of GDP	World Band Indicators
lnexchange	Host country's exchange rate (local currency units relative to RMB)	World Band Indicators
lnresources	Fuels, ores, and metals exports as share of the host country's total merchandise exports	World Band Indicators
lndist	Distance between the most important cities of host country to the capital of China (Beijing)	GeoDist, CEPII, http://www.cepii.fr/CEPII/en/bdd_modele/presentation.asp?id=6
lnopenness	Ratio of inward FDI stock to host GDP	UNCTAD
lnhigh_tech	High-tech exports as share of the host country's total manufactured exports	World Band Indicators
lnINFRA	Fixed Telephone Subscription (per 100 people)	World Band Indicators
cce	Control of Corruption, Estimate	The Worldwide Governance Indicators, http://info.worldbank.org/governance/wgi/index.aspx#home

Table 6.3 Statistics summary

Variable	Obs	Mean	Std. Dev.	Min	Max
lnOFDI_flows	424	3.873	2.151	−4.605	9.254
lnGDP	471	11.588	1.460	7.948	14.648
lnresources	445	2.661	1.502	−2.891	4.584
lnhigh_tech	435	1.308	1.834	−7.451	4.592
lnopenness	473	3.332	0.879	−0.272	5.936
lndist	473	8.576	0.504	6.862	9.572
lnexchange	471	1.060	2.932	−3.616	8.156
lnINFRA	472	2.305	1.202	−1.659	4.102
cce	473	−0.162	0.836	−1.673	2.391

The descriptive statistics of each variable is listed below in Table 6.3.

The correlation matrix of non-dummy variables is listed below in Table 6.4.

Empirical Model and Results

The main purpose of our analysis is to reveal the role of the OETCZs in the promotion of OBOR initiatives. China's OFDI data in OBOR countries is employed in the empirical model to examine how the characteristics of the OETCZs along with other country-level characteristics affect Chinese OFDI in OBOR countries. Our empirical models include different independent variables so that we can compare our results with previous literature and answer the questions concerned in this study.

The Benchmark Model

Our benchmark model is specified as Eq. (6.1), which includes theoretically suggested factors, such as GDP, resource endowment, host country's technology advantage, openness to foreign investors, exchange rates, and infrastructure facilities. We also include a distance variable to represent the host country's geographical advantage to attract China's OFDI. Additionally, *OBOR* variable represents the policy effect for the announcement of OBOR Initiative.

Table 6.4 Correlation matrix for the variables

	lnOFDI_flows	*lnGDP*	*lnresources*	*lnhigh_tech*	*lnopenness*	*lndist*	*lnexchange*	*lnINFRA*	*cce*
lnOFDI_flows	1								
lnGDP	0.338	1							
lnresources	0.043	0.125	1						
lnhigh_tech	0.216	0.311	−0.042	1					
lnopenness	0.148	−0.108	0.023	0.356	1				
lndist	−0.322	−0.098	0.090	−0.190	0.250	1			
lnexchange	0.362	−0.061	−0.211	0.061	−0.144	−0.488	1		
lnINFRA	0.005	0.346	0.281	0.379	0.327	0.070	−0.380	1	
cce	−0.016	0.249	−0.004	0.225	0.360	0.253	−0.451	0.539	1

$$lnFDI_{it} = \beta_0 + \beta_1 lnGDP_{it} + \beta_2 lnresources_{it} + \beta_3 lnhigh\_tech_{it} + \beta_4 lnopeness_{it} + \beta_5 lndist_{it} + \beta_6 cce_{it} + \beta_7 lnexchange_{it} + \beta_8 lnINFRA_{it} + \beta_9 OBOR + \varepsilon_{it} \quad (6.1)$$

The Role of OETCZs in China's OFDI

Although many of the OETCZs are located in the belt-road countries, they were in fact established almost ten years earlier than the announcement of the OBOR Initiative. Besides, the OETCZs are more industrial and investment oriented while OBOR is a comprehensive strategy. To investigate the role of OETCZs in China's outward FDI in belt-road countries, we divided the OETCZs into three different types, including manufacturing-oriented OETCZ, resource-oriented OETCZ, and business-oriented OETCZ, according to the main industries in the zone. For example, the manufacturing-oriented OETCZs indicate the ones that focus on production or manufacturing industry while the resource-oriented OETCZs represent the ones that focus on agricultural or are associated with natural resources. We believe that different types of OETCZs may have different influences on China's OFDI. Considering that the OETCZs were established in different years, the values of the *OETCZ* variables vary across countries and years. The empirical strategy to analyze the role of OETCZs is by adding OETCZ variables (*resOETCZ*, *manusOETCZ*, *busnOETCZ*) to the benchmark model.

Whether the Chinese OFDI in Belt-Road Countries Are Self-Motivated by the Enterprises

China's "Going out Strategy" was initiated in the 1990s; however, China's OFDI did not really take off until 2008. In fact, policy documents related to China's OFDI began to appear during the 11th Five-Year Plan period (2006–2010).[13] In addition, the first group of OETCZs approved by the Ministry of Commerce of China started their construction in 2006. As such, we believe that the Chinese government has strengthened the pol-

icy intervention on their foreign investment since 2006, and the enterprises that have invested abroad before 2006 can be considered to be self-motivated and economically driven. To capture this effect, we define the variable, *selfmt_1* and *selfmt_2*, to indicate the countries that have attracted Chinese companies to invest before the government policy stepped in. If the sign of the variable is positive, it means the Chinese OFDI in belt-road countries during 2006–2016 are still economically driven and self-motivated by the companies.

How OBOR Initiative Affects the Chinese OFDI Strategy in Belt-Road Countries

Chinese OFDI outbursts in the belt-road countries with the introduction of the OBOR Initiative. However, whether OBOR Initiatives further enhance the influences of specific factors on Chinese OFDI is an intriguing question. For example, if a specific type of OETCZ has positive impacts on Chinese OFDI, would OBOR Initiative further increase this positive impact? To answer this question, the cross term of OBOR policy with other independent variables are included in the econometric model. A positive sign of the cross-term variable indicates that the OBOR initiative has an enhanced effect on the associated factors.

Empirical Results

The pooled ordinary least squares (OLS) is used to analyze the econometric model[14] and the empirical results are presented in Tables 6.5, 6.6, and 6.7.

1. *China's OFDI focuses on resource-rich and big market OBOR countries, not the countries with relatively high technology level*

The coefficients of *lnGDP* and *lnresources* are both significantly positive in most of our models. This suggests that Chinese OFDI in belt-road countries are market driven and resource seeking. The only exception is that when the variable *selfmt_2* is included in the empirical analysis, the result of the resource variable becomes insignificant (but remains positive though). It is possible that the Chinese OFDI before OETCZ era was

Table 6.5 Empirical results (without OBOR policy cross term)

Dependent variable: *lnOFDI_flows* (the natural logarithm of China's outward FDI flows to different host countries)				
	Model 1: Benchmark model	Model 2	Model 3	Model 4
lnGDP	0.558***	0.402***	0.321***	0.182**
	(0.0689)	(0.0712)	(0.0683)	(0.0756)
lnresources	0.181***	0.243***	0.115*	0.0750
	(0.0656)	(0.0658)	(0.0649)	(0.0675)
lnhigh_tech	−0.0534	−0.0304	−0.0313	−0.0462
	(0.0569)	(0.0546)	(0.0515)	(0.0518)
lnopenness	0.761***	0.628***	0.369***	0.386***
	(0.125)	(0.122)	(0.121)	(0.121)
lndist	−0.976***	−1.146***	−0.992***	−0.653***
	(0.207)	(0.202)	(0.192)	(0.206)
cce	0.0956	0.406***	0.434***	0.304**
	(0.136)	(0.140)	(0.133)	(0.134)
lnexchange	0.225***	0.145***	0.0802**	0.111***
	(0.0384)	(0.0392)	(0.0382)	(0.0375)
lnINFRA	−0.217**	−0.269***	−0.167*	−0.177*
	(0.103)	(0.100)	(0.0956)	(0.0959)
OBOR	1.004***	0.982***	1.059***	1.118***
	(0.178)	(0.173)	(0.164)	(0.165)
resOETCZ		1.056**	1.015**	0.783
		(0.501)	(0.472)	(0.476)
manuOETCZ		1.299***	0.799***	0.924***
		(0.250)	(0.247)	(0.244)
busnOETCZ		−0.852	−0.345	−0.502
		(0.594)	(0.565)	(0.566)
selfmt_1			1.353***	
			(0.199)	
selfmt_2				1.587***
				(0.244)
Constant	2.677	6.159***	6.192***	5.141***
	(1.965)	(2.012)	(1.899)	(1.914)
Observations	381	381	381	381
R-squared	0.422	0.476	0.535	0.530

*, **, and *** indicates 10%, 5%, and 1% level of significance, respectively. The value in the parenthesis is the standard error

more resource driven so that the significance of the coefficient of *lnresources* changes after *selmt_2* comes in. Also, the negative but insignificant results of *lnhigh_tech* show that the Chinese OFDI was not attracted by the OBOR countries with technology advantage.

Table 6.6 Empirical results (with OBOR policy cross term): use *Median* OFDI stocks in 2006 as a threshold

	Model 5-1	Model 5-2	Model 5-3
lnGDP	0.319***	0.317***	0.399***
	(0.0680)	(0.0685)	(0.0863)
lnresources	0.109*	0.108*	0.152*
	(0.0647)	(0.0651)	(0.0833)
lnhigh_tech	−0.0300	−0.0298	−0.0578
	(0.0513)	(0.0515)	(0.0614)
lnopenness	0.368***	0.365***	0.617***
	(0.120)	(0.121)	(0.147)
lndist	−0.998***	−0.999***	−1.005***
	(0.192)	(0.193)	(0.234)
cce	0.437***	0.438***	0.270*
	(0.132)	(0.134)	(0.161)
lnexchange	0.0791**	0.0787**	0.0862*
	(0.0381)	(0.0386)	(0.0465)
lnINFRA	−0.174*	−0.176*	−0.318***
	(0.0953)	(0.0962)	(0.123)
OBOR	1.376***	1.388***	5.573
	(0.234)	(0.237)	(4.065)
resOETCZ	1.086**	1.169*	1.107*
	(0.472)	(0.649)	(0.667)
manuOETCZ	0.797***	0.819***	0.715**
	(0.246)	(0.303)	(0.315)
busnOETCZ	−0.326	0.296	0.296
	(0.563)	(1.520)	(1.512)
selfmt_1	1.569***	1.565***	1.381***
	(0.229)	(0.237)	(0.248)
*OBOR*selfmt_1*	−0.598*	−0.561	−0.0601
	(0.316)	(0.360)	(0.416)
*OBOR*resOETCZ*		−0.104	0.144
		(0.900)	(0.972)
*OBOR*manuOETCZ*		−0.0920	0.195
		(0.444)	(0.512)
*OBOR*busnOETCZ*		−0.645	−0.661
		(1.661)	(1.667)
*OBOR*lnGDP*			−0.227
			(0.142)
*OBOR*lnresources*			−0.102
			(0.132)
*OBOR*lnhigh_tech*			0.0871
			(0.112)

(*continued*)

Table 6.6 (continued)

	Model 5-1	Model 5-2	Model 5-3
*OBOR*lnopenness*			−0.719***
			(0.257)
*OBOR*lndist*			0.0166
			(0.408)
*OBOR*cce*			0.544*
			(0.285)
*OBOR*lnexchange*			−0.0214
			(0.0827)
*OBOR*lnINFRA*			0.293
			(0.197)
Constant	6.173***	6.221***	4.831**
	(1.892)	(1.902)	(2.310)
Observations	381	381	381
R-squared	0.539	0.539	0.558

*, **, and *** indicates 10%, 5%, and 1% level of significance, respectively. The value in the parenthesis is the standard error

2. *China's OFDI is higher in the OBOR countries that are closer geographically, less corrupt, and have favorable exchange rates and worse infrastructure*

The coefficients of *lndist* and *lnINFRA* are both significantly negative. These results come as no surprise—China's OFDI started from closer countries and many investment projects were focusing on infrastructure. The positive sign of *lnexchange* shows that China's OFDI chose to go to the countries with currencies depreciating against RMB, which significantly lower the investment costs in the host countries. In other words, the decrease of the profits generated locally due to currency depreciation does not discourage China's OFDI to such countries. Finally, against the conventional wisdom, China's OFDI does not like corrupt OBOR countries because the coefficient of *cce* is positive. Just as Cheng (2016) has conjectured, "China might not wish to plunge into too many of the minefields because there are foreseeable risks and costs."

3. *China's OFDI to the OBOR countries jumps up significantly after the OBOR Initiative is announced. However, the introduction of the OBOR Initiative does not further boost the impact on China's OFDI coming from the other factors, except for openness*

Table 6.7 Empirical results (with OBOR policy cross term): use *Average* OFDI stocks in 2006 as a threshold

	Model 6-1	Model 6-2	Model 6-3
lnGDP	0.182**	0.180**	0.272***
	(0.0756)	(0.0760)	(0.0936)
lnresources	0.0733	0.0734	0.120
	(0.0676)	(0.0679)	(0.0866)
lnhigh_tech	−0.0467	−0.0462	−0.0816
	(0.0518)	(0.0521)	(0.0618)
lnopenness	0.384***	0.383***	0.652***
	(0.121)	(0.122)	(0.147)
lndist	−0.653***	−0.655***	−0.670***
	(0.206)	(0.207)	(0.252)
cce	0.309**	0.313**	0.165
	(0.134)	(0.136)	(0.162)
lnexchange	0.110***	0.111***	0.118**
	(0.0376)	(0.0381)	(0.0456)
lnINFRA	−0.183*	−0.186*	−0.361***
	(0.0963)	(0.0971)	(0.122)
OBOR	1.200***	1.220***	5.511
	(0.196)	(0.207)	(4.086)
resOETCZ	0.823*	0.939	0.935
	(0.479)	(0.657)	(0.670)
manuOETCZ	0.906***	0.945***	0.765**
	(0.245)	(0.302)	(0.315)
busnOETCZ	−0.468	−0.242	−0.0831
	(0.568)	(1.525)	(1.511)
selfmt_2	1.689***	1.670***	1.591***
	(0.277)	(0.284)	(0.308)
*OBOR*selfmt2*	−0.268	−0.217	0.0472
	(0.345)	(0.368)	(0.504)
*OBOR*resOETCZ*		−0.222	0.00303
		(0.926)	(0.981)
*OBOR*manuOETCZ*		−0.119	0.375
		(0.415)	(0.502)
*OBOR*busnOETCZ*		−0.148	−0.513
		(1.663)	(1.663)
*OBOR*lnGDP*			−0.255
			(0.158)
*OBOR*lnresources*			−0.123
			(0.137)
*OBOR*lnhigh_tech*			0.113
			(0.112)

(*continued*)

Table 6.7 (continued)

	Model 6-1	Model 6-2	Model 6-3
*OBOR*lnopenness*			−0.765***
			(0.258)
*OBOR*lndist*			0.0554
			(0.436)
*OBOR*cce*			0.458
			(0.288)
*OBOR*lnexchange*			−0.0233
			(0.0813)
*OBOR*lnINFRA*			0.383*
			(0.198)
Constant	5.142***	5.179***	3.713
	(1.915)	(1.924)	(2.332)
Observations	381	381	381
R-squared	0.531	0.531	0.554

*, **, and *** indicates 10%, 5%, and 1% level of significance, respectively. The value in the parenthesis is the standard error

The variable *OBOR* has a significant positive sign, indicating that the OBOR Initiative did have a positive impact on Chinese OFDI in belt-road countries. However, our empirical results do not provide supportive evidence to show that the OBOR Initiative has augmented effect on existing factors, such as the host country's GDP, resource endowment, or geographical location. Most of the cross terms of OBOR policy with other independent variables got insignificant results. The only variable that is statistically significant at a significance level of 1% is *OBOR*lnopenness*. Although the results of *OBOR*cce* in model 5-3 and *OBOR*lnINFRA* in model 6-3 indicate that the Chinese companies invest more in the countries with better control of corruption or with better infrastructure facilities after the OBOR policy, those coefficients are only at a significance level of 10%.

4. *The OBOR countries with a higher degree of openness attract more Chinese OFDI, but such an effect is mitigated by the introduction of OBOR Initiative*

The variable of *lnopenness* shows a significant positive relation to China's OFDI. However, *OBOR*lnopenness* exhibits a significant negative relation to the OFDI. This shows that although the countries with a

higher degree of openness in terms of FDI inflow to GDP attracts significantly more investment, the OBOR Initiative guided China's OFDI toward the less open countries on the OBOR because in average, the OBOR Initiative further boosted China's OFDI after 2013. This is critical evidence that shows that the OBOR Initiative indeed had the effect as advertised to connect the countries along OBOR by investing in the ones that attracted less Chinese investment.

5. *The manufacturing-oriented and resource-oriented OETCZs have a significantly positive effect on China's OFDI in the OBOR countries, not the business-oriented ones. In addition, the OBOR Initiative has no impact on the original effect on China's OFDI caused by the existence of the OETCZs*

The empirical results reveal that different types of OETCZs have different influences on China's OFDI in the OBOR countries. The countries with the OETCZs focusing on manufacturing industries, or associated with agriculture and natural resources can attract more Chinese investment during 2006–2016. However, the significantly positive effect does not appear in the business-oriented OETCZs. Additionally, the cross terms of OBOR and OETCZs do not have significant results in Tables 6.5 and 6.6, indicating that the announcement of OBOR Initiative did not provide augmented effects on any type of OETCZs.

6. *The OBOR countries that had a larger Chinese OFDI in the pre-OETCZ era attract more investment inflow from China. The OBOR Initiative guided the OFDI away from these countries in a marginally significant way*

The OBOR countries above both thresholds that are defined by median and average Chinese OFDI stock in 2006 attract more investment inflow, as *selfmt_1* and *selfmt_2* both exhibit a significantly positive sign. Since the Chinese OFDI was less affected by policies in the pre-OETCZ era, this means that the OBOR countries with higher self-motivated investment continue to attract more OFDI from China. With the introduction of the OBOR Initiative, this attractiveness weakens as the coefficient of *OBOR*selfmt_1* is negative in Model 5-1. This indicates that the Initiative has some influence to make the firms suppress their economic motivation and follow the policy guidance to invest somewhere else.

Concluding Remarks

China's motivation behind the OBOR Initiative concerns academia, business, and international community. Although enhancing the interconnectivity and economic cooperation with the countries on the OBOR is the main purpose according to the official statement, many still have their theories. We intend to analyze China's OFDI data from 2006–2016 with the existence of OETCZs to understand the real consequences of the OBOR Initiative so far. After all, the Chinese government may have its agenda behind the Initiative, but the real determinants of the OFDI from China for the countries on the OBOR are what really matter to the local government officials and international community.

Our results show that an OBOR country with a manufacturing-oriented OETCZ attracts a significantly larger investment from China, but not if the OETCZ is business oriented. However, regardless of the types of OETCZs, it does not have an augmented effect on China's OFDI in the host country with OETCZs after announcing the OBOR Initiative. This indicates that since establishing OETCZ is already a government policy, the OBOR Initiative is guiding the investment to some other countries because China's OFDI indeed increases significantly after 2013. Among all the past-suggested factors that may influence China's OFDI, the OBOR Initiative further boosts the investment in countries with less openness. This suggests that the OBOR Initiative indeed, as advertised by the official document, tries to connect the countries on the OBOR by encouraging firms to invest in the countries that were not attractive to the Chinese investors before the Initiative. Finally, we find that China's OFDI is significantly higher if the host country has been a focal investing point before 2006. This shows that if a country can attract relatively large amount of investment with little policy influence, significantly more investment will continue to flow into the country. However, the investment inflow from China to this type of country is not further boosted by the OBOR Initiative. This reinforces our suggestion that the OBOR Initiative significantly boosts the investment in the countries on the OBOR due to non-trivial policy influences.

In this study, we do not attempt to analyze by separating the investment that came from companies with different ownership types. In China, it has long been suggested that the state-owned companies behave evidently different regarding the investment strategies from the private-owned ones. Since the investment data in the OETCZs does not distinguish the state-owned companies from the private-owned ones, we are not able to do the separate analysis. Even though we do not think that the conclusions in this study will be significantly altered, doing a separate analysis for companies with different ownership structures should present another critical perspective regarding how China's OFDI is determined.

Appendix 1

The Overall Introduction of China's Overseas Economic and Trade Cooperation Zone (OETCZ)

According to the definition of the Ministry of Commerce of China, the Overseas Economic & Trade Cooperation Zone refers to an industrial park invested and constructed by an independent corporate body with Chinese investment established outside of China. These corporate bodies are established by Chinese-shareholding enterprises registered in China with an independent legal personality. The purpose of its establishment is to attract Chinese enterprises to invest and construct factories in the cooperating countries, in order to support the enterprises' overseas development, and to establish mutually beneficial cooperative relationships with other countries. According to the Ministry of Commerce of China, there were 20 cooperation zones officially confirmed and recognized by the Ministry of Commerce by the end of 2018.

In terms of industry selection, most of the Overseas Economic and Trade Cooperation Zones focus on China's dominant industries such as home appliances, textiles, machinery, electronics, and so on. The building materials industry with excess capacity is also listed in the important development projects of several Overseas Economic and Trade Cooperation Zones. In addition, the development of the industrial park also reflects the local resources and characteristics. For example, the

Economic and Trade Cooperation Zone in Southeast Asia mainly leverages local labor advantages to develop textile, home appliances, machinery and electronics, and other labor-intensive industries. Africa is rich in mineral resources, so the Eastern Industry Zone of Ethiopia is characterized by metallurgy. As for China European Trade & Logistics Cooperation Zone in Hungary, the geographical advantage has helped develop commerce and logistics as the focus of the Zone.

In terms of geographical location, most of China's Overseas Economic and Trade Cooperation Zone is in line with the "One Belt One Road" Initiative. Among the 20 Overseas Economic and Trade Cooperation Zones currently confirmed by the Ministry of Commerce of China, only the "Zambia-China Economic & Trade Cooperation Zone" and the "China-Nigeria Economic &Trade Cooperation Zone" are outside of the "One Belt One Road" Initiative strategic layout. A total of nine Overseas Economic and Trade Cooperation Zones are located in Cambodia, Thailand, Laos, Indonesia, Vietnam, Ethiopia, Egypt (Suez), all along the "21st Century Maritime Silk Road." The other nine Overseas Economic and Trade Cooperation Zones are located in Russia, Kyrgyzstan, Pakistan, Uzbekistan, and Hungary, all along the "Silk Road Economic Belt."

Appendix 2

Table 6.8 The list of the OETCZs

Country and the time of establishment	Name of the OETCZ	Main industries in the zone	Type
Cambodia 2008	Cambodia Sihanoukville Special Economic Zone	Early: Textile and clothing, luggage & leather goods, metal machinery, wood products Later: machinery, equipment, building materials	Manufacturing
Thailand 2006	Thai-Chinese Rayong Industrial Zone	Auto parts, machinery, home appliances	Manufacturing

(*continued*)

Table 6.8 (continued)

Country and the time of establishment	Name of the OETCZ	Main industries in the zone	Type
Vietnam 2007	Longjiang Industrial Park, Vietnam	All non-polluted and environmental friendly businesses are welcomed	Manufacturing
Pakistan 2006	Pakistan Haier & RUBA Economic Zone,	Home appliances, automobiles, textiles, building materials, chemicals	Manufacturing
Egypt 2008	China-Egypt TEDA Suez Economic & Trade Cooperation Zone	petroleum equipment industry, high and low voltage electrical appliances industry, textile and garment industry, new building materials industry, machinery manufacturing industry	Manufacturing
Russia 2006	Russia Ussuriisk Economic & Trade Cooperation Zone	Light industry, electromechanical (home appliances, electronics), wood industry	Manufacturing
Russia 2008	China-Russia Tomsk Wood Industry & Trade Cooperation Zone	Processing wood, plywood, density boards, and other wood products that meet international standards	Resource
Ethiopia 2007	Eastern Industry Zone, Ethiopia	Textile, leather, agricultural products processing, metallurgy, building materials, electromechanical industry	Manufacturing
Russia 2004	China-Russian Modern Agriculture Industrial Cooperation Zone	Planting, aquaculture, processing industry (four grain drying and processing centers, and soybean processing plants, rice processing plants, wheat processing plants, feed factories)	Resource

(*continued*)

Table 6.8 (continued)

Country and the time of establishment	Name of the OETCZ	Main industries in the zone	Type
Russia 2013	Russia Longyue Forestry Economic & Trade Cooperation Zone	Recent: logging, rough processing, and returning to domestic processing Later: forest production, intensive processing, forest product exhibition and sale, cross border logistics transportation, internal and external interaction of transnational forestry production	Resource, Business
Hungary2012	China European Trade & Logistics Cooperation Zone	Commerce, Logistics industry	Business
Kyrgyzstan 2016	Kyrgyzstan Asia Star Agricultural Cooperation Zone	Planting, breeding, feed processing, livestock and poultry slaughtering, logistics industry	Resource, Business
Laos 2012	Vientiane Saysettha Development Zone	Warehousing and logistics, clean energy, agricultural processing, electrical equipment manufacturing, metal building materials, bio-medicine, and garment processing	Manufacturing
Hungary 2011	Sino-Hungarian Borsod Industrial Park	Chemical, bio-chemical industry	Manufacturing
Indonesia 2007	Kawasan Industrial Terpadu Indonesia China	home appliances, machinery manufacturing, agricultural products processing	Manufacturing
Indonesia 2013	Indonesian Morowali Industrial Park	Extraction, export and nickel iron smelting industry of nickel ore	Resource

(*continued*)

Table 6.8 (continued)

Country and the time of establishment	Name of the OETCZ	Main industries in the zone	Type
Indonesia 2015	China-Indonesia JuLong Agricultural Industry Cooperation Zone	The upstream oil palm industry	Resource

Notes

1. See Huang (2016).
2. The document is "*Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*," which is jointly issued by China's National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce in March, 2015.
3. See Liu et al. (2017).
4. See Du and Zhang (2018).
5. The thorough introduction of OETCZs is in Appendix 1.
6. See Shen and Zhang (2016).
7. We only use 17 OETCZs in our empirical analysis because Zambia-China Economic & Trade Cooperation Zone and China-Nigeria Economic & Trade Cooperation Zone do not belong to belt-road countries. Uzbekistan (Uzbekistan Pengsheng Industrial Park) is also dropped because of too many missing values.
8. See for example, Dunning (1977).
9. The Greater China region includes Hong Kong, Macao, and Taiwan.
10. Although the number of countries located on the OBOR is greater than 60, many of them are less developed and missing lots of data. Hence, our data set only contains 43 countries.
11. See Fung, Aminian, Fu, and Tung (2018).
12. The definition of the orientation of each OETCZ used in our analysis is listed in Appendix 2.
13. For example, the "Overseas Investment Industry Guidance Policy" was announced in 2006.
14. A fixed effects (FE) model cannot be used since *Indist* in Eq. (6.1) is a time-invariant variable.

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7

Strategic Change in the Dynamics of Regional and Global Financial Integration Following the BRI

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_7

Introduction

With the evaluation of network economy and technological advancement in 1990, the then west introduced the concept of globalization which is generally based on: (a) integration, (b) convergence and (c) cohesiveness. This initiative was actually taken to control the economic order of the world which connects and integrates local and regional economies with international institutions as well as economies (Ghironi & Levchenko, 2018). This brought in various drastic changes and reforms which consists of multi-dimensional outcomes that are economic, political, religious, ideological (knowledge economy), environmental and cultural globalization (Steger, 2003). Despite the economic outcomes, academia and researchers interpreted globalization as they perceived it—as in the parable of the blind men and the elephant (Steger, 2003).

When we discuss in terms of business and economic globalization, this leads toward a higher level of liberalization of economies (Boucekkine & Huang, 2016), interrelated synchronization and high level of integration among countries. These have lowered the barriers that keep countries more integrated with one another than previously, and wrecking the boundaries of operations. The term "globalization" is generally based on the connectivity and integration through intangible ways, that is, network-based integration (Grieger, 2016). This paradigm shift brought institutional reforms, cultural uniformity (Steingart, 2008) and highly liberal economies which fertilize the liberalization of economy (neoliberal theory), trade openness (Ali, 2016), cross-border transactions and higher level of integration among stock markets. The core consequences that emerged from globalization include: (a) liberalization of economies, (b) trade openness, (c) interrelated synchronization, (d) financial integration, (e) uniform business culture, (f) empowerment of private sector, (g) sole monetarist identity-convergence (raising up of the dollar), (h) strict control on organized labor and (i) liberalization of financial services (Mukerjee, 2017). This paradigm shift created severe vulnerabilities in financial, capital and physical markets even in the field of knowledge. It converted most identities or bodies into a corporate setup for profit orientation, even a "corporatized university" (Evans, 2011). The outcomes

of these drastic changes disseminated more power and strength to the private sector. Its trickle-down effect has been seen over the periods of time in every domain of life.

After the financial crisis occurred in 2007–2008, the reality of the globalized and integrated intangible resources-based system was extremely exposed. The new narrative of regional connectivity and tangible resources-based system got strong constituency after these crisis, which shifted the trade dynamics and interest of financial analysts toward regional connectivity, alliance and integration (Lee, 2013). In line with this, in 2013, the Chinese President, Xi Jinping, launched the Belt and Road Initiative (BRI) as a development strategy and framework that focuses on connectivity and cooperation between China and regional countries through physical connection and tangible economic resources (Cheng, Song, & Huang, 2018) which covers intrinsic and implicit meanings of physical connectivity—one belt through tangible medium—one road instead of network-based connection. This paradigm shift will change the direction of the world toward production and tangible assets-based economies. In this initiative, a total of 65 countries signed the agreement—these countries jointly account for 62.3%, 30.0% and 24.0% of the world's population, GDP and consumptions of goods and services, respectively. After this initiative, the world economic order may observe the following changes: (a) controlled economies, (b) physical trade connectivity, (c) growth of value chain, (d) emergence of integrated supply chain infrastructure, (e) diversified business culture, (f) empowerment of public sector, (g) rise of gold reserve instead of dollar or any other currency (h) skillful and market oriented cheap labor and (i) state-controlled financial sector.

This paradigm shifted the economic development from west to east and from intangible to tangible resource-based growth and economies. These underdeveloped countries and least integrated countries may be integrated and converged toward origin of production instead of a pre-generated aura of specific characteristic economies. Thereafter, it will promote BRI countries' financial sector, capital markets and trade convergence from the global market to Chinese markets. On one hand, it is connecting local and indigenous markets with emerging regional markets. While on the other, it has also been leading to provide easy access to the Chinese

value chain, financial sector and capital market through cross-border transactions, supply chain and free trade. In comparison with the world's strong and mature economy, most BRI economies and markets are weak and may hardly sustain against economic fluctuations as an output of such integration. Hence, this would be an important factor in reshaping the future of the domestic market and products. In order to develop a discourse on positioning and the importance of BRI, we will address the fundamental question that how BRI would work as a counter-narrative of globalization, by emphasizing financial integration, capital market convergence, trade cohesiveness and comprehensive discourse analysis on financial management and project management.

Part I: Financial Integration

This part exhibits the process of how financial integration impacts the world economic order and how it will progress under the BRI. We attempt to expose the possibility of financial integration that might be enhanced considerably by treating it as a mainstay of globalization from the perspective of different genres of economic theories as well as its trickle-down effects. To enhance our perspective about both narratives with regard to financial integration, it is important to address the following questions.

What Actually Is Financial Integration?

While it seems true that financial integration is an unwritten narrative, however, it is considered as a prime objective of globalization. This is because financial analysts believe that highly populated regions, unequipped with financial resources could easily bring prosperity and growth if these countries could integrate themselves with financially sound economies. Researchers have extensively documented the aftermath of globalization in the context of financial integration. The emergence of globalization along with the creation of various business and trade unions made the business world and economies highly correlated

and integrated with other countries across the globe (Boucekkine & Huang, 2016). The least amount of restrictions imposing on free flow of capital, minimal transaction cost and upgradation of technologies also helps in increasing correlation across economies, thus, making one economy dependent on the other (Bhar & Nikolova, 2007; Mozumder, DeVita, Kyaw, & Larkin, 2015; Rajhans & Jain, 2015). Previous studies such as Kim, Lin, and Suen (2010) and Neaime (2012) reported the evidences of positive relationship between financial integration and the country's development in the long run and a negative association in the short run. This paradigm shift transformed economies from state-controlled to free market economies.

How Did Globalization Develop Mechanisms to Strengthen Financial Integration?

Development of International Financial Institutions

Post World War-II era necessitated the need for reconstruction of the war affected infrastructure. To redesign a new paradigm and promote trade and growth possibilities, various international institutions, for example, World Bank (WB), International Monterey Fund (IMF) and World Trade Organization (WTO) have been developed. It was in July 1944 that the World Bank and IMF were founded to act as twin intergovernmental pillars supporting the structure of the world's economic and financial order. Likewise, IMF has an important role in the global development which provides policy instructions and guidance on the loan framework to its member countries for pursuing macroeconomic stability and reduces poverty. Referring to the Global Depression of the 1930s which resulted in a disastrous conflict, the initial aim of the Bank was to monitor and exercise a global watch for economic policies which generate various conflicts between the countries. Therefore, the purpose of BWIs is more like that of the IMF which provided financial assistance to its member countries for helping them and by managing balance of payment adjustments, extending development loans during a span of 20 to 40 years and assisting them with grants which is mostly technical, advisory or project-related preparation (Kenen & Eichengreen, 1994).

It has been well documented in terms of international financial institutions (IFIs). Their prime role, and function, is to eradicate poverty (Hieronymi, 2009), economic stabilization (Kalemli-Ozcan et al., 2017; Steger, 2003) and reconstruction of the world economic and trade order (Hidalgo & Hausmann, 2007). This argument opens up two avenues for different schools of thought emphasizing the fruitfulness and vulnerabilities of IFIs. Although, these institutions provided various fruitful outcomes and facilities to the World, they could not realize their actual positions. Researchers all over the world agreed on an inability of Breton Woods Institutions (BWIs) to promote regional and domestic sustainable development. Besides the criticism of internal development failure of the IMF and the World Bank, BWIs faced serious concerns because of low-interest loans extended to corrupt and politically instable countries and their governments which were not made accountable (Griesgraber, 1995). It may be observed that similar issues and the endorsement of IMF and the World Bank are required to protect its worldwide image and loans should be provided only to those countries which pre-qualify by adhering to certain banking standards (Helleiner, 2014; Mikesell, 2000). The main objective of the BWIs is to eliminate poverty globally, but the critics believe that loans extended to the poorer countries made modest or no difference in eradication of poverty.

Introduction of the Dollar as a Universal Currency and Forex Markets

Financial innovation is one of the most influential factors in the contemporary financial system and the global economy. In literature, financial innovation refers to the creation and development of new financial products and services, however, financial processes are not considered to be a new concept; instead, it has been part of the economic environment for centuries. The central role of finance—especially after the 1970s—has certainly strengthened the prominence of financial innovation. However, there is ongoing debate on the pros and cons of financial innovation and its role in devising the outlook of financial markets. After the emergence of the dollar as an international currency and medium of exchange, the currency

(momentary scale) was used to transact products and commodities with a new market, that is, the forex market (Garnett, 1917). Due to high level financial integration, changes in the interest rates also impact the policies framed by IFIs (Qiao, Chiang, & Wong, 2008) which activates two school of thoughts. The first school of thought highlighted the plausible fruitfulness of foreign exchange trading such as the role of foreign exchange trading and financial integration among regional economies (Epaulard & Pommeret, 2016), co-movement and interdependency of local currency with dollar (Rajhans & Jain, 2015) and the dynamics of oil prices and its trickle-down effects on local economies (Alikhanov, 2013).

Alternatively, others criticized the outcomes and trickle-down effects of new markets and products. They argued that the currency is not an actual commodity or product (simply considered as a monetary scale), so it creates financial vulnerability and artificial inflation in economies (Goldberg, Branstetter, Goddard, & Kuriakose, 2008). They highlighted that foreign exchange markets around the World have experienced a series of financial crises during the past decade (e.g. Dot-com bubble crisis, sub-prime crisis and European sovereign debt crisis) which have been the causes for the concern toward regulators, policy makers of financial institutions, and portfolio managers and financial analysts (Kumar, 2014).

How Does China Strategize to Strengthen Financial Integration?

Development of Financial Institutions

To penetrate into the world economic order, China launched its own International financial institutions, that is, the Asian Infrastructure Investment Bank (AIIB), China Investment Corp, the China Development Bank, the Export-Import Bank of China and China's State Administration of Foreign Exchange. These institutions are multilateral created by a group of countries, which involves several countries acting together to provide professional development, advice and financial support for the infrastructure development projects, such as road and maritime develop-

ment. As per IMF World Economic Outlook, Oct 2017, there are four economic giants who contribute the major share to the world economy, for example, the share of the US (23.9%), China (15.5%), Japan (6%) and Germany (4.66%) (IMF, 2017). It is interesting to note that the top five economies accounts for approximately 53.43%, of which, China secured second position. The estimated forecast during the period between 2018 and 2022 predicts the possibilities of swapping of places between the US and China. The prime rationale for making comparison is to build linkages with regard to a strong relationship between the two leading economies of the World (IMF, 2017). Some critics argue that BRI being a massive project which involves an estimated investment of USD 10 trillion in the forthcoming decade seems difficult to comprehend. According to Paulson Institute which has been keeping a close eye on sustainable growth in the US and China since long suggests that, "China today is embarking on the most ambitious economic initiative in the modern history." The major critics analyze the BRI project from different perspectives and emphasize on more than just infrastructure projects. But the fact is that China itself is a huge economy with tremendous potential to draw benefits and explores opportunity all around the World (Wan, 2016). China is also rigorously investment among other participating countries to promote regional economic prosperity and world peace and development which IMF and World Bank failed to achieve. Beside these two motivational factors a critical analysis by Peterson Institute Report (2016), pointed out funding initiative, Chinese banks hold more than USD 15 trillion in deposits and the country's foreign reserves are USD 3 trillion. The financial institutions mentioned above have already contributed USD 295 billion. It is important to note that AIIB was founded in 2014 over the objections of the US to finance Asian Infrastructure which is indicative of some sort of inner political and economic rivalries which could be fatal at some later stages for BRI (Ayanangshu Sarkar, 2016).

BRI and the establishment of AIIB (2014), a multilateral financial institution, were met with suspicion in Europe. To some extent, it is in response to the US indifferent attitude displayed in the BWIs control mechanism exercised ever since the inception of the international financial institutions in 1945. The US vested interests are more or less political everywhere through control of less developed economies using interna-

tional donor support funding while keeping the IMF and the World Bank upfront. Jin Liqun who is the inaugural president of AIIB has been able to express his concerns more openly. Jin expressed his hopes to follow the memorandum and articles of association which called for transparency, openness, accountability and independence. The proposed Vice Presidents will be from any of the participating member states: for example, India, Germany, Britain, Indonesia and South Korea. This arrangement opposes prevalent policies in vogue in the World Bank and IMF. It is estimated that for the success of BRI, investment needs could be in trillions of USD just in the Asia-Pacific Region. It is quite surprising that the two biggest economies, namely Japan and the US have pulled back from joining the AIIB. Presumably, it is being considered as a threat to the prevailing US-centered world order. Since the idea conceived rests on participatory development avoiding competition to mainly concentrate on infrastructure development only, therefore, member countries do not give much attention to this theory more than an academic debate. This concept pertaining to infrastructure development was initially conceived by the IMF and the World Bank Group, but they failed to pursue it effectively owing to given anomalies. The participating countries believe it to be a more comfortable arrangement. In spite of several explanations by the member countries of the BRI on the subject, some critics still believe in AIIB as an alternative geo-political alignment.

According to *Financial Times of India* (Mar 2016), India has been one of the biggest beneficiaries of an AIIB loan of USD 1 billion. As per normal perceptions, Indo-China relations are not very cordial, but still AIIB which is Chinese sponsored has allowed such a huge investment in India. It should not be a surprise because AIIB is a multilateral institution. The *Financial Times of India* raised this question in an interview with Danny Alexander (vice president of AIIB and the former British cabinet minister) who responded, "it is a multilateral bank that has 84 member countries" (Ayanangshu Sarkar, 2016).

Launching of Chinese Currency

Major crude oil trading giants such as Brent and WTI rely on the US dollar and the Euro as a benchmark trading currency owing to their mar-

ket stability. Chinese economy being the second largest economy in the world rightly decided to become a part of the competitive currency market. Shanghai chose to enter yuan-backed crude oil contracts and the market response was highly encouraging. As per the *South China Morning Post*, the price of crude oil set at the Shanghai international Energy exchange was yuan 440.20 and in terms of USD 69.70 per barrel (Robert Minikin, 2013). The reported trade volume was around 18,540 barrels. According to experts, it upset Brent and WTI rates by a substantial increase in the case of Brent to USD71 and WTI rates jumped to 66.55 a barrel. This initiative of BRI is likely to attract more customers diverting to this market. The USD is expected to be weak before the petro-yuan, as all future contracts in dollars are likely to suffer losses due to this reason. With this change, a shift may be observed from USD to yuan as a better option for the buyers to choose it as a contract settlement currency. When we compare dollars with Yen, the USD is observed at its record lowest in the past 16 months and so. Chinese import of crude oil is moving toward taking a quantum leap and is about to cross that of the US which is the top importer of crude oil. Yuan initiative has encouraged international buyers with the hope that another stable alternative would be a good omen for their business. According to Ann Lee, author of "What the United States Can Learn from China," "it is going to be a game changer once traders/buyers have credible alternative available" (Robert Minikin, 2013). It is more of a game changer for the US. As soon as other nations have a real credible alternative to the US dollar, they can dump dollars and switch to the yuan, which can spark a dollar crisis. If that happens, not only will there be inflation from the tariffs, but also from the flood of dollars, said Lee.

Part II: Equity Market Convergence

This part exhibits how and to what extent globalization forces local and regional market returns and the movement toward their larger umbrella. Secondly, what strategies Chinese are going to adopt to shift this trend from the global to the Chinese market. To address these concerns, the following fundamental questions have been formulated.

What Is Equity Market Convergence?

Globalization and network economy have drastically changed the channels of trading and functioning of capital markets (Boucekkine & Huang, 2016) which connect higher level of financial integration, free flow of capital and international listing (Dorodnykh, 2014). This creates higher level of dependency among markets in terms of co-movement, transmits mean and volatility spillover and trends to predict market returns. This paradigm shift creates new debate in financial literature with regard to convergence theory where regional and local markets are being influenced and converged toward the main origin, that is, the global market (Wang & Shih, 2013).

Pros and Cons of Global Convergence of Markets

Two schools of thought emerge from this debate, that is, proponents of financial integration and opponents of financial integration (Barro, 2016). Proponents of financial integration shed light on the fruitfulness of the financial integration in terms of transmission of mean and volatility from global to regional markets (Gunasinghe, 2005), volatility and its impact on the prices of stocks in regional markets (Gallo & Otranto, 2007), predictability of risk using volatility transmission (Bouri & Azzi, 2014), and price discovery and volatility spillovers in spot and futures prices (Sehgal, Ahmad, & Deisting, 2015). Similarly, other researchers focus on the trickle-down impact of financial integration in terms of co-movement of exchanges of local exchanges with international markets (Patel, 2016; Taneja, 2012) and correlations between the developed and least developed markets. Financial integration provides useful insights to the investors about the trends of international markets and their trickle-down influence over regional markets (Rajhans & Jain, 2015). This creates opportunities for international investors to develop portfolios for investment in the stock markets of emerging economies (Epaulard & Pommeret, 2016).

On the other hand, the opponents of the globalization highlighted the severity of financial integration, such as higher level of dependency, which

causes high level of risk (Slimane, 2012), less options for risk diversification (Sehgal et al., 2015), limited emphasis for independent movement and growth of local exchanges (Natarajan et al., 2014; Yavas & Rezayat, 2016), high dependency of market on each other which results in higher chances of financial crisis (Meric, Prober, Gong, & Meric, 2011) and downfall in highly volatile and risky markets, thereby resulting in a fall in stable and emerging markets (Meric, Kim, Gong, & Meric, 2012). This narrative gained strong constituency after the financial crisis, which shifted the market dynamics and interest of financial analysts toward regional connectivity, alliance and integration (Lee, 2013).

How Does the Chinese Market Strategize to Shift Market Trends Toward the Chinese Capital Market?

Researchers analyzed the integration of regional markets and their impact on prices and market returns (Mukherjee & Mishra, 2010), co-movement of exchanges and linkages at the regional level (Andreou, Matsi, & Savvides, 2013) and examination of severity of mean and volatility spillover from regional and international markets (Alotaibi & Mishra, 2015). To integrate and strengthen their exchanges, China began its capital market reforms in the late 1980s. The milestones were achieved at the launch of the stock exchanges (i.e. Shanghai Stock Exchange and Shenzhen Stock Exchange) which allowed the state-owned companies to list their shares on both the exchanges. To penetrate emerging markets, the Chinese consortium—China Financial Futures Exchange Company Limited (lead bidder), Shanghai Stock Exchange and Shenzhen Stock Exchange are going to purchase portions of exchanges share and planning to be involved in the decision-making in these exchanges—the Chinese consortium purchased 40%[1] shares after the demutualization of Pakistan Stock Exchange (PSX) (Abid & Ashfaq, 2015) which represents an example of a new paradigm shift.

Part III: Trade Cohesiveness

This part presents at what level economic invasion through trade liberalization and growth can be made by global forces and how China is plan-

ning to invade global markets through trade connectivity. To answer these queries, the following research questions have been developed:

What Is Trade Invasion?

Historically, until the end of World War II, employment of hard power against other nations was considered a common practice necessary to accumulate resources for the invading nation's economic development. Conceptual change from physical use of hard power to soft power centered on economic invasions began to appear as a new form of warfare. One important aspect of war that has changed forever is the shift from Trinitarian war to non-Trinitarian war. The character of war has changed forever. Now, it is not aimed at military or political targets but commercial, industrial, scientific, technological and financial interests instead. Basically, the need stays as it is, but the tactics have changed from hard to soft, visualizing lesser collateral damage to life, resource and the infrastructure. Therefore, the concept of soft power is emerging as an alternative to coercive warfare hidden in hard power (Hulme, 2009).

How Will China Develop Ways to Control Trade Order of the World?

According to estimates, at the end of 2022, China should be occupying the first place in the World economic order relegating the US very easily to second place (Morrison, 2014). The map indicates five routes and each route serves a different set of countries. Therefore, the nature of benefit visualized by each country may differ from the other. Similarly, countries having access to any specific route, either by land or by sea lane, are likely to offer an opening of several opportunities. Making use of given opportunities depends on the country itself, it is further moderated by several factors such as its economic base and the priorities of the government in chair. The One Belt, One Road Initiative consists of the Silk Road Economic Belt and a new Maritime Silk Road. The Silk Road Economic Belt was the first step of the initiative taken up by the Chinese President,

Xi Jinping at the Nazarbayev University on September 7, 2013, during his state visit to Kazakhstan and similarly after a month ago, the New Maritime Silk Road was announced before the Indonesian Parliament on October 3, 2013. This announcement was also during the state visit of the Chinese President. On the Asian ranking, Kazakhstan is the largest economy in Central Asia, but at the same time, it has the inherent geographical disadvantage of being the largest landlocked country having no direct access to any sea lane. On the other hand, within Central Asia, it is the most dominant economy which is generating 60% of the regional GDP (Cheng et al., 2018; Helen Chin, 2016). Huge fossil fuel reserves are the backbone of its economy. Besides, it has large deposits of minerals which are yet to be explored. Kazakhstan has yet another advantage in that its western region lies within the European continent. The collapse of the USSR in 1991 adversely affected its economy as most of its business transactions especially the oil and gas industry were central government dependent. Economic reforms in 1997 were aimed to privatize federal entities which reduced the expenditure on the part of government which enables concentration on its major industry, for instance, the export of oil and gas by signing a Caspian Pipeline Consortium agreement in 1996.

This way China gets access to Europe via Russia and at the same time, Commonwealth of Independent States (CIS) becomes independent of Russian influence over Caspian oil and gas pipeline. Alternately, BRI provides an opportunity to a long outstanding requirement of Russia to gain access to hot waters. On the US front, BRI poses a potential threat to their concept associated with a new world order. This is why their foreign policy always looks for the trouble spots which pose a constant threat to any sort of alliance. The perfect examples are Jerusalem, Afghanistan and Syrian issues. However, from the Chinese perspective, Kazakhstan gets access to world markets using both the sea route and land route and mutual trade between both the countries may increase considerably. Kazakhstan's total export volume in 2015 has been USD 45 billion and China remained on the top of the list of export partners with a 15% share. China has an over-extended industrial base which needs regular raw material inputs from all over the world. Russia too has vast reserves of oil gas and the minerals. Russia is part of the G20, WTO, Gas

Exporting Forum (GECF), CIS, Asia-Pacific Economic Cooperation (APEC) and the Eurasian Economic Community—an offshoot of CIS. Russia is rated as the 12th largest economy of the world with an estimated nominal GDP (2016) exceeding USD 1.28 trillion. As per the Russian government financial report (2017), the GDP growth rate remained close to 1.5% (Grieger, 2016). The economists link it with prosperous futuristic economy. Linking it with the Chinese vision of BRI (China–Mongolia–Russia Corridor), Russia has petroleum, coal and chemicals, large reserves of metals and a high technological base in spacecraft, ship building and agriculture machinery. Presently, China imports 9.8% of the Russian exports—Russian Export Statistics (2017), Russian export volume is close to USD 530 billion. Whereas in the same year, Chinese export trade volume with Russia was nearly 20.9% of Russian import volume, at USD 182.3 billion (Russian Government Statistics, 2017). Chinese Belt Road project link via Russia is likely to open greater business opportunities for both Germany and China. The statistical profile of the German economy in 2017 is indicative of the China–German bilateral trade relationship which already exists. Looking at the statistics, it will not be unreasonable to estimate that the chances of incremental improvement in bilateral trade between Germany and China are quite promising. But at this stage, it may not be possible to make rationally supported economic predictions.

As per HSBC press release (2017), "at its heart, the plan is to enhance global supply chains primarily though debt-financed infrastructure projects, across more than 60 countries. China expects annual trade with these countries to be worth USD 2.5 trillion within a decade—up from USD 1 trillion in 2015." Chinese Ministry of the Foreign Affairs identifies three geo-economic and geo-political objectives: (1) "The aim for China is to speed up the development of the western region. The one belt and one road will turn the western interior into the frontier in opening up to the world, development opportunities in the central and western regions will increase and new growth points will emerge. This will be beneficial for enduring energy sources and resources, and also for transferring strongpoint industries from the eastern to the central and western regions and to countries on our periphery; (2) For the region, the aim is to enhance Asia's status in the world industrial chain. The major-

ity of Asian countries are developing countries, and their economic development markedly lags behind East Asia and Europe. Through cooperation in above cited areas, such as industrial parks, we can enhance Asia's status as an entity in world economy; (3) For China's relations with the region, the aim is to form a community of destiny. Forming a community of interests, a community of development and responsibility, and a community of destiny is the three-stage aim of China with the frontier countries." Analysts look at BRI as an "Economic Strategy" and believed that it will solve a number of China's energy-related issues, but some argued that Chinese initiative aims at solving the issue of overcapacity (Chinese firms cannot sell as much as their plants are designed to produce). On the Malaysian side, Chinese investments are colossal. While looking at the economic status of the country, it gives a fair idea of its future potential. The Chinese as an ethnic group constitute 22.6% of the Malaysian population. As per IMF Economic Data (2018), Malaysian GDP is nearly USD 988.99 billion (26th ranking in the world and its per capita is USD 30,430). It is promising in the sense that it has great potential as it is a newly industrialized economy with a high level of Human Development Index (HDI) as estimated by the IMF and the World Bank (HDI: 0.789, 2018). Around four and a half billion people, constituting 63% of the population of the world will benefit through this Belt and Road Initiative. It will be a win-win policy for all and it will be an instrumental of creation of a total GDP of USD 2.1 trillion, which will account for 29% of the total world's output (Grieger, 2016).

Effects on Domestic Economy

The Belt and Road Initiative would have following effects on China's growth: (a) opening up new vistas for China's economic growth, (b) domestic productivity output would be promoted, (c) harmonization and the driving of regional growth in central and western regions, (d) optimization of domestic economic structure for upgrading industrial technologies, (f) internationalization of RMB to enhance China's economic global position and (g) expediting foreign trade to enhance China's economic safety.

Effects on the Regional and Global Economy

The BRI will have the following effects on regional and global economy: (a) it will provide a new opportunity for China to rejuvenate its old silk route and its economic and cultural ties with the neighboring countries and enhance its influence in international relationships. It will be a win-win situation for all partner countries for their mutual development, to foster a spirit of peaceful coexistence, mutual trust, inclusiveness, equality and learning, (b) BRI initiative would build a global multilayer connectivity system and three dimensional transport networks through land, sea and air networks among the partner countries, (c) It would have great effects on the international financial system as the Silk Road Fund and AIIB have been set up to fund the infrastructure projects in the partner countries for their smooth implementation, (d) under this initiative, free trade industrial parks would be set up in the partner countries, which would change the pattern of international trade, giving great dividends of shared economic prosperity to them, which will also promote social progress, political stability and improve overall security in the region, and (e) it will help to increase communication between peoples of the partner countries.

Part IV: Discourse on Financial Management

The last part emphasizes the possibilities of getting funds from different sources, analyzes the risk-and-return relationship and employs project evaluation techniques and parameters for considering project management. We categorize this part into: (a) evaluating the possibilities of financing, and (b) changes in dynamics of project management.

Evaluating the Possibilities of Financing

Industrialization and globalization are basically extensions of capitalization and free market economy. These extensions had brought drastic changes in financial management of the overall economy and organiza-

tions as well. The industrialization as well as globalization generally built around mass production and growth (Anon, 1965). With this perspective, the fundamentals of contemporary financial management are based on the growth factor. All estimation in financial management like time, value of money, cost of capital, dividend growth model, capital budgeting, management of working capital, capital asset pricing and so on are based on the market interest and returns. Secondly, by putting capital as a new factor of production, it added more financial cost and vulnerabilities in financial management. Much has been documented from both angles of criticism. All risk factors are considered while estimating returns which can be linked with growth (interest) factor—fixed intrinsic growth and vis-à-vis. On the one side, this factor accelerates the overall growth of the economy (Scott, 2012; Wright, 1951), market size (Melitz & Ottaviano, 2008; Sato, Tabuchi, & Yamamoto, 2012), organizational financial performance, cost of business and financial possibilities (Piore & Sabel, 1984). This model of financial management also created an esthetic value of products, firms, markets (Macintosh, 2002). Interest-based calculation and accounting record led toward an aesthetic view of economic realities and resource instead of the actual worth of resources (Macintosh, 2002). This also created vulnerabilities and risks in overall economic order such as the financial crisis (Neaime, 2012). Various attempts had been made to redefine the rules and regulations of accounting and financial management with regard to earning management, true and fair view of economic resources of firms (Bromwich, Macve, & Sunder, 2008). This growth (futurist estimated growth instead of historic performance) model could not provide accurate and true information about the real worth of resources for decision usefulness (Bromwich et al., 2008). After the various corporate scandals such Satyam, Enron and WorldCom (Agrawal & Chadha, 2005; Kulesa & Zuckerman, 2004; Lal Bhasin, 2013; Yadav & Baxi, 2010) and the financial crisis occurred in 2007 (Neaime, 2012), International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) started to redefine the principles of financial management that could explain the real picture and worth of a firm instead of an aesthetic view of the firm. On the other hand, the Chinese financial management model is based on extrinsic growth (historic performance trends) and the worth of resources (Chen & Zhang, 2014; Sami & Zhou, 2008). They

believe in physical growth model or production-based growth model instead of intrinsic growth (futurist return and opportunity cost) and futuristic information based (Teece, 2010). Due to this financial model, Chinese physical product and services dominated the overall market of world economic order (Grumbine, 2010; Jiang, 2014). After the successful completion of BRI, new fundamentals of financial management will be production-based growth instead of market return growth. Secondly, all market forces are working under the controlled mechanism in the Chinese model, in result, return and risk is based on production size and growth instead of free market forces and interest. Even, repayment of all loans and financial aids from AIIB is subject to return from production and physical output of the sponsored project.

Considering the techniques of financial management, it is also imperative for investors and countries to consider all the risk factors before initiating new projects under BRI. They also require considering the net present value, internal rate of return and profitability index while formulating any business avenue. These parameters will again minimize the chance of inflating high cost and eventually defend the feasibility of a project under certain circumstances. Besides all these factors, BRI will help to establish businesses in under-developed countries, where not only cost of business can be reduced, but it could also provide an opportunity for the particular community to grow and the standard of living of the common man can be improved.

Changing Dynamics of Project Management

The pillars of globalization and network economy were promoted by the private sector and their participation in the economic growth and development of a country. They launched different projects in collaboration with the private sector. These projects had a specific lifecycle and their objective was to strengthen the overall economic condition of the country. After the completion of these objectives, these projects were wound up. For these projects, specialized task forces and resources were acquired (Melton, Iles-Smith, Yates, et al., 2008). This model initiated the specialized workforce and project-based expertise. This shifted the work burden

and financial responsibilities from the organization toward different projects. Most of organization shifted their innovations and research and development of product launching, testing and marketing through introducing different projects. As a result, most of the organizations were dependent on the project-based team instead of their own human capital. The various benefits of project-based products and services were documented in previous literature such as proper utilization of resources in project-based initiative (Melton, Iles-Smith, & Yates, 2008b), proper allocation and minimization of cost (Melton, Iles-Smith, & Yates, 2008a), information-based system development in organizations (Bryde, Broquetas, & Volm, 2013) and project management for sustainable growth model (Keeys & Huemann, 2017).

When we discuss the Chinese model of cooperation, it focuses on the empowerment of public sector organizations for long-term sustainable relationship between China and allied countries. For this purpose, most of the projects of the Chinese model are aligned with public sector interest and are planned for a longer period instead of specific time period. The major change which would come into the field of project management is that it would result in the restructuring of project requirement and execution because the Chinese government intends to promote sustainable long-run project-based initiatives with public sector organizations. The Chinese experience in managing mega projects is commendable. They have well-developed resources and also comprehensive work plans to execute these projects. Thus, this initiative will add value to the resources due to higher expertise in executing and implementing projects successfully.

Part V: Critical Analysis of BRI

This part of the study critically reviews the BRI. To control the economic order by intrinsic factors, China introduced the BRI which translates to create linkages among countries for constructing infrastructure. In this initiative, 65 countries have signed the agreement and they jointly account for 62.3%, 30.0% and 24.0% of the world's population, GDP and consumption of goods and services, respectively. Besides various ben-

efits and prospective growth possibilities associated with BRI growth possibilities for Asian and Eastern Europeans countries, there are serious threats to the world economic order.

There are various forms of skepticism associated with the BRI with regard to "how it will impact the participating country, credit rating, domestic politics and foreign currency reserves". In various international forums, the case of Sri Lanka being saddled with a high volume of loan from China is being quoted. Likewise, Prime Minister Mahathir Mohamad made an order to stop work on a few BRI projects in Malaysia owing to severe financial vulnerabilities because hosting countries have been suffering from trade and budget deficit since decades, for example, Pakistan, Afghanistan and other developing countries which ultimately cause risk of debt distress thereby creating a diverse range of domestic problems.

Another criticism of the BRI is that economists are offering different interest rates on Chinese loans. This will cause higher risk in terms of these projects. Chinese loans are available on lower or flexible interest rates than those from other international financial agencies such as the IMF and World Bank. The host country can use these kinds of loans in their own ways, for instance, invest in riskier projects, which require less scrutiny and depend on the political relations with Beijing without any structural and directional information about repayments. Under certain conditions, these factors can perpetuate rent seeking and encourage irresponsible borrowing. While China does not demand financial and economic reforms against their loans, their projects are designed in such a way that Beijing would end up with effective control over critical infrastructure assets in faraway lands. If it does demand reforms, like in Zimbabwe, those are aimed at making the environment easier for Chinese firms.

It is important to highlight the role of Chinese firms from the perspective of self-interest and host-state actors. In various projects, it has been observed that Chinese firms took the advantage of financing and subsequently overpriced different project. Considering above cited reasons, the World Bank banned various Chinese firms, for example, from bidding for Marawi's reconstruction after the siege of the city in 2017 and got the approval of the Philippine government. Such types of irregularities may cause financial vulnerabilities and economic invasion in the future for the

host countries of BRI. Due to these irregularities, the world economic order may face serious financial crisis.

Conclusion

Globalization is an intuitive term based on integration, convergence and cohesiveness. This implies that markets are integrated and one market is influencing the other due to the large number of business transactions. After the financial crisis, the researchers analyzed and endorsed the damage of one market on the other. Later on, the Belt and Road Initiative was formulated which illustrates that regional connectivity and alliance enhance business possibilities. Besides, it eliminates trade barriers, generates investment opportunities, mutual trade cooperation and encourages free trade arrangements among allies' members.

This chapter analyzed the strategic change in dynamics of regional and global integration after the BRI. However, we shed light on four aspects covering (a) financial integration, (b) equity market convergence, (c) trade cohesiveness and (d) discourse on financial management. Keeping in the view the importance of BRI, AIIB was formulated which is a landmark achievement to provide funds at a concessionary rate to its member countries. The other important aspect of financial integration is the launch of the yuan as a medium of exchange among member countries which boosted the possibilities of trade among countries. These initiatives taken under BRI will be one-step forward to create linkages among markets. We believe that actions taken under BRI will surely strengthen and promote businesses. With the advent of BRI, firms may get an opportunity to list their shares on the stock markets or invest in listed firms, the flow of funds may converge the market from a local to a regional market. We analyzed trade cohesiveness which promotes trade possibilities, identifies actors that overcome trade barriers, enhances business ventures and activities. Lastly, the Chinese model is based on public sector interest and has the capability to achieve long-term goals. In future, there will be restructuring of project requirement and execution as the Chinese government intends to emphasize long-run-projects-based initiatives.

This study is also important from the perspective of policy makers. Firstly, financial integration is emerging from global to Chinese markets which help to promote and enhance business activities. Under the concept One Belt One Road (OBOR), it is imperative for the regulators to act its due role in facilitating business transactions. Secondly, it is generally observed that capital markets are being converged from developed countries to Chinese markets as well as developing countries. With the induction and formulation of different Chinese financial institutions, business activities will further be enhanced. In this context, policy makers are required to closely watch the networking of business activities, so any kind of financial risk may be avoided. Thirdly, BRI will increase the trade possibilities and ventures through trade cohesiveness. The concerned authorities are required to remove all kinds of barriers which help to further enlarge trade possibilities. Lastly, financial and project management skills will also help to generate effective business opportunities.

Note

1. The Pakistan Stock Exchange sold 40% shares to the Chinese consortium (China Financial Futures Exchange Company Limited, Shanghai Stock Exchange and Shenzhen Stock Exchange). The value of the transaction was Rs. 8.96 billion (roughly $85 million). Through this transaction, the foreign investors will bring investment, skills, technological assistance and develop new products.

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8

The Interpersonal Challenges of BRI: Developing People-to-People Bonds

Isabel Rechberg and Shuojia Guo

Introduction

International competitiveness, globalization, and intercorporate collaboration is growing exponentially worldwide (National Science Board, 2008; Rodríguez, Nieto, & Santamaría, 2018), with the Chinese "One Belt, One Road" (OBOR) initiative, also known in short as the Belt Road Initiative (BRI), being the most recent attempt to promote free trade among China and Eurasian nations. The Chinese National Development and Reform Commission (2015) of the People's Republic of China (PRC) promotes this "ambitious economic vision of the opening-up and cooperation [of] a community of shared interests, destiny and responsibility," with the BRI being the medium to enable "policy coordination, facilitated connectivity, unimpeded trade, financial integration and people-to-people bonds" between participating nations (State Council Information Office of the PRC).

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_8

If successful, the BRI may develop a self-reinforcing cycle where knowledge, innovation, and trade amplify each other (Callens & Cherfi, 2015). The collaboration of actors with different types of knowledge and competencies will enable knowledge variation and creation to increase innovative capacity, performance, and global competitiveness (Derudder, Liu, & Kunaka, 2018; Leiponen & Helfat, 2010; Nonaka & Takeuchi, 1995; Rodan & Galunic, 2004; Rodríguez et al., 2018). It remains unclear however how an alliance between China and 65 other countries, accounting for 62% of the global population, can actually lead to a mutual development and growth (World Bank). Such a grand proposal requires the "interaction between the peoples of all the countries along the Silk Road despite the cultural disparity among them" (Du, 2016, p. 34).

Extensive attention has been paid to the financial and geopolitical risk associated with the initiative (e.g. see Du, 2016; Habova, 2015; Pu, 2016; Swaine, 2015), yet, the effect of cultural distance remains "a significant unobserved factor inhibiting bilateral trade which should be jointly addressed by China and the BRI countries" (Liu, Lu, & Wang, 2018, in press). For this reason, the aim of this chapter is to explore some of the greater interpersonal challenges between China and its partners that may impair collaboration in the BRI. Focusing on BRI partners' absorptive capacity, differences between national cultures, human capital, management practices, and language, we argue that essential sharing, transfer, and exchange of knowledge among nations may be difficult. Our analysis leads us to suggest that a shared culture of operations embedding shared knowledge management practices is necessary to ease interpersonal tensions and strengthen people-to-people bonds between participating nations of the BRI. Before concluding, we provide four multi-level policy solutions to facilitate fair cooperation for BRI participating nations.

Background of the BRI

Historically, the Silk Road was established during the Han Dynasty more than 2000 years ago; an ancient network of trade routes that connected the East and the West for trade, economic, and cultural communica-

tions. Today, under the same concept of interconnection and cooperation, the revival of the ancient Silk Road through BRI efforts aims to facilitate and enhance trade and connectivity between China and Central Asia, West Asia, the Middle East, and Europe. It is expected that by the final completion of infrastructure connection, the BRI will connect 66 countries and regions and cover 70% of the global population of four billion people, accounting for a third of the world's wealth (World Bank). China, the leading country promoting the BRI, is motivated by the need to spur the sluggish economy to deliver strong economic growth, the prospect of securing energy supply through new pipelines in Eurasian countries, and the desire to reinforce the international stature of the Renminbi as a global reserve currency in international transactions (Djankov & Miner, 2016).

The "Visions and Actions" white paper presented by the State Council of China (2015) lays out that the BRI is, in addition to the infrastructure connectivity program, a master plan envisioning economic developmental links between China and its Eurasian neighbors. Next to infrastructure connectivity, the BRI seeks to enhance cultural ties and people-to-people bonds among nations. New standards for communication and energy technology, and the easing of cross-border economic development among participating countries are being developed (Gonçalves, 2017). To enable such a seemingly insurmountable mission, developing a self-reinforcing cycle of trade, communication, and innovation, China is in need for full cooperation of all countries along the BRI routes.

It is imperative to enhance bilateral links among countries of different regions to facilitate the self-reinforcing trade cycle. However, the BRI is facing a wide range of challenges. From a global trade-connectivity perspective, the current trade facilitation along BRI corridors is relatively weak. Performance indicators for most corridors are below global averages (Bartley, Clarke, Kerswell, & Mclinden, 2018). As illustrated in Fig. 8.1, most of the BRI countries are part of several overlapping trade zones, yet none of their trade agreements encompass all participating nations. As a result, more than 40% of trade recorded is flowing to non-BRI countries (Ramasamy, Yeung, Utoktham, & Duval, 2017). In other words, although institutional links within regional trade zones are extensive, the bilateral

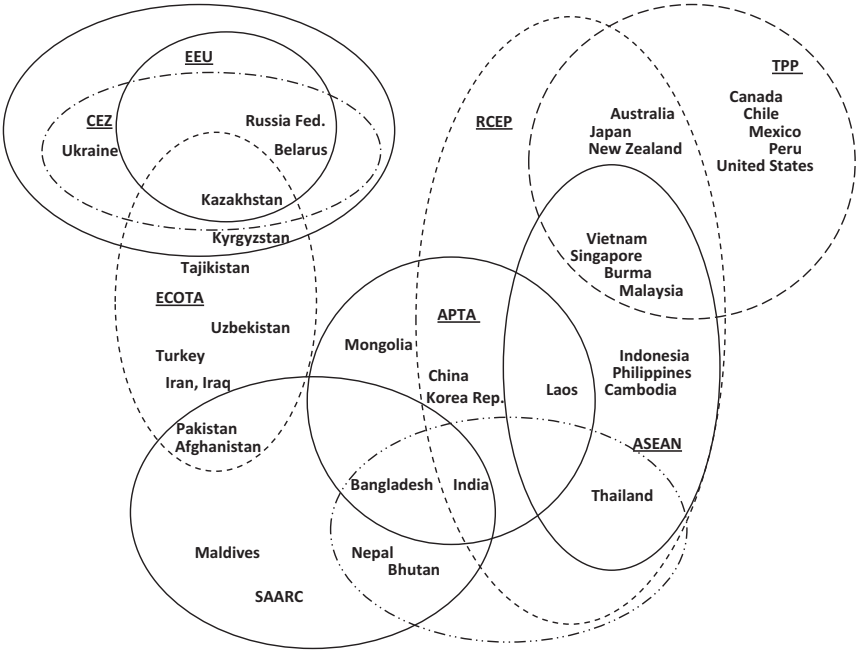

Fig. 8.1 Links of trade between BRI economies. Adapted from: "Trade and trade facilitation along the Belt and Road Initiative corridors" by B. Ramasamy, M. Yeung, C. Utoktham, and Y. Duval, 2017, ARTNeT Working Paper Series. No 172

links among BRI countries of different regions are rather weak. For example, countries labeled as "weak links" are Myanmar in the Bangladesh-China-India-Myanmar (BCIM) corridor, Tajikistan in the China-Central Asia-West Asia (CAWA) corridor, and Mongolia in the China-Mongolia-Russia (CMR) corridor (Ramasamy et al., 2017).

As the first corridor in construction, the China-Pakistan Economic Corridor (CPEC) is expected to incorporate more than $60 billion worth of capital investment into Pakistan, China's closest ally. Over a course of five to ten years, roads, railways, ports, and gas pipelines are scheduled to be created to ease road access to facilitate trade and culture exchange among all BRI partners (Chohan, 2017; Irshad, Xin, & Arshad, 2015). The Gwadar Port completed in November 2016 in the first developmental phrase of CPEC, demonstrated China's extraordinary capability in mega infrastructure construction, while simultaneously sparking wide-

spread criticism, questioning the mutual benefits of CPEC projects. From the people-to-people bond perspective, BRI is facing severe absorptive capacity difficulties, which may jeopardize the mission. With the construction and operation of ports and infrastructure projects, there is an influx of expect job creation, and an increase in exports. In reality however, most technician workers are hired from China, as Pakistan cannot provide enough skilled workers to match the project's needs. Instead, Pakistani labor is hired as guards and other logistically supporting jobs. The CPEC, the flagship project of BRI and the only corridor that is currently being implemented, has, for such reasons been labeled by some as "game over" rather than a "game changer" for the initiative (Ahmed, 2017).

There exists a mismatch between China's outward investment capability and other BRI countries absorptive capacity. This is, for example, reflected in great GDP per capita deviations (King & Du, 2018). With increasing awareness of possible risks and uncertainties, BRI projects are sidelined or delayed. For example, Pakistan withdrew from the Diamer-Bhasha Dam Project since the imposed financial conditions are interpreted as being too strict; Nepal annulated an agreement with a Chinese company to build the Budhi Gandiki Hydro Electric Project; and Myanmar announced losing interests to build a major hydroelectric power project with Chinese companies (Lee, 2017; Lo & Zhou, 2017). As Lee (2017) explains "if even Pakistan feels uncomfortable about the terms of cooperation with China, what about other countries?"

As outlined in the strategic goals of BRI, besides physical connectivity and economic cooperation, the initiative aims to facilitate people-to-people bonds, where collaboration goals are not only to access new mega projects and ecosystems, but also to enable knowledge exchange among nations (PwC, 2017). Yet, "the large influx of Chinese workers and the lack of opportunities and technological transfer to the locals, calls into question Beijing's claim of win-win cooperation" (Lee, 2017), as "barriers to knowledge flows such as social, cultural, cognitive, administrative, institutional and organizational differences" are not automatically resolved (Schmidt & Sofka, 2009, p. 462). The lack of absorptive capacity and trust, differences in culture and language frames, varying reward and status systems between stakeholders may lead to misunderstandings, disrupting the cooperation (Davenport & Prusak, 1998). In particular,

the human labor resourcing, construction plans, logistics, and scheduling of high profile cross-country BRI projects are affected by the absorptive capacity of the partnering countries. In this regard, and knowing that this list is not exhausted, in the section that follows, we discuss how lack of absorptive capacity, differences in national culture, human capital, management approaches and languages, essential for the project success for the BRI, may hinder implementation of the BRI.

Absorptive Capacity

Absorptive capacity is the ability of a firm to make sense of and use knowledge transferred and shared with them by their partners (Lin & Dalkir, 2010). Li, Bolton, and Westphal (2018) explain that high absorptive capacity between Chinese and European trading partners leads to knowledge transmission. Moderate diversity among partners is beneficial for knowledge to be absorbed successfully (van Beers & Zand, 2014), however, high diversity may challenge the ability to effectively collaborate and mobilize trade between nations (Levina & Vaast, 2008; Rodríguez et al., 2018). Drawing on a case comparison between China and Malaysia, Yean (2018, p. 6) explains that the ability to absorb knowledge depends on a "complex mix of absorptive capacities of local firms and workers, global and regional strategies of the multinationals involved as well as host country policies." And a nation's innovative infrastructure will determine its ability to adopt and translate acquired knowledge into a "realized state of economic development" (Choi & Yeniyurt, 2015, p. 1063). In particular, the factors affecting absorptive capacity and the flow of knowledge among participants include language, national culture, business practice, education, industrial development, political agenda, religion, and compatibility of knowledge bases (Dow, 2000; Johanson & Wiedersheim-Paul, 1975; Pina & Tether, 2016).

Knowledge is often context-specific, which makes learning in partnerships difficult (Nonaka, Toyama, & Konno, 2000). Johanson and Wiedersheim-Paul (1975) call it the physical and "psychological distance" between nations that can impact the effective share and transfer of knowledge. Wu, Liu, and Du (2007), for example, found that the absorptive

capacity of local Chinese manufacturing firms significantly affects their knowledge acquisition ability. Where a partner's knowledge base is limited, the successful sharing of knowledge is less likely (Awate, Larsen, & Mudambi, 2015). Countries with "weak links" to BRI corridors are currently not capable of absorbing Chinese know-how (Ramasamy et al., 2017).

Foreign explicit knowledge, such as data and information, can be misinterpreted and misunderstood, but it is in particular tacit knowledge that is difficult to share and be rightfully interpreted. Tacit knowledge's "invisibility" makes is less desirable to be absorbed (Howells, 2002). Howells (2002, p. 879) stresses that "uncovering and identifying these often-hidden reserves of tacit knowledge and being able to understand and articulate what is required by individuals and firms is an important, but neglected, part of knowledge activity." Through Rechberg and Syed (2014), we learn that all knowledge has a tacit base, leading to difficulties in the sharing and transferring of knowledge. Moreover, Polanyi (1998) finds that some elements of valuable knowledge are deeply embedded in the individual and impossible to share, making absorbability impossible. Rodríguez et al. (2018) and Starbuck (1992), for example, find that expert knowledge may not be transferred properly as a high proportion of knowledge is deeply embedded in individuals' skills and practice making it tacit and context-specific. Findings show that even during face-to-face meetings, experts alter their knowledge to try to better meet the client's needs (Rodríguez et al., 2018). Additionally, since knowledge transferred is interpreted through the receiver's "lens," the stem of knowledge is altered affecting the quality of the acquired knowledge base (Perri, Scalera, & Mudambi, 2017). Standardizing knowledge and absorbing it into the local knowledge base is therefore difficult (Consoli & Elche-Hortelano, 2010).

National Culture

It is important to address the impact that national culture can have on the success of the BRI, as culture is likely to impact virtually all aspects of human interaction (Lin & Dalkir, 2010). National culture can be defined

as "a collective programming of mind which distinguishes one group from another. Also, as mental programming patterns of thinking and feeling, and potential acting" (Hofstede, 1980, p. 25). Knowledge transfers more easily within homogenous cultures in contrast to heterogeneous cultures (see Ford & Chan, 2002; Hofstede, 1980, 2000). According to Choi and Yeniyurt (2015, p. 1062), "cultural and geographic distance negatively affect firm internationalization," in particular during cross-cultural manufacturing activities. In a case reported by Yung (2016), the time management cultures between China and Kazakhstan leads to project complications. While Chinese investors willingly pay overtime to speed up business progress, Kazakhstani employees refuse overtime work and take a vacation in the midst of a project. Kazakhstan has an unstable exchange rate, leading Kazakhstani employees to spend their income as soon as they can, rather than saving it for later, frustrating Chinese partners. Cultural variation such as these must be communicated and considered in projects between these two nations.

Weir and Hutchings (2005) explain that knowledge sharing with Chinese organizations cannot be accomplished without taking Chinese culture into consideration. China-specific cultural factors affect knowledge management implementation (Lin & Dalkir, 2010). China follows collectivism, where the collective interest of the group stands above the individual's interest. Michailova and Hutchings (2006) found that Chinese individuals were more willing to share knowledge to serve the collective interest of the group, whereas their Russian counterparts shared knowledge only if doing so would serve their own interest. China follows guanxi, the principle of relationship networks that builds on long-term credibility, which is found to have a significant positive impact on knowledge sharing among Chinese workers if present (Voelpel & Han, 2005; also Fu, Tsui, & Dess, 2006; Yao, Kam, & Chan, 2007). For example, Chow, Deng, and Ho (2000) found Chinese employees proactively sharing knowledge with the inner group—within their team, while hiding knowledge from the outer group—their American colleagues. Also, Li, Barner-Rasmussen, and Björkman (2007) found that Finnish subsidiaries more actively engage in transferring knowledge between parties than their Chinese colleagues, because the Chinese employees placed greater weight on inner group trust and a shared vision than the Finnish colleagues.

Emphasis on harmony is still important in modern China; moreover, Confucianism remains to affect Chinese businesses in relation to modesty, seniority, authority, and hierarchy (Li et al., 2007). The overemphasis on respect for seniority may hamper knowledge sharing, and an individual showing extraordinary effort may be interpreted as a sign of disrespect and disharmony and is considered poor behavior. In China, individuals follow the majority; individualism is deemed as provocation, generating envy. Individual's view of the world, is greatly impacted by the national-socio-economic climate, and cannot be easily altered (Lin & Dalkir, 2010). This interestingly also affects perceived product value, with customs, cultural background, and values held by the trading partner determining product suitability. Niu (2017, p. 77) determined that "stronger economic power, higher consumption capacity, and better education are more likely to accept Beijing's cultural creative products and services." Rechberg (2018) explains the value perception an individual holds will determine whether knowledge is perceived to be important; if the variation in culture and human capital leads to a variation in the value system, knowledge may remain unabsorbed.

Human Capital

Human capital, which can be defined as the competencies, knowledge, skills, and abilities of the citizens of an organization or country, will likely have a profound impact on the success of the BRI (Garnaut, Johnston, & Song, 2017). It is human capital that embodies the ability to produce economic value, as Lamotte (2012) states human capital is the driving force of business growth.

Berry, Guillén, and Zhou (2010) find that countries' human capital, and thus their education system, and industrial networks will determine their capability to effectively partner up for Research and Development activities. The countries that provide a more favorable environment of human capital have location-based advantages (Berry et al., 2010).

King and Du (2018) explain that it cannot be assumed that BRI partners have the necessary ability to absorb the capital investments that China provides through the BRI. With the exception of Thailand and

Vietnam, most of China's neighbors are emerging economies, where the essential schooling and training to enable absorptive capacity is lacking. The CPEC has to date created 60,000 jobs for Pakistan's labor force, yet as mentioned above does not have the ability to master the task, due to the lack of skilled labor (Rehman, 2018). Kodzi (2018) explores how African nations need to find ways to benefit from the BRI, to offset the great power asymmetry between China and its African partner nations, and to overcome the competitive pressure among African countries. The challenge is to be able to deliver the necessary technological skills in order to establish the needed "knowledge-enhancing industrial links." And China's recent infrastructural investments into Kazakhstan, has led to the concern that Kazakhstan cannot deliver the necessary talent support, missing essential human capital, and shared values to absorb transmitted knowledge (Yung, 2016).

Management Practices

There are concerns that China's management approach does not sit well with that of partner nations in BRI. With Confucian roots in the Chinese value system, Chinese people prefer simple hierarchical organizational structures, an operation method that has been criticized by counterparties in partnership (Swaine, 2015). In contrast to multiple-line reporting operation methods, Chinese management strategies are dominated by "autonomy and accountability," making synergies and knowledge sharing across units less likely (Hout & Michael, 2014).

Gao (2012) explains that Chinese companies tend to place particular emphasis on "chief leaders," who create their own social systems by recruiting and developing all social ties, including hiring of staff, developing supplier relations, strengthening government ties, developing capital resources, and providing educational guidance to the children of employees (Hout & Michael, 2014). For example, the "chief leaders" of Midea, China's second-largest global home appliances maker, hold sole authority over every business function, including recruiting sales forces, building distribution channels, and constructing facilities for the location they are managing. This centralized "chief leader" dictated management

approach is commonly seen in China and is viewed by Chinese as a valuable strategy for fast response and efficiency; however, it has been criticized as creating "blind spots" in sensing incremental changes in market shifts and social transformations (Gransow & Price, 2018).

China has developed deep expertise in the management of infrastructure mega projects along its growth path and their engineering capacity is well established (Drache, 2018). Critics warn, however, that if China continues to use its centralized management model in the BRI by supplying Chinese materials, labor, and capital, such a development model may create competitive rather than collaborative partnerships, hindering smooth knowledge sharing and transfer in the BRI (Casarini, 2015). Ali (2018) and Deng and Li (2017), for example, found that with the gradual launch of the CPEC projects, China sends its own managers to Pakistan to oversee and structure operations, who passively implement headquarters' strategies, practices, and procedures rather than drawing on local strategic alternatives and implementation tactics that can be learned by the local labor force. "Chief leader" expatriates are found to take what Gransow and Price (2018) call the "upper route," where communication takes place only with local governments and large enterprises, habitually ignoring opposition from the local community. Local workers are angry with the Chinese "chief leaders," because they "lack general understanding of Pakistan's Islamic traditions, complex ethnic relations and taboos, lack experience of cross-cultural management and operations" (Deng & Li, 2017, p. 77). The lack of respect for local religious traditions has led to frequent violation of local ethnic religious taboo (Deng & Li, 2017). In extreme cases, in 2012, Chinese expatriates were abducted from construction sites in the Sudan and Egypt, as a tool used for local workers to make their frustration over wages and operational safety heard (Grimm, 2012).

Language

The Social Capital Theory approach to knowledge sharing explains that it is shared language and compatible mental schemes that lead individuals to be able to communicate knowledge, whereas differing mental models

and language may hinder the effective transfer and sharing of expertise (Nahapiet & Ghoshal, 1998; Newell, 1999). Fidrmuc and Fidrmuc (2016) explain that both culture and a common language are well-known determinants of trade, with fluency in the main trading language having a profound positive impact on the trading relationship. In fact, Egger and Lassmann (2015) found that common language increases trade flows by 44%.

Language difference can lead to out-group and in-group categorizations, which will negatively impact the interaction, networks, and social support among partners of different language groups (Zhang & Peltokorpi, 2015). Born and Peltokorpi (2010 in Tenzer, Terjesen, & Harzing, 2017, p. 825) found that "language-based intergroup boundaries can have detrimental effects of decreasing MNCs' organizational identity, knowledge transfer, control, coordination, and communication." Yung (2016) highlights that China's BRI partners' commonly communicate in Russian, Arabic, and Persian among others, finding that nations that share a common language engage in regional trade rather than global business. Niu (2017), for example, finds that language differences between China and its trade partners block the trade of cultural creative products and services.

Language difference may further challenge the BRI success as trade agreements may be misinterpreted. Russian is the dominating language in Central Asia, yet Chinese trading partners face difficulties in finding qualified translators. Yung (2016) sees this problem being rooted in the educational systems, as countries paying too little attention to the need for multi-linguists: a lack in human capital.

Additionally it should be mentioned that individuals interpret received knowledge in their unique way. From Chomsky (2002) we learn that every individual had an *I* language that derives from the individual's unique interpretation of the world. Individuals use the language that is familiar to them; these words are often local and context-specific (Alvesson & Deetz, 2009). Thus, sharing knowledge among nations where language differs is challenging. Additionally, clues are interpreted based on individuals' *sensemaking*: the way we make sense of the world (Weick, 2001); individuals will focus on the meaning of the word, not the word itself, which can lead to various interpretations based on the angle of

perception. Polanyi (1998) calls this the *domain of sophistication*. This is complicated where written characters vary greatly, which is the case between the Chinese language and the nations they seek to trade with.

Discussion

The ancient Silk Road was a variation of decentralized routes that began at the local level and organically spread out over the course of centuries in order to share merchandise, knowledge, and culture. In the case of the BRI, China sets the routes, and the rhythm of the trade agreements (Broadman, 2017). The extensive socio-economic tension, and great financial risks associated with the BRI call for strategies that can resolve such tension and risks. One of the five cooperation priorities of the BRI seemingly aims to reduce the cultural distance between China and BRI partnering nations by advocating to strengthen people-to-people bonds (Liu et al., 2018). In the section that follows, we discuss how through a shared operational culture that draws on knowledge management principles, the interpersonal challenged between BRI partners discussed above may be relieved.

Operational culture: It is both national culture and corporate culture that are likely to affect knowledge sharing and transfer between China and its partnering nations, which in turn will affect the success of the global alliance. Through Hofstede (2000), we learn that a corporate culture is nested within the national culture, which will shape partners' organizations' behavior. Great cultural diversity is known to lead to hidden cultures, such as individualism, hindering knowledge sharing among participating partners (Alvesson & Kärreman, 2001; Inkpen & Tsang, 2005). Choi and Yeniyurt (2015) address the need for cultural proximity between partnering firms, as good communication, decision-making processes, and knowledge sharing activities critical for the alliance are directly impacted by cultural distance. A shared operational culture may remedy cultural distance and differences in management practices, acting as a mediator between national culture and the necessary knowledge sharing processes (Ford & Chan, 2002). For example, Liao et al. (2017) find that it is crucial for Chinese companies operating abroad to learn

about partners' expectations as well as the local reward systems to encourage the collection and sharing of knowledge fostering institutional memory.

Gergen (1994) discussed how to develop shared contextual knowledge, such as beliefs and practices, in a *Gesellschaft* or social society, to enable the flow of knowledge between participants. Here, partners form a shared culture of practice, promoting a shared vision to strengthen the relationship ties among employees of either party (Tsai & Ghoshal, 1998; Wang & Noe, 2010). Building a sense of community will in turn enhance the building of trust and will increase the communication among participants, which will foster knowledge transfer and sharing (Tagliaventi & Mattarelli, 2006). In the case between Sri Lanka and China, a shared operational culture might have withstood the great political offset.[1]

Trust: It has widely been studied that trust and a trusting relationship within an organization will facilitate knowledge sharing among members (e.g. Bock, Zmud, Kim, & Lee, 2005; Chow & Chan, 2008; Holste & Fields, 2010; Lin, 2007; Wiig, 2004; Williams, 2007). Politis (2003, p. 64), for example, finds that "'trustworthy' intentions among coworkers is the chief ingredient for knowledge acquisition and knowledge sharing." Trustworthiness among individuals affects group commitment, which counteracts knowledge hoarding and may prevent knowledge loss (Inkpen & Tsang, 2005). Additionally, knowledge share and creation is increased where trust is present (Burchell & Cook, 2008), fostering innovative behavior (Carmeli & Spreitzer, 2009), necessary to a successful BRI outcome. Trust within the BRI is currently, seemingly, lacking, as China is holding all management positions, deploying "chef leaders" to oversee operations abroad. In consequence, Sri Lankan and Malaysian small and medium size enterprises fear that Chinese investors will outprice them. China is known to control the entire supply chain for their infrastructural investments, as is the case in the Sri Lankan Hambantota port (Yean, 2018).

It is trust that drives commitment, which in turn is supported by partners' benevolence, honesty, and dependability (Doney & Cannon, 1997; Fukuyama, 1995). For example, "knowledge sharing hostility" between Russian and Chinese partners made knowledge absorption impossible between the parties (Husted & Michailova, 2002). Benevolence derives from a partner's willingness to selflessly share knowledge for the mutual gain

of the alliance (Johnson, Cullen, Sakano, & Takenouchi, 1996; Lee, Jeong, Lee, & Sung, 2008). Honesty results from partners exchanging trustworthy information. And where action is fulfilled and tasks are completed as agreed, dependability is present in the relationship. Where trust leads to commitment, a reciprocal relationship can be established, and knowledge can be shared, among individuals, groups, and nations.

Reciprocity: Reciprocal action theory explains that parties engage in a mutual exchange, where one party may provide knowledge on a product launch in exchange for insights on accessing the local market (Gouldner, 1960). In a reciprocal relationship, the receiving party will match the behaviors experienced by the giving party and will return the favor in proportional fashion to what they had received (Seinen & Schram, 2006). The mutual exchange of knowledge between the parties will develop the necessary bond and sense of care between BRI parties (Lee et al., 2008). In a reciprocal relationship, parties participate selflessly to benefit the relationship and exchange knowledge to help the partners where they are needed (Seinen & Schram, 2006). A reciprocal relationship is motivated by the concept of balance, where one party benefits through the goodness of the other party, the giving party will benefit in return. Where the BRI's operational culture is based on reciprocity, the fear for exploitation may be overcome, since both parties party will see the benefit of the project.

The challenge for a reciprocal relationship is that it is influenced by "cultural distance, economic nearness, country level risk, and governance mechanisms" (Kashlak et al., 1998 in Lee et al., 2008, p. 10). Sri Lanka had a legitimate concern when leasing its Hambantota port to China for the course of 99 years in exchange for a US$ 1.1 billion in debt relief (Yean, 2018). What is perceived to be fair by each of the participating parties may vary. Rechberg (2018) explains that individuals' internalized values form fairness perception. What is perceived as fair is determined by participant's upbringing, national culture, as well as their concern for efficiency and need (Konow, 2003). In this respect, not all knowledge may be perceived as equally valuable by all parties; what may seem important for some may carry little meaning to someone else, causing great complications when seeking to transfer knowledge between parties (Rechberg, 2018). And where individuals feel that they are sharing more than they gain, they will resort to knowledge hoarding (Bolender, 2003).

Additionally, value perception may impact the extent to which parties feel they need to express reciprocity. Lee et al. (2008) highlight that both magnitude of reciprocity—the quality of the knowledge exchanged—and symmetry of reciprocity—the extent to which an equal amount of knowledge is provided among the parties—needs consideration. Not all that is shared may be equally worthy, and some that may be shared can be incomplete in its form so that one party will retain the competitive advantage over the other, which will limit the success of the partnership.

As partners engage in the reciprocal relationship, the exchange of knowledge is evaluated. If the parties experience satisfaction with the arrangement, the partners' interdependence will deepen. If the partnership is perceived as unfair, individuals will protect their knowledge and commitment will decline (Rechberg, 2018). It is therefore important that all members of the BRI share reciprocal relations.

Knowledge management: Harvey and Novicevic (2000) explain that "global organizational ignorance" leads to unnecessary knowledge loss, and error. Knowledge management caters to an organization's ability to sustain a competitive space, by adopting organizational processes that bring awareness to knowledge, and develop strategies to capture and manage knowledge and knowledge processes. One possible definition of knowledge management is "the practices and processes, involving systems and individuals, to organize, develop, manage and share both explicit and tacit knowledge within and between organizations, groups and individuals" (Rechberg & Syed, 2012, p. 35). Sveiby (2001) identifies two main categories of knowledge management for knowledge to be processed in order to sustain competitiveness. One focuses on the use of information and technology to enhance the access of information and make the reuse of data possible through the access of databases. The other focuses on how, through the management of people in the corporate space, individuals can be aligned, their skills and competences improved, and knowledge sharing mobilized.

The BRI can draw on knowledge management practice to enable the necessary exchange and sharing of technological expertise, resources, and capabilities among nations. This includes the exchange of knowledge, essential to enhance the local knowledge bases and enable access to local markets (Awate et al., 2015; Oxley & Sampson, 2004; Perri et al., 2017).

Developing shared practices that promote and overlook knowledge flow among BRI partners will add value to the BRI and will enrich exchange. Yung (2016) finds that some data management, monitoring and evaluating systems, are already in place among some of the BRI partners; however, there is little transparency of the systems, and it can so far not be analyzed how effective they are.

Developing shared knowledge management practices under a shared operational culture will assist in overcoming grant divergence in absorptive capacity, language, and human capital. Ramasamy et al. (2017) urge that the BRI pay closer attention to the performance gap between countries and try to remedy it by China sharing its know-how. Meijers, Burger, and Hoogerbrugge (2015), for example, find that well-developed network connectivity is beneficial, as these allow for knowledge transmission between BRI knowledge hobs. Derudder et al. (2018) propose strategic "network pipelines" as a medium to enable decisive knowledge share among BRI partners, enabling knowledge share and creation. Knowledge and expertise exchange between BRI partners, in the case of Singapore and China, can, for example, lead the clean and green city of Singapore to share urban planning knowledge to assist well-equipped Chinese partner cities to reduce their carbon emissions (PwC, 2017).

National culture and management strategies may be inflexible, but shared knowledge management practices can overcome some of the challenges. Knowledge management can provide the necessary link between nations that seek to participate in the BRI; through a shared knowledge management strategy, the absorptive capacity among participants can be enhanced, since awareness to the importance of partner's knowledge can be learned. Ali (2018) finds that China is not sufficiently investing in capacity-building initiatives in partnering countries, which has to change as R&D alliances are only successful if there is close collaboration, communication, and exchange of technological knowledge (Choi & Yeniyurt, 2015).

Cultural differences between BRI partners can lead to barriers to social learning and knowledge transfer. Establishing close collaboration will enable the sharing and exchange of expert knowledge and will enable the sharing in norms, behaviors, and actions that accompany the collabora-

tion. The PwC report (Perri et al., 2017) found that Chinese management drawing on Kazakhstani local knowledge on gas location and transportation, in exchange for Chinese technology and know-how, will "enable the local firm to eventually operate and manage the infrastructure" (PwC, 2017, p. 31). And where collaboration is successful, additional knowledge variety will allow for an increase in innovation capacity, performance, and global competitiveness (Leiponen & Helfat, 2010; Nonaka & Takeuchi, 1995; Rodan & Galunic, 2004; Rodríguez et al., 2018).

Shared knowledge management practices can help in becoming aware of and drawing on local knowledge. Howells (2002, p. 873) reminds us however, that "knowledge is centered on a knowing self, an individual, and this 'knowing self' is influenced in its human *development* by its cognitive, social, cultural and economic circumstances which in turn are influenced by its geographical environment; namely, by place." To remedy the great difficulty of spatial and language barriers, knowledge transfer and share is eased through what Freeman (2010) calls the "brain circulation" process. Knowledge flows between countries foremost through people communicating through interconnected networks (Ducruet & Notteboom, 2012). For example, Chinese individuals may return to China after having been educated abroad; with them they bring foreign-acquired knowledge and network knowledge, maintaining relationships with experts in the host country to generate partnerships. Such people-to-people bonds arguably ease the transfer and share of knowledge as these individuals are familiar with both cultures and languages, and a relationship has already been established. Additionally, diverse work groups representing all participating parties can be created, these teams then travel along project lines, ensuring that the cultural needs of each party are met.

Implications for Policy

The above discussion, on possible solutions to the interpersonal challenges in the BRI, leads us to promote four multi-level policies that may serve to bring about the success of the BRI.

Greater transparency and coordination: China makes up a significant portion of trade and outward investment in BRI economies, which causes an imbalance of negotiation power in China's favor. This trend leads to doubt on the plausibility of win-win exchanges between nations. Pakistan has, for example, witnessed a domestic debate on issues of political impact and transparency over CPEC (Ali, 2017). Greater transparency and coordination is needed between BRI economies for implementing trade facilitation. The Chinese National Trade Facilitation Committees may play a central role in leading the BRI-related trade facilitation reforms, particularly on reforms to improve transparency. China can do a better job in defining project goals, and roles of stakeholders involved in BRI projects. Regulatory transparency needs to be initiated to enable fair comparativeness. Likewise, information on trade transactions needs to be shared and synchronized between agencies and governments along specific corridors to facilitate shipments, achieve mutual recognition of standards, and conformity assessments.

The leading role of China: In the BRI, China has a series of both arrangements and agreements with neighboring countries, included in the six economic corridors, for the purpose of flourishing on multiple social and economic fronts via trade, investment, and tourism (Chan, 2018). The trade, investment, and cultural exchange is not a monologue, but a dialogue among participating countries (Broadman, 2017). So far, China has emphasized on the commercial nature of BRI, while downplaying the role of foreign aid. Some of China's investment may be directed to mitigating the great financial and social risks that Chinese lending imposes on less developed countries, to better promote the sustainable growth and mutual development. First, China can take a lead in establishing and funding support that would address the potential asymmetries in economic condition and financial sophistication between BRI creditors and BRI borrowers. The fundamental objective should be to address financial risk evidenced in indebtedness problems in a manner that achieves a wider benefit and allays concerns about China's behavior, as in the cases of Sri Lanka and Tajikistan (Hurley, Morris, & Portelance, 2018). As a majority of BRI members are developing countries and may not be familiar with markets and lack knowledge on financial techniques and risks, China should practice reciprocity and provide legal support to advise

them on the negotiation of debt operations. Since China plays a leading role in the funding support, special emphasis needs to be paid to ensure that such funding would not interfere with the negotiation unproportionally benefiting China. Additionally, China could consider adopting debt-for-nature exchange that is extensively used by the United States and some multilateral funds, to forgive borrower country's debt in exchange for its commitment for designated objectives in environmental protection (Hurley et al., 2018). As China has a growing number of debtor countries, this exchange may be deployed in support of a wider range of public goods, with the premise that the negotiation does not complicate debt reduction terms or conditions that are unfavorable to the debtor country. For example, there should be no forced purchase of Chinese goods or services.

Infrastructure and human capital: Infrastructure and human capital are important to every country along the corridors. Beside the construction of transportation infrastructure that is emphasized in BRI plans for providing physical connectivity, Information and Communication Technologies (ICT) will benefit virtual connectivity and cross-sectoral synergies. The implementation of modern ICT systems is essential for the BRI initiative, and needs to be designed and deployed to support streamlined seamless integration, rather than the automation of existing procedures. For policy concerns, the availability and affordability of bandwidth should be improved through efforts to interconnect national and regional fiber-optic backbone networks within BRI neighboring countries.

BRI known as economic corridors, also labeled as "knowledge corridors," should give reasonable attention to human capital development by bringing on sustainable human resource development policies. Particularly, China, as the leading country, may lend support in workforce training plans to resolve the knowledge gap or asymmetry between trading partners. Building human capital will benefit all participating nations at any developmental level to develop adequately educated and skilled workers. Adequate human capital will enable increased ability to absorb knowledge, facilitating innovation, and the incorporation of new technologies. In the case of Pakistan, its lack in the skilled workforce,

especially lack in general education and literacy in rural areas, limits the human capital resource challenging the execution of BRI projects. Lack in human capital reflects the need for a comprehensive policy on training among BRI countries (Ahmed et al., 2017). Additionally, enhanced human capital will mitigate improvements in "health, culture, safety, community, and a host of other considerations that have not typically been perceived as manpower planning or human capital investment" (McLean, 2004, p. 269).

Post-secondary schools and universities along BRI corridors may coordinate in joint ventures to establish integrated research centers and areas of special interest, recruiting international faculty and incorporating exchange programs to address knowledge gaps and promote interdisciplinary and cross-cultural management talent. Collaboration between schools, scholars, and entrepreneurs of diverse backgrounds, knowledge transfer, and sharing between different nations can flow more freely, developing more technical and management talent to participate in the BRI (Syed & Tariq, 2018).

Better social risk assessment tools: Geographically, the infrastructure projects cover Central, South, and East Asia, the Middle East, and Europe, encompassing transport, energy, urban, and water sectors. Besides the enormous financial risks, those infrastructure projects also trigger social and environmental impacts. For example, the Irrawaddy Myitsone Dam project with an estimated investment of $30 billion was terminated by the Myanmar government after local protests erupted based on environmental and social grounds (Gransow & Price, 2018). Facing such risks, BRI countries may develop a social assessment framework, consulting the people affected. Establishing grievance redress mechanism to hear complaints and incorporating people's expressed needs and priorities is essential to effective social risk mitigation (Gransow & Price, 2018). China has been criticized for short seeing social conflict and lacking in risk management methods, future policies therefore need to go beyond China's "chief leader" management style adopting more international characteristics. For example, sufficient risk assessment tools may better predict social risks and be structured in such ways to avoid social unrest and conflict.

Limitations

Challenges we have not addressed that are equally important are economic, legal, political, and religious risk factors. Our focus is on highlighting the interpersonal constraints that may hinder the sharing and transferring of knowledge among countries of cultural and economic differences. This is a review of the literature, developing constructs to test the BRI pragmatism. The study is based on the motivation that leads China to initiate the BRI, without investigating partner countries' motives. Empirical research is needed to identify whether shared knowledge management practices and a shared operational culture can remedy sources of conflict to develop trust and reciprocal relationships among BRI participants, promoting the success for BRI. We are aware that none of these goals are easy to accomplish as conducting a through, conclusive evaluation of the BRI is as mammoth a task as the initiative in itself is.

Future Research

A new round of "opening up" reform and the launch of BRI have been applauded with loud fanfare, yet the path ahead is largely unknown and unpredictable. To ensure success, China will need to maintain a realistic balance between its ambitious Asian economic strategy and its global economic cooperation (King & Du, 2018). In our study, we propose that absorptive capacity, the differences in national culture, human capital, management approaches, and language, may hinder the success of BRI. To thoroughly investigate the interpersonal barriers arising in the BRI, future research of mixed methods research may be conducted. For instance, qualitative research, such as in-depth interviews with corporate employees, can help in decoding the factors that influence individual knowledge sharing and trust development from the perspective of the internal stakeholders. Case studies on knowledge sharing of BRI participating firms will be beneficial, since a study capturing all relational tensions in BRI projects may be challenging. A theoretical process model can guide the contextual and systematic analysis of knowledge sharing and exchange behaviors that may occur in international collaborative proj-

ects. As a majority of BRI members are developing countries that need financial and technical assistance from China, it therefore may be interesting to study the incentives of knowledge sharing and exchange by Chinese entities. Quantitative analysis relating knowledge management activities with overseas investment successes will be useful and insightful. It may also add value to determine whether shared knowledge management practice in international alliances can be established. Along those lines, it can be tested whether shared practices can facilitate knowledge sharing and partners absorptive capacity, and can enhance trust among participating members. Cross-cultural studies can be conducted to determine whether cultural differences can be bridged through shared operational practices, or whether differences may vary too greatly for reciprocal relationships to be established. Special attention can be given to study the roles of Islamic culture in influencing the BRI economic ties as many BRI countries are home to Islamic cultures. Lastly, beside the commercial nature of BRI cooperation, future studies may address the benefits of foreign aid as a source of capital flow to balance the financial and social risks, and better promote the sustainable growth and development of low-and median-income Asian countries.

Conclusion

To achieve the physical and economic connectivity across regions, the BRI claims to abide by the spirit of openness, inclusiveness, and transparency. At the Boao forum in March 2015, President Xi stated that the initiative would be "a real chorus comprising all countries along the routes, not a solo for China itself." Linking to partners' absorptive capacity, national culture, human capital, management approaches, and language differences, we addressed some of the major challenges that can threaten the success of the BRI. Explaining the need to establish strong people-to-people bonds, we suggest developing a shared operational culture, incorporating knowledge management practice to enable the BRI. Although we made no claims to declaring what the end result of the BRI collaboration activities will be, our study underlines the relevance of

assessing tangible and intangible trade barriers shaped by cultural and geographical circumstances and, more importantly, points to remedies for participating nations to brighten the BRI outcome.

Note

1. BRI project was put on hold when Sri Lankan President Maithripala Sirisena assumed power in 2015, to allow the incoming government to reassess the deals. This "change in leadership has brought about a serious disruption to the project, resulting in a year-long suspension of the project and over $100 million losses to the Chinese developer, China Communications Construction Company (CCCC)" (Estrada, 2018, p. 6).

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9

The Chinese Vision of BRI and Its Effects on Turkey and West Asia

Mustafa Yildiran

Introduction

Although the historical importance of the Silk Road has decreased since the seventeenth century, it has held an important place on the global agenda in recent years. Due to increased requirements of energy and other resources, China is forced to turn its attention to Central Asia. The new Silk Road has become a popular project around the world since Chinese leader Xi Jinping announced the 'Silk Road Economic Belt' in September 2013 at Kazakhstan Nazarbayev University. He announced to the world the project of the twenty-first century Maritime Silk Road, following his speech to the Indonesian Parliament. The concept transformed to a Chinese Belt and Road Initiative (BRI), which is a 'long-term project that seeks to integrate Asia, Europe, the Middle East and Africa into a Sinocentric network through the construction of land- and sea-based infrastructure' (Callahan, 2016).

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_9

The concept of BRI identifies the Silk Road in different ways. The first suggestion is that it is a path of peace because it develops a dialogue among the Silk Road countries. Secondly, it is the path of prosperity indicating a desire to enhance wealth with infrastructure investment along the Silk Road. Thirdly, the road is a path of openness. The project is open towards the west and east of the Silk Road countries. Through BRI, China intends to follow an open, inclusive, steady and win-win economic globalization route. Fourthly, this initiative also consists of green sustainable development and digital transformation for BRI countries (Wang et al., 2018).

The aim of this chapter is to clarify several aspects of BRI in terms of Turkey and its economic interests. In this respect, it explains why and how BRI is important for Turkey and Central Asia. In addition, it answers the following questions: What is Turkey's Silk Road vision? and Does BRI match up with the Turkish vision? The chapter is organized around these questions.

Economic Land Belt: From China to Europe via Turkey

The Belt and Road Initiative is the economic land belt which will connect Chinese infrastructure with the European hinterland via Central Asia. This link also extends to Africa. The economic belt consists of all of economic components such as railways, pipelines, data networks, roads, bridges, dams, markets, treaties, financial hubs etc. It focuses on Chinese infrastructure as a global strategy. From a Chinese perspective, it is not only infrastructure investment but also regional, social and economic investment. The project contains key components of economic development such as infrastructure investment, employment, raising of trade volume and foreign investments. BRI was announced as a 'peace' and 'friendship' road by President Xi Jinping in Kazakhstan in 2013. The initiative focuses on social outlook and economic infrastructure for the developing and the underdeveloped countries. The initiative may also be seen as a grand Chinese strategy and new geopolitical concept to enhance global wealth and power (Ploberger, 2017).

There are two aspects of BRI project: one is the land-based economic belt crossing from East Asia and passing via Central Asia to Europe; the other is the maritime route from the Pacific via Africa to the shores of the Mediterranean Sea.

Although the new Silk Road comprises different corridors, the China-Central-West Asia corridor is relevant to Turkey. This corridor links Europe to China and may lead to access and competition between the EU and the Chinese economy.

The Importance of the Western Asia Corridor

The Silk Road is an historic road connecting old Chinese civilizations with India and Central Asia via Turkey and Persia (Iran) and further to the Roman Empire. Encyclopaedia Britannica defines the Silk Road as follows: 'ancient trade route linking China with the West, that carried goods and ideas between the two great civilizations of Rome and China. Silk went westward, and wools, gold, and silver went east'. In recent decades, the factor that has increased the potential and importance of the corridor is the independence of Central Asian countries from the Soviet Union. The corridor is important for the following reasons:

- The Central Asian and Caucasian countries have rich resources and experienced rapid economic development in recent years;
- The energy hubs which connect both Europe and China with Central Asia;
- Logistics centres in Eurasia;
- Trade and investment volumes between China and Eurasia have risen.

Economic and Political Development in the West Asia Corridor

West Asia faces a variety of challenges such as poverty, migration, starvation, wars and ethnic and religious disputes. However, Western Asian countries also have rich oil and natural gas reserves. These countries are also important due to their strategic geopolitical position. Moreover,

there is a rich cultural heritage on the historical Silk Road. BRI is expected to provide trade, investment and social opportunities in Western and Central Asia. In addition, China may reach Europe for its commodity market and Africa for natural resources. Thus, Central Asia is the main focus of the Chinese BRI.

The Central Asian countries, excluding the Kyrgyz Republic, Tajikistan and Uzbekistan, reached more than 4000 US dollars GDP per capita in 2017, indicating an increase of up to five times since 1995. Russia and Turkey have a per capita income of more than USD 10,000. The countries of Central Asia are landlocked. Central Asia after 1870 came under Russian domination. In 1917, the Soviet era began and later in 1991 it disintegrated as five republics namely Kazakhstan, Uzbekistan, the Kyrgyz Republic, Tajikistan and Turkmenistan. All the republics were connected to Moscow economically. All infrastructure projects were designed in accordance with Soviet policies. Although all five Central Asian republics gained independence in 1991, their economic conditions were unchanged. Central Asia has borders with global and regional powers: Russia, China and Iran. Although Turkey does not have a border with the Central Asian countries, it seeks close economic, political and cultural links with them based on shared historical and language roots (Batsaikhana & Dabrowski, 2017). Though China has increased the cumulative economic effects, Russia is still the hegemonic power of the region. BRI is not only an alternative project for the Central Asian countries but also a powerful economic initiative for Russia, Turkey, Iran and the EU (Kohli, 2017). However, while China is a trade partner of the Central Asian countries, BRI is a different strategy about economic and social development. This region has strong partners, ambitious competitors and less developed neighbours for China. These countries have grown steadily from 1995 to 2017.

Western Asian countries generally take part in the lower and upper middle economies in terms of income level. Central Asian countries are relatively poor compared to other Western Asian countries. Tajikistan has the poorest economy of all these countries. Its per capita income is under USD 1000. Besides the Kyrgyz Republic, Uzbekistan and Ukraine have per capita incomes of between USD 1000 and 4000. Azerbaijan, Georgia, Iran, Turkmenistan and Kazakhstan rank at between USD 4000 and

Table 9.1 GDP per capita in West Asia (1995–2017)

Countries	2017	Change (2017/1995)
Azerbaijan	4140.65	13.1
Georgia	4098.62	10.3
Islamic Republic of Iran	5304.66	2.7
Kazakhstan	8840.88	8.3
Kyrgyz Republic	1143.71	3.5
Russia	10,608.16	4.6
Tajikistan	823.75	8.2
Turkey	10,512,00	2.7
Turkmenistan	6642.52	4.7
Ukraine	2582.84	3.4
Uzbekistan	1490.74	3.3

Source: IMF, WEO data

10,000. Turkey and Russia may exceed USD 10,000. If we accept 1995 as the base year, the per capita GDP has risen between 3 and 13 times for some Western Asian countries, as shown in Table 9.1.

When 1995 is accepted as the base year, economic development has increased greatly for some Western Asian countries with especially Russia, Azerbaijan, Georgia and Kazakhstan among the rapidly developing countries. Turkey, Iran and Turkmenistan are also remarkable countries in terms of economic development.

The Energy Hubs in the Western Asian Corridor

Since China transformed into a net oil importer country during the period of rapid growth in the mid-1990s, energy links have played an important part in the relations between China and Western Asian countries exporting energy resources. China's increasing energy demand in the international energy markets has also become an important factor affecting relations between China and Western Asian countries (Yang, 2014).

The countries located in the Western Asia corridor of BRI have 28% of the world oil reserves. The global share of natural gas reserves of these countries is almost 63%. Rich oil and natural gas resources are important in the Chinese vision due to increased energy demand from Western Asia. The economic war in the past, called the Great Game, is now named 'the New Great Game' with the participation of China.

While the old Great Game consisted of an economic and political war between Russian and the British Empire over the rich oil and mining resources, the New Great Game can be expressed as multi-dimensional competition among Russia, India, Turkey, Iran and China over the oil and natural gas reserves of Central Asian and Caucasian countries. The competition is strengthened by the increase in China's demand for energy in the region (Subodh Atal, 2005). China's interest in Western Asian energy resources is not something new: this interest may date back to the announcement in Shanghai on 15 June 2001 of the Shanghai Cooperation Organization, which was a Chinese global vision by Kazakhstan, China, the Kyrgyz Republic, the Russian Federation, Tajikistan and Uzbekistan. Another fact worthy of note is that Turkmenistan did not join the organization despite its rich natural gas resources.

Among Western Asian countries, Iran, Iraq, Russia and Kazakhstan have rich oil reserves. Due to political conflicts and the embargo imposed by the US, Iraq, Syria and Iran cannot use their oil reserves, so the production/reserve ratio of these countries is high: 80%, 90% and 278% respectively as shown in Table 9.2. This situation will increase the importance of oil competition in Western Asia.

Table 9.2 Oil and natural gas: proven reserves in Western Asia (2017)

	Oil			Natural gas		
Countries	Million tonnes	Share of total (%)	R/P ratio	Trillion cubic metres	Share of total (%)	R/P ratio
Azerbaijan	1.0	0.4	24.1	1.3	0.7	74.4
Kazakhstan	3.9	1.8	44.8	1.1	0.6	42.2
Russian Federation	14.5	6.3	25.8	35.0	18.1	55.0
Turkmenistan	0.1	◆	6.4	19.5	10.1	314.1
Uzbekistan	0.1	◆	30.0	1.1	0.5	54.0
Iran	21.6	9.3	86.5	1.2	0.6	22.7
Iraq	20.1	8.8	90.2	33.2	17.2	148.4
Qatar	2.6	1.5	36.1	3.5	1.8	337.7
Syria	0.3	0.1	278.4	24.9	12.9	141.8
Pakistan	–	–	–	0.3	0.1	86.5
Total World	239.3	100	50.2	193.5	100	52.6

https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html

China has ranked first among energy-consuming countries worldwide in the last two decades. As Table 9.3 shows, there is a clear upward trend in oil and natural gas consumption. The data in Table 9.3 indicate that Chinese energy demand will continue to increase. China's growing consumption of oil and natural gas has caused to increase its sources of imports including Central Asia and the Caucasus and even the Gulf region. In this context, another duty of BRI is to guarantee China's energy security from Western Asia (Ploberger, 2017).

China applies diversification strategies for oil and gas supplies in Western Asian energy hubs. Both Russia and Central Asian countries such as Kazakhstan and Turkmenistan have established a pipeline infrastructure. The pipeline system has been upgraded and expanded with the involvement of Kazak gas and oil. According to BP World Energy Statistics in 2017, oil imports from Russia and Central Asian countries to China were almost 64 million tonnes, which makes up 11% of total global oil consumption. With BRI, infrastructure investments are expected to increase oil and gas imports from Central Asia to China.

The Logistics and Transportation in the Western Asia Corridor

Logistics and transportation infrastructure are poor and inadequate almost throughout the Silk Road. The Western Asia corridor is vital for BRI in terms of constructing a land route that connects China to Europe and Africa, and in terms of providing adequate railway/road/information networks in the Western Asia corridor. The development of BRI corridors should fill in existing gaps and connect weak links in infrastructure networks. BRI investments should be prioritized in

Table 9.3 Oil and natural gas consumption for China

Energy components	2000	2010	2015	2017
China (% share of world oil consumption)	6.3	11.0	13.0	13.3
China (oil consumption) (million tonnes)	224.2	448.5	561.8	595.5
China (% share of world) natural gas	1.0	3.4	5.6	6.6
China (billion cubic metres) natural gas	24.7	108.9	194.7	240.4

https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html

areas where the road, rail and information networks are weak (Kunaka, 2018). According to an analysis of the major cities in the Western Asian Corridor, Western Asian cities are given moderate scores. However, the link from Kabul to Istanbul has been given a poor score. In 2018, Derudder et al. reported the data taken from Network Centrality Analysis derived from Western Asian urban centres. According to the study,

> there are four communities in the China-Central Asia-Western Asia Corridor network with very high modularity of 0.66: a Turkish community, an Iranian community, a Western Chinese community and a Central Asian community that brings together post-Soviet cities. The high modularity score reveals that these four sub-networks have close interconnections. Moreover, many of these communities are de facto nationals. Only the Central Asian community, which is still depended on the Former Soviet Union in terms of path networks, is the major exception to the lack of trans-border network integration in this corridor. Another exception is Kabul's membership in the Turkish community. However, this finding should not be over interpreted as it reflects very poor connectivity of Kabul in general: however little connectivity such centres have with Istanbul, they still have strong cultural connections with the Turkish community and Istanbul.

Some other studies show the results in line with figures of the Global Logistic Performance Index prepared by the World Bank. Global logistics performance of Western Asian countries indicated their poor logistic scores. In the Western Asian part of BRI region, the logistics performances vary over a wide range: Afghanistan has the lowest score at 1.95 and Turkey has the highest score at 3.15. In both studies, Afghanistan is seen as the poorest centre of the Western Asian Corridor.

China has to struggle to improve its inadequate infrastructure first. In particular, China has to invest more in Afghanistan and Turkey for its connectivity to Europe by roads and railways and make an effort to develop the infrastructure. The railways provide a connection between Russia and China, but there is no direct railway link from China to Africa and Europe via Turkey. Lu, Rohr, Hafner, and Knack (2018) reported a positive correlation between transport infrastructure and bilateral trade. Besides, in BRI countries with a railway connection system it was found

Table 9.4 Score of logistics for Western Asian countries

Country	LPI rank	Score
China	26	3.61
Turkey	47	3.15
Iran, Islamic Rep.	64	2.85
Ukraine	66	2.83
Kazakhstan	71	2.66
Russian Federation	75	2.76
Armenia	92	2.61
Uzbekistan	99	2.58
Kyrgyz Republic	108	2.55
Georgia	119	2.44
Tajikistan	134	2.35
Afghanistan	160	1.95
Max. Score: 5 Min Score:1		

Source: Global Logistic Performance 2018 (https://lpi.worldbank.org/international/global)

to have a positive impact on the improvement of trade. This is followed in the road and railway infrastructure. In Table 9.4, logistics performance scores indicate a significant and relatively powerful influence on bilateral trade.

Rising Trade and Investment Volume in Western Asia

On the basis of China's success in foreign trade, there have been export-oriented economic and commercial policies since 1978. Although China is focusing more on the foreign market after the 2008 global financial crisis experienced by Western economies such as the US and the EU, it still achieves success in its foreign trade policy. BRI can be accepted as a project to continue the success in export and foreign trade (Sárvári & Szeidovitz, 2018).

BRI as the Chinese vision is a result of the quickly expanding and growing world commercial empire project (Manuel, 2017). While China had 2.5% share of import in the world in 1993, this rate increased to 13.6% in 2016, as well as its share in world exports, which is 10% (Fig. 9.1). These rates indicate that China has become a trading force. At the same time, China is one of the largest exporter countries in the world.

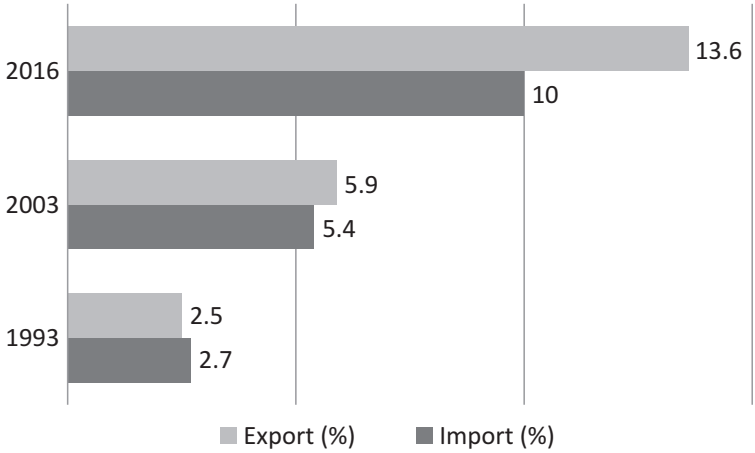

Fig. 9.1 China's share in world trade (%). Source: WTO, World Trade Statistics

While the US and the EU are premier partners of China's trade, China has been the centre of production for these countries for three decades. However, Western Asian countries are no longer a priority for China. When import statistics of Western Asian countries with China are examined, these are generally lower than those of the EU, Turkey and Russia. Especially Russia is still a dominant country as the trade partner of Central Asia and former Soviet republics. 'In terms of the geographic structure of exports and imports, Russia's share tends to decrease over time, while China's increases. The EU is the largest export market for Kazakhstan, and it remains quite significant as a source of import to Kazakhstan, Turkmenistan and Uzbekistan' (Batsaikhana & Dabrowski, 2017).

As shown in Table 9.5, Western Asian countries, except Afghanistan and Pakistan, are not priority partners in terms of imports from China. China ranks fourth for Azerbaijan and Georgia; third for Kazakhstan and Ukraine; second for Iran, Russia and Turkey; and first for the Kyrgyz Republic, Pakistan and Afghanistan. The most interesting finding was that the key countries of Russia, Turkey and Iran in Western Asia were the second import partners of China. However, China is more efficient in trade and partnership with Pakistan because the economic corridor

Table 9.5 Import partners of Western Asian countries

Countries (2016)	EU (28)	China	Russia	Turkey	Other
Azerbaijan	23.3	11.2	16.8	14.7	34
Afghanistan		16.7			83.3
Georgia	27.5	9.2	9.9	17.2	36.2
Iran	18.8	10.3		4.2	66.7
Kazakhstan	19.6	16	39.1		25.3
Kyrgyz Republic	6.7	33.4	26.4	5.0	28.5
Pakistan	10	26.8			63.2
Russia	35.6	21.2			43.2
Tajikistan	12.8		16.2		71
Turkey	36.5	10	8.3		45.2
Turkmenistan	14.0		14.3	14.2	57.5
Ukraine	41.0	11.4	14.6		33

Source: WTO—Trade Profiles

between China and Pakistan is a 'win win model' for both sides. The corridor has contributed significantly to increasing trade between the two countries since 2009 (Bala, Matthew, Chorthip, & Yann, 2017).

The main aim of BRI is to put forward a global Chinese investment policy. The investment under BRI is expanded to Western and Southern Asia. The increase observed after the announcement of BRI in 2013 could be attributed to the foreign investments from China to Western Asia.

While China attracts FDI, this FDI has recently started to leave the country. Together with BRI, China has transformed into an outward-investing country. Between 2010 and 2017, FDI of Chinese outward stock rose 4.5 times. As shown in Fig. 9.2, China made outward investments of almost 1.5 trillion dollars in 2017. After the increase of investment capability by state-owned enterprises of China in the 2000s, China's outward foreign direct investment (OFDI) increased. Even in 2012, China was ranked as the world's third-largest source country for OFDI. Chinese OFDI still ranked the first in 2017. The World Investment Report 2018 indicated that this fact is unchanged:

> Outward FDI flowing from developing Asia declined by 9% from $385 billion in 2016 to $350 billion in 2017 due to a reversal in China for the first time since 2003. Despite this decline, the region remained a major source of FDI worldwide still accounting for nearly one-fourth of global outflows. In Western Asia, Kazakhstan and Pakistan have taken a share of

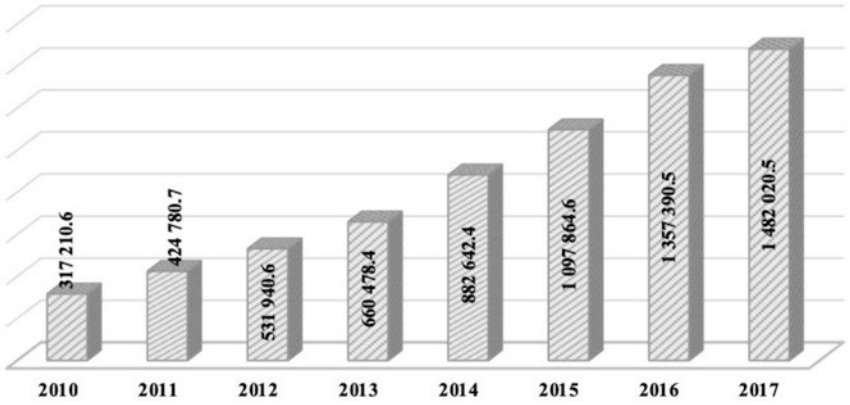

Fig. 9.2 Chinese FDI outward stock (2010–2017) (million dollar). Source: UNCTAD WIR, 2018 (https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx)

> China's OFDI because of the strategic role in BRI; notwithstanding, it is mostly shifting its OFDI to southern Asian countries. (King & Du, 2018)

On the contrary, Pakistan attracted the highest foreign investments from China in the scope of BRI in 2017 among the countries of Western Asia. FDI inflows to Pakistan rose from $2.5 billion in 2016 to $2.8 billion in 2017 (UNCTAD, WIR, 2018).

The Belt and Road Initiative as Chinese Vision and Turkey's Economic Position

Turkey has been the most important actor of the Silk Road throughout the history of Asia. At the same time, Turkey is a bridge between Europe and Asia due to its geographical position. The position is strategic on the new Silk Road. The position increases the importance of Turkey in terms of BRI project. BRI is described as 'the project of the century' as a gift of 'Chinese vision' to global development by the Chinese leader, Xi Jinping. The project aims to finance investments from China to Europe via the Middle East and Africa (*The Economist*, 26 July 2018a). In addition,

the project will gather parts of the Afro-Eurasian continents together. In this case, Turkey is located as 'the Gordian knot' for the new Silk Road and BRI project. If Turkey can find a method to rebalance its relationship with the EU, Russia, Iran and China, 'the Gordian knot' will be solved and this is going to be a great success for Turkey and China. BRI is one such method.

Due to its zonal position, Turkey is an important country in Afro-Eurasia, and it can play the pivotal regional role in BRI. BRI aims not only to solve infrastructure problems of these countries but also to establish energy hubs, pipelines, roads, railways and networks from China to Europe and Africa via Turkey. Turkey is actually a crossroads in Western Asia and Europe, so Turkey can bring tremendous potential benefits to BRI (Zan, 2016).

Since BRI was announced, the Turkish government has accepted a policy of 'win-win'. Especially the Turkish government's long-term policies have started to focus on the East and aim to establish a multi-connectivity among the Western Asian, Middle Eastern and African countries as regards BRI (Talbot, 2018).

Turkey's Vision for the New Silk Road

The New Silk Road is a commonly used concept, but is not specific to an area and a geographical strategy. The limit of this concept cannot be specified by strategists or governments. In recent years, the term 'BRI' (Vergeron, 2018) has been accepted by some. Previously, Starr in 2007 described 'the new silk road' as

> Western Europe, China, the Middle East, and the Indian sub-continent can, in time, connect with one another and with the lands between by means of direct roads, railroads, and technologies for transporting gas, oil, and hydroelectric power. These "new Silk Roads" have an enormous potential for the entire Eurasian continent, and especially for the countries of "Greater Central Asia", where they must traverse.

Turkey, Russia, China and Iran are not only the crossroads of a vast geography but they are also the most important actors throughout

history. However, Turkey does not have a systematic vision on the New Silk Road (Yildiran, 2013). However, in recent years Turkey's focus on Asian and the Silk Road countries has gradually increased. In addition, Turkey's historical and cultural connection to the Silk Road is strong. Turkey's cultural ties with the Central Asian countries are different from those of Europe and other Islamic countries. The rise of the new Silk Road would offer new opportunities such as energy hubs and trade roads because of its geographical location (Yildiran, 2010). The causes of Turkey's interest can be listed as follows:

- Historical and cultural advantage: the Turkish people's historical origin depends on Eastern and Central Asia. The Turkish language is the primary means to ensure communication between people in Turkey and Turkic people in Central Asia. Brzezinski considered this situation as a strategic advantage for the Turkish peoples in his book *The Grand Chessboard* published in 1997. Azerbaijan, where the same language is spoken and the same cultural values are shared, is one of the political and economic partners.
- The main actors of the New Great Game in the new Silk Road: the New Great Game defines the competition for power, economic interest and hegemony in independent Central Asian and Caspian countries after the collapse of the Soviet Union. The New Great Game for Russia is geostrategically a defensive struggle, with close neighbours such as Turkey, Iran, China and India and even the US and the European countries as the rivals in the Cold War (Edwards, 2003). Turkey is the main actor as military and balancing power between the East and West.
- Located on energy corridor from Central Asia to Europe: This is an advantage for Turkey. In the New Great Game, the energy corridor is important because it aims to transfer the oil and natural gas resources of the Caspian Basin and Central Asian region to the European markets without using Russian land.
- Intercontinental crossroads for transportation: Turkey is one of the most important countries of the modern Silk Road connecting Asia to Europe with mega projects such as Eurasia, Marmaray, İstanbul Airport and the Baku-Tiflis-Erzurum railway. In addition, Turkey has impor-

tant seaports such as Trabzon, Mersin, İzmir and Antalya providing sea transport facilities for Western Asian countries (Akçay, 2017).

- The rise of Asian economies: Chinese and Southern Asian economies are constantly improving their shares in the world economy. After Japan, China and India are among the five largest economies of the world, while Western economies have lost their position in the world economy. As a consequence, Turkey must apply the policy of 'turn to Asia' if it wants to maintain economic growth and foreign trade.

The Belt and Road Initiative for Turkey

Turkey has quickly turned its face to the East and has good relations with China and Russia. Turkey was a faithful ally of NATO, the US and Europe throughout the Cold War. Turkey faced numerous challenges such as terror attacks and economic attacks, and millions of refugees arrived in Turkey during the Syrian War. In this process, Turkey has not reached an agreement with European countries and the US on many issues. Because of this, Turkey searched for new alternative international relations and economic partnerships such as with China and Russia. Among the alternatives, BRI is one of the options.

Motives That Oriented Turkey to BRI

In the new global economy, BRI has become a central issue for Eurasia. It is currently an important and major global prosperity project. This project offers various opportunities to countries that want to increase their commercial shares in the global economy and to improve their infrastructure. It may provide regional economic cooperation, promote world peace and improve infrastructure, trade and development. These opportunities may be important for Turkey and may provide alternative relations with Western countries. Turkey seeks to diversify its economy and wants to improve road and railway infrastructure and expand its tourism markets.

There are many economic and political reasons that encourage Turkey to participate in BRI. These reasons can be listed as follows (Zan, 2016):

- Turkey faces economic challenges such as devaluation of the Turkish lira, rising inflation and declining rate of growth. Searching for new economic opportunities has become a vital need in order to overcome these economic problems. Hence, BRI means new opportunities for Turkey.
- The Silk Road Economic Zone can be established by Silk Road countries. BRI would contribute to this process.
- Turkey and China share the same destiny to connect with Europe via Turkey and Central Asia. Turkey's 'middle corridor' (Turkey's transportation projects connecting Central Asia to Europe) is an idea which is similar to BRI in many respects.
- Turkey and China's common interests depend on solving the problem of Uyghurs in Xinjiang Autonomous Region.

Trade with China at the Time of BRI

Commercial relations between China and Turkey can be considered as one-way: China exports to Turkey. China takes the first place in Turkey's imports, and is its biggest importing partner. In contrast, China ranks 15th in Turkey's exports. It appears to have successfully implemented its export-oriented development model in all world markets. As shown in Table 9.6, China had a share of 10% in Turkey's imports in 2017. Turkey's biggest export partners are generally European countries such as Germany and the UK. As Turkey is geographically close to Europe, its major export partners are also in Europe. At the same time, Turkey has been a member of the European Customs Union since 1995. However, this situation may change. Turkey's foreign trade is continuously shifting eastward; it is becoming more dependent on imports from Asian countries and Russia. According to a report by HSBC, 'Turkish exporters have been thriving in an environment of robust world trade thanks to strong growth in key trading partners and their agility in expanding to new markets. Increasing strong demand from other emerging markets, especially from Asia, will ensure that the outlook for Turkish exports remains bright' (HSBC, Navigator, 2018).

Table 9.6 Turkey's share in import and export partners

Country	2017	2016	2015	2014
Turkey's import partner (% of all imports)				
China	10.0	12.8	12.0	10.3
Germany	9.1	10.8	10.3	9.2
Russia	8.3	7.6	9.8	10.4
USA	5.1	5.5	5.4	5.3
Italy	4.8	5.1	5.1	5.0
France	3.5	3.7	3.7	3.4
Turkey's export partner (% of all exports)				
Germany	9.6	9.8	9.3	9.6
United Kingdom	6.1	8.2	7.3	6.3
UAE	5.9	3.8	3.3	3.0
Iraq	5.8	5.4	5.9	6.9
USA	5.5	4.6	4.4	4.0
China (15)	1.9	1.6	1.7	1.8

Sources: Turkish Statistical Institute (TUIK); http://web.turkstat.gov.tr

In order to understand the commercial relations between Turkey and China, it is necessary to look at the period after the establishment of BRI in 2013. Turkey's second trade partner is China in the post-BRI period. Turkey's exports in the post-BRI period are higher than those in the pre-BRI period, which covers 2010 to 2013. As shown in Fig. 9.3, Turkish exports go up to almost USD three billion in the same period. While Turkey's exports to China were very low, its imports from China showed significant increases, of USD 38.5 billion between pre-BRI and post-BRI. This can be interpreted as a rise in Turkey's foreign trade deficit. BRI has been more beneficial for China than for Turkey.

Turkey is one of the most important BRI partners in Western Asia. In addition, it turned its face to Chinese and Eastern markets during the global trade wars. BRI is advantageous for Chinese trade policy, but not for Turkey (*The Economist*, Q3, 2018b).

Investment with China During BRI

BRI aims to improve the infrastructure within the Silk Road geographical area. Over recent decades, Chinese investments (FDI) in BRI countries have risen significantly (Chen, 2018).

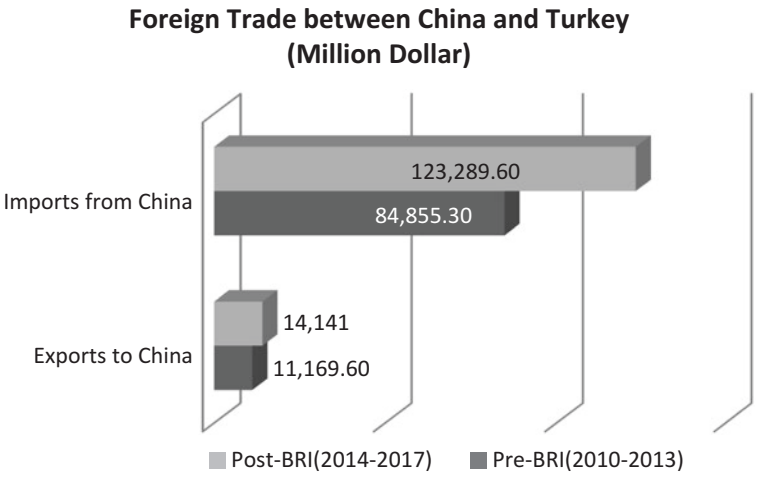

Fig. 9.3 BRI impact on foreign trade between China and Turkey. Source: The Central Bank of the Republic of Turkey

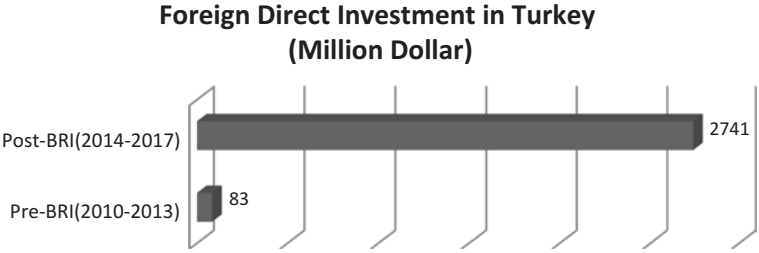

Fig. 9.4 China's foreign direct investment in Turkey. Source: The Central Bank of the Republic of Turkey

Chinese FDI in Turkey rises from 82 to 2741 million dollars in the post-BRI period as shown in Fig. 9.4. Chinese investments are allocated to sectors such as energy, infrastructure, logistics and telecommunication.

While Chinese investment was low before BRI, it accelerated after the announcement of BRI. In this process, Chinese investments exceeded 2.5 billion dollars. Turkey's collaborations with China depend on win-win cooperation for the improvement of railway and road infrastructure throughout the Western Asian Corridor. This collaboration is expected to

Table 9.7 Main Chinese investment in Turkey in the post-BRI period (2014–2017)

Years	Investment	Amount	Source
2014	The second stage of Turkey's Ankara-Istanbul High-Speed Railway	$720 million	China Eximbank
2015	Tekstil Bank Acquisition	$314 million	ICBC (Chinese Largest Bank)
2016	48.04% share of NETAŞ	$101.3 million	China's SOA's ZTE
2017	For Deposit Bank Operations	$300 million	The Bank of China
2017	Container Terminal (Kumport AŞ)	$940 million	China's SOA

Source: Guo and Fidan (2018)

contribute to prosperity and development for both sides. Two important projects are related to railways and seaports, as shown in Table 9.7.

The investment outcome has been obtained in the post-BRI period. Chinese investments increased after a memorandum on bilateral cooperation since the G20 Hangzhou Summit under BRI. At the same time, the two governments have agreed to strengthen their cooperation in the field of investments, transportation, networks and infrastructure construction (Rong, 2017). An international project in which Turkey has a partnership with China is the Baku–Tbilisi–Kars (BTK) railway link. Turkey has completed and connected its national railways to the Trans-Caspian International Transport Route extending from the Caspian Sea to Central Asia and China. The projects are highly important in terms of the Western Asian Corridor, so the new global Silk Road will easily go from China to Europe (Guo & Fidan, 2018).

Conclusion

In recent years, while the Western countries have experienced stagnation in the global economy, China has made a new start by declaring the Belt and Road Initiative to the world. This initiative involves different challenges for Western economies in three aspects. First, an economic power outside the Western world reveals a global alternative investment and development model that will affect two-thirds of the world economy. Second, the initiative has led to the intensification of competition in the

New Big Game by directing the energy and other natural resources of the world from Europe to China. Third, it opened up a new path of political sovereignty for China, in which it has prepared sources of finance itself. The debates and orientations that started after BRI triggered America's economic superiority in the world and paved the way for non-Western powers such as Russia and China to become a new centre of attraction in international relations.

BRI as China's 'grand' and 'global strategy' in the new Silk Road aims to link Asia, Europe and Africa through more than 65 countries, which account for over 60% of global GDP and 70% of the global population. BRI has been the biggest political initiative for global economic and political order so far.

BRI extends to Europe and Africa through Central Asia, Russia and Turkey. The most strategic zone of the economic belt is the area that starts from Pakistan and reaches to Europe via Turkey. This region, from China to Turkey, is a place where the world's most sparse population lives, possesses the world's richest energy resources and has the least developed countries of the world. China's vision includes all railways, highways and energy connections up to Pakistan, Afghanistan, the Central Asian states and the Caucasus.

Turkey is an important country located at the crossroads for BRI. It is a unique country where three continents meet thanks to its location in Western Asia and Eastern Europe while passing to Africa. Turkey is also the most developed economy in the region from China to Europe. In recent years, Turkey has had problems with the EU and the US in political and economic relations. The EU has not fulfilled its promises to Turkey about the crisis of immigrants caused by the civil war in Syria. Furthermore, European countries have not taken a clear attitude against terrorist organizations in their political relations with Turkey. In addition, while the US includes Turkey within the countries against which it declared a trade war, it supports terrorist organizations against Turkey in Syria. Due to the contradictions in its relations with the EU and the US, Turkey has recognized alternative policies suggested by Russia and China. In other words, because of negative relations with the US and the EU, Turkey has increased its interest in alternatives outside the political and economic bloc in which it has participated since World War II. BRI is

important because it is both a way of expanding to Asia and a new area of economic prosperity.

China directly invested USD 2.8 billion in Turkey during the four years after 2013. These investments were made in transportation, port management, energy and telecommunications. Turkey has a huge trade deficit in its trade relations with China; Its foreign trade deficit with China reached USD 38 billion after BRI was declared. Turkey's imports from China reached USD 124 billion from 2013 to 2017. The most important factor that facilitates economic relations between Turkey and China is trade war declared by the US. In order to reduce dependence on the US dollar, Turkey and China are trying to use national currencies between them.

Turkey is among the partners of the Asian Infrastructure Investment Bank that provides sources to financing projects under BRI. In recent years, as an alternative to the EU, Turkey has declared that it wants to be a member of the Shanghai Cooperation Organization. Furthermore, the construction of a nuclear power plant in Turkey is among the investment targets of Turkey and China in the near future.

While BRI offers new opportunities for infrastructure, investments and economic development for the Western Asian countries and Turkey, it contains political and economic weaknesses in itself. The most important weakness is whether China as a country in the middle-income group can finance such large-scale investments. As it has been dominated by the former Soviets, the Western Asian Economic Corridor carries new potential conflicts between China and Russia. In addition, due to the fact that countries such as Iran, Afghanistan, Iraq and Syria in the Western Asian Corridor are in a political and social crisis increases the risks of investments in this region. Disputes arising from the humanitarian problems of Uyghur Turks in East Turkestan between Turkey and China is one of the reasons that may cause instability in the region. For BRI, there are some institutional challenges such as corruption, financing terrorism, and human and drug trafficking. In particular, the Western Asian Corridor is one of the most problematic regions of the world in terms of human trafficking and being a drug corridor.

Consequently, BRI is emerging as a new alternative project for the world on the historical Silk Road. Turkey, as one of the key countries of

the Western Asia corridor, will be the 'new Gordian knot' for China to reach Europe. Turkey's role in BRI is the most important factor in untying this knot. China will be able to become a global economic actor by solving the problems of infrastructure and economic development of West Asia through BRI. We may say that Turkey will be a critical partner of China in the near future in the BRI process.

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10

China in Africa

Rabbiya Kamal and Omair Haroon

Introduction

This chapter aims to analyse China-Africa relationships to create a holistic picture of the economic impact of recent Chinese investments in the continent in the context of scepticism about the assistance of these investments for the local economies. Africa is rich in natural resources and provides much needed raw materials for industries around the world. Based on authoritative literature available on the subject, we first provide an overview of China-Africa economic relations and then describe the

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8_10

relationships with a few individual countries in the region. We focus on three African countries:

1. Botswana—for it is a relatively small nation with economic and political characteristics similar to many developing countries and where tensions around Chinese businesses there take centre stage in national political discourse (Ndlovu, 2014).
   18 Sept 2014. Amid political fears of Chinese growing influence in Botswana, China has recently announced financial assistance to the country and cancellation of an earlier loan (SCMP, 2018).
2. Kenya—for it is one of those countries which received significant Chinese investments in infrastructure. However, most of those projects were financed with loans from China, and Kenya is now showcased as one of the countries facing Chinese debt-trap and neo-colonialism (NPR, 2018). These sentiments are somewhat also reflected in Pew Research Centre's surveys where the percentage of respondents having 'favourable' view of China has gone down from 81% in 2007 to 54% in 2017 (PEW, n.d.).
3. Nigeria—for it is one of the largest economies in Africa and has attracted most investment in the region from China in the recent years. Nigerians generally have had a good (~75% favourable) view of China after substantial investments by China in the country in the last few years.

Additionally, these three countries are located in geographically distant regions from each other within sub-Saharan Africa. The focus of Chinese investments in these countries is primarily derived from their long-term strategic objectives. We briefly touch upon significant economic interventions by Chinese and then give an overview of the debate these interventions have ignited in these countries.

China and Africa: An Overview of Economic Relationship

Prior to the First World War, China, both geographically and ideologically, remained partially isolationist, home to a flourishing civilisation under dynastic rule. However, through the decades, the Opium Wars, the

Xinhai revolution of 1911, and the Mao regime greatly undermined the stability of the nation, leaving it in a political and economic quagmire. In 1978, under Deng Xiaoping, China adopted a more modernist approach to its economy, pushing policies of economic liberalisation and privatisation. This led to a new phase of economic prosperity, achieving growth rates of around 10%. A disjuncture from conventional closed economies operating through socialist policies and a contemporary capitalist approach was evident. Industrialisation and transnational corporations were an integral aspect of this new capitalistic outlook, as they fed into a fundamental capitalist concept: cheap resources, more returns. Hence, a need for cheap labour to generate higher profits arose in China (Baah & Jauch, 2009). As many Western imperialist nations of the past had done, China turned its attention to the Third World.

In the late twentieth century, the remnants of colonialism had led to the creation of a systematic relationship between the core and peripheral countries of the world. This was based upon on an extraction of cheap raw materials, the use of labour and the low operating costs of the Third World to aid economic growth in developed countries. Africa had already developed a relationship with China, first during the Cold War based on ideological interests and during the 1960s when a number of Chinese contract workers relocated to Tanzania and Zambia. The Chinese government provided interest-free financial assistance to these countries and fostered commercial ties and political alliances. Hence, in their era of industrialisation and the reform of state-owned enterprises (SOE) towards a market economy, China expanded into the African markets. The discourse surrounding China's investment in Africa is informed by two conflicting narratives. On the one hand, China has been viewed as a progressive and refreshing break from a Western imperialist past, providing loans free from conditionality, and instead based on mutual economic benefit. Such an approach has led China to acquire the label 'rogue donor' (Condon, 2012). On the other hand, China's increasing dominance under the mask of the acquisition of natural resources and economic trade, is a guise for strategic political relations and economic colonisation (Mourdoukoutas, 2018).

In order to gauge the reality of Chinese investment in Africa, it is necessary to look into its success, how it has helped develop African coun-

tries and whether aid is targeted or without conditionality. The nature of the economic relationship between China and Africa amounts to foreign direct investment, trade, foreign policy and deals brokered that further geo-political influence and strengthen this South-South alliance. This essay will thus holistically assess the investments by China in Africa, measure their effectiveness by considering the success and looking into what further Sino-African relationships entail.

Africa's relationship with China has sky-rocketed over the last decade. The export of goods has increased 60-fold between the period of 1998 and 2010, and Chinese investments amounted to about $120 million in 2002 while China-Africa trade reached around $29.5 billion in 2004 (Baah & Jauch, 2009). Perhaps the first instance of an economic relationship between the two regions was through the construction of the Tanzania-Zambia railway in the 1970s. Presumably, this initiative, followed on from the Cold War ideological struggle with China seeking to exert its anti-Western communist doctrine in the aftermath of the independence of Tanzania and Zambia. As mentioned previously, the relationship was re-kindled through the period of industrialisation as Africa's natural resources were imperative for economic growth in China and for sustaining its economy. According to the South African Institute of International Affairs (SAIIA) China constitutes 30% of the global demand growth for oil. Subsequently, China's imports from the continent grew from 1.7% in 1997 to 2.7% in 2006. Four African countries account for 93% of China's oil supply from Africa: Angola (51%), Sudan (18%), Congo-Brazzaville (13%) and Equatorial Guinea (11%). Besides oil, China's imports of non-fuel mining products rose from $286 million in 2000 to $2.6 billion in 2006 including diamond, platinum and cobalt (Alden & Alves, 2009).

These large levels of oil imports constitute one side of the bilateral trade that occurs between the two regions. In exchange for the raw materials, China exports machinery, electronics, hi-tech and finished goods to Africa. This would echo an exploitative and imbalanced trade if it were not supplemented by direct investment into Africa's infrastructure. Chinese investment in the mineral commodities sector includes joint ventures and a trend towards mergers and acquisitions (M&A) by Chinese firms. According to a 2008 report, between 1995 and 2007 China

invested in two major M&A deals in the mining sector in Africa worth $3 billion, and five further M&A deals in the oil and gas sectors worth $3.9 billion. There also many China state-owned oil companies active and operating throughout the continent.

Chinese investment in Africa covers a wide range of sectors and FDI has been dedicated to manufacturing, infrastructure, education and information technology. In Chad, 2.0% of $5 to $10 billion worth of aid was spent on the development of an airport. This project was rooted in long-term benefits including increased air travel and enhanced mobility (Badkar, 2012). The involvement in African agriculture has also shifted from technical assistance and capacity building to sustainability, the development of markets and a progress towards possible agricultural trade. From 1960 to the 1970s, China aided in the construction of around 80 demonstration farms, covering a total of 45,000 hectares. By 2009, China had carried out 200 agricultural projects, established 23 fisheries, stationed 1100 Chinese agricultural experts in various parts of Africa, established 11 agricultural research stations and initiated 60 agricultural investment projects (Cassell, 2013). Investments of this nature have the potential to change the landscape of African agriculture and subsequently alleviate poverty and hunger and provide employment opportunities.

More specifically, China has engaged in diplomatic and economic relations with individual African countries, adapting policy-making objectives and levels of investment accordingly. Consider the relationship between China and Botswana. The two countries have been engaged in efforts towards the development of socio-cultural exchanges. Additionally, China has laid emphasis on the development of human resources in the country by providing scholarships to post-graduate students to study in China. In 2007, 21 scholarships were granted to students. The interest that the Chinese government has shown in facilitating the development of this country has also led to an influx of Chinese immigrants into the country, including specialised labour. It is estimated that there are 1500 Chinese nationals working in Botswana (Baah & Jauch, 2009). Chinese aid to the country has also focused on joint ventures into the textile industry, led by Chinese manufacturing industries which include Rising Sun, Fascinating, Caratex and Hengda. The diversity and inclusiveness of

Chinese aid to Botswana demonstrates a sincere commitment to ensure long-term prosperity and alleviation of poverty. The proliferation of Chinese investment in Africa has been apparent and even more so in the last five years. According to the China Africa Research Initiative at Johns Hopkins, it was estimated that by 2014 China-Africa trade was valued at $22 billion (Pilling, 2017). The problems and contradictions inherent in China's statist approach have been apparent in its dealings with Sudan over the last two decades. China has established a close relationship with the Sudanese ruling elite that has effectively enabled their continued and often exceptionally violent oppression of large segments of society (Large, 2008). Although China gradually pursued an ambivalent policy of 'constructive engagement' on Darfur, it provided an invaluable source of economic, political and military support to the Sudanese regime during both the civil war in the South and the violence in Darfur, frequently assisting the government in their attempts to resist any form of outside intervention. Moreover, in a bid to maintain a reliable source of oil, China has indirectly sought to sustain a form of political control within Sudan, which suits its own narrowly defined interests.

South-South relations have been an attractive alternative to Western imperialism elicited by conventional donor states that aid developing countries. China, having changed the landscape of its economy within the last three decades, emerging as a capitalist giant on the world front, has a lot to offer to the global South. Africa is on the verge of an economic renaissance, with the expansion of the industrial and manufacturing segments of the economy and the creation of new opportunities stemming from previously undiscovered markets. China's investments in the continent have boosted African oil and mining sectors, supplemented by advantageous and mutually beneficial trade deals. Many Africans have found employment opportunities in Chinese firms, factories and retail markets. However, the overriding concern with regard to China's heavy presence in the African region are twofold. Firstly, concerns have been expressed as to whether this form of intervention resonates with colonialist ambitions, or more accurately, serves as a disguise for neo-colonialism (Servant, 2005). The second contention with regard to China in Africa rests on the premise of controversial business practices, as well as its failure to promote good governance and human rights. This has been a main

point of criticism from the African civil society and the West, and these concerns are emphasised by pointing out the lack of trade unions as well as insufficient implementation and enforcement of labour legislation.

In order to assess the effectiveness of Chinese investments in Africa, it is important to scrutinise long-term development goals in addition to measuring the short-term success of investment projects. Furthermore, the effectiveness of any bilateral relations is compounded by mutual benefit and a recognition of each party as equal partners. Chinese strategy has differed from the West in two main regards. Firstly, it has strongly adhered to the policy of non-intervention and has openly expressed an aversion to conflating business with politics. The recognition of the sovereignty of African states has made the recipient countries more welcoming of Chinese investments and less wary of colonial or imperialist ambitions. Secondly, Chinese aid has come with no strings attached. There is no conditionality and it departs from the provisions under the Washington Consensus whereby aid seeks to serve the strategic and political interests of the USA. Furthermore, there is a culture of ensuring China has a first-hand in the investment of the aid and development projects whilst they are monitored. In the face of all this theory arises speculation. China has been accused of simply being interested in ensuring the food security of its own nation and tapping into the African resource market. However, any substantial measure of the effectiveness of China's endeavours in Africa stems from a country by country assessment of the nature of investment, how it has been received by the local government and population and whether there exists a need to reform the intervention in order to increase effectiveness and popularity; and, should there be any reservations or discontentment with the China's interventionist policies. To this end, three African countries, namely, Botswana, Nigeria and Kenya, have been selected for a holistic analysis in terms of Chinese investments. A systematic insight into the FDI by China as well as the nature and success of other investments will seek to inform the narrative on China in Africa.

Botswana

Botswana, situated in southern Africa, comprises an economy dependant on tourism, mining, agriculture, textiles and the diamond trade, supple-

mented by the private sector and foreign direct investments. The economy of Botswana is a mixture of the free market and the command economy, with the government exerting direct control over certain facets of the economy. There is a noticeably large economic gap between the government and the people, often referred to as 'Poor People, Rich Government' by many economic and political commentators. In the international arena, Botswana claims a relatively higher level of prestige than its African counterparts owing to the implementation of democracy. However, beneath the surface, there exists large levels of poverty and periods of economic contraction due to the decreased demand of diamonds in the international market, tipping the scales of trade unfavourably for a country where diamonds account for 70% of the exports.

China's relationship with Botswana was first established in 1975, and has since been based on mutually beneficial economic exchange as well as socio-cultural relations. China's five principles have helped to navigate its relationship with Botswana, as with other African countries. These principles are as follows:

1. Mutual respect for each other's sovereignty and national integrity
2. Non-interference in internal affairs
3. Equality
4. Mutual benefit
5. Peaceful coexistence

With these established principles in mind, China has led several investment projects in Botswana alongside the provision of aid. Firstly, since the 1980s, China has made a concerted effort towards contributing to the construction industry. This has been done through allowing state-owned Chinese construction companies to operate within the country. By 2005, 43 construction projects were underway including hospitals, government offices, schools and housing schemes. The net worth of signed contacts from these companies by 2007 was estimated at $200 million. Initially, China's relationship with Botswana also rested on a keen interest in the textile industry, with factories such as Rising Sun, Fascinating, Hengda and Caratex establishing themselves within the wholesale and retail sectors of the domestic market operating in Botswana. Supplementing the

investments in the industrial sector of Botswana, China has also focused on the provision of aid and foreign direct investments. The aid flows into Botswana usually take the form of grants and preferential loans. Receiving this aid has been highly motivated by the 'no strings attached' policy. Initially, aid had been granted with the unspoken expectation that it will be invested in infrastructure, though it has now evolved to encompass several aspects of the economy as stated, 'political high level exchanges, cooperation in agriculture and health, aid, education, science, cultural and sports' (FOCAC, 2006). The 2007–2009 Beijing Action Plan also stimulated a commitment from the Chinese government towards the Government of Botswana to develop the infrastructure base through the continued provision of concessionary loans.

Unlike the provision of aid which has served as an attractive form of intervention in Botswana, the incentive for FDI has been much lower. According to the 2006 Annual Report issued by the Bank of Botswana, the following factors determine the gains from FDI:

1. Size and openness of natural resources
2. Quality of physical infrastructure
3. Stability and predictability of the political and macroeconomic environment respectively
4. A well-functioning market
5. Availability of skilled human capital
6. Low transaction and business costs by way of trade and labour regulations, and rules of entry into and exit from markets
7. Favourable tax structures
8. An efficient and dependable legal system

The Botswana Investment Trade Centre, a government agency, encourages FDI by offering attractive tax haven structures and financial grants. Foreign direct investment in Botswana increased by BWP 1093.13 million in the first quarter of 2018. It averaged BWP 894.45 million from 2004 until 2018, reaching a record low of BWP−1434.78 million in the first quarter of 2016 (Trading economics: https://tradingeconomics.com/botswana/foreign-direct-investment).

Recently, The Special Economic Zones Act conceived in 2016, has come into effect with the aim of establishing, developing and managing special economic zones in order to create a conducive environment for local and foreign investment, and helping the expansion of employment opportunities and attainment of economic growth targets in Botswana.

Despite these encouraging statistics and initiatives, Asian FDI in Botswana in particular is said to be quite minimal due to several exogenous factors. This is also due to the fact that FDI from developing Asia was a relatively recent phenomenon in 2007 though recent trends indicate the breakthrough of this trend in overcoming obstacles initially hindering it, which include:

1. Transaction and information costs
2. Intraregional nature of Asian FDI which is primarily market seeking (Africa lacks the types of markets that Asian firms are oriented to (liberalisation and privatisation), efficiency seeking (skilled workers, good infrastructure), and country to country regulatory frameworks)

There are several negligent aspects of the Botswanan economy that were exclusively dominated by Western and European forces up until recently including the mining sector and the investment in financial services such as banking. Most of China's investment have laid specific emphasis on the construction, retail, manufacturing and textile industry.

Though there has been a lot of diversity in the nature of investments China has led in Botswana, it is necessary to consider their effectiveness and the receptiveness of the local population. Ding Xiaowen, the Chinese Ambassador, revealed that though there are an estimated 700 Chinese engineers engaged in construction work through these Chinese-led endeavours, there has also been a substantial benefit to the local workforce, providing employment to over 5270 locals, in 2008. Despite this, there are several deep-seated flaws within the system that can be accounted for on the premise, that as with any donor nation, friendly and close relations are not enough to mask the cultural divide, often with imperialist connotations. For example, Advance Construction, a private Chinese company operating in Botswana, comprises 53 employees, including the management. What is remarkable is that out of the five members who

constitute the management, there is only one local Botswanan, and the others are Chinese nationals. This already indicates a division within the roles allocated to the employees, by merit of their origin. Consequently, there exists a tension between the workers and the management pertaining to issues such as inappropriate employment legislation or a lack thereof, as well as general concerns regarding health, safety and employment rights.

There has been considerable debates regarding China's interventions in Africa and whether they resonate with conventional colonialist structures or whether the nature of the intervention has risen above this divide and transcended to a more integrated, unbiased and inclusive structure. Though the free market and participatory democracy has led us to believe the latter, company structures, organisational behaviour and the distribution of power may lead one to conclude otherwise. An explanation for this may arise from the transitional character of the Botswanan government, aiming to progress towards a more liberal-capitalist state from a welfare state, and this process may be considered accountable for the strained and stagnant move towards labour union policies, that can cut across the cultural and national divide to provide a platform for employees to raise concerns in the absence of insecurity on their part and biasedness on part of the Chinese management and authoritative structures.

Kenya

The dynamics of Kenya's relation with China differ from its counterparts with respect to the nature of investments. The relations between the two states ensued following Kenya's independence in 1963, as China opened an embassy in Nairobi. The economic relations between the two countries are mostly based on bilateral trade, with China being Kenya's largest lender. According to Quartz Africa, China accounts for 72% of Kenya's bilateral debt.

Relations between the countries leading up to the period of the 1980s was relatively marked by unfriendly interactions and political tensions. However, in 1980, the Kenyan President Moi's first visit to China in 1980, with the intention of diversifying Kenya's external development led

to two agreements. The first agreement pertained to 'economic and technological cooperation', covering a wide variety of projects: a new sports stadium, technical support to two new universities, scholarships, and military and cultural exchanges. The second one was another state-managed trade agreement between Kenya and China. It involved the exchange of goods between a China state trading agency and its equivalent in Kenya. The most important component of the economic cooperation agreement, however, was the Moi International Sports Center in a suburb just outside of Nairobi's central business district (Masta, 2009).

In 2006, Kenya and China signed six agreements paving the way towards closer economic and technical cooperation between the two countries. The signed agreements included Economic and Technical Cooperation, agreement on the provision of the concessional loan by China to Kenya and the Air Services Agreement which grants Kenya Airways landing rights in several cities in China. There were also several agreements marked with provisions regarding radio cooperation. Furthermore, relations between states extended towards cultural fusion between the two countries hence efforts were made towards promoting tourism. The Chinese government consequently granted Kenya 'Approved Destination Status'. Additionally, Kenyan universities are developing Chinese language programmes (University of Nairobi) and Technical Scientific Cooperation (Egerton University), while Ministry of Information officials attend exchange schemes.

The impact of Chinese FDI and the provision of aid is inconsistent as it incurs gains and losses for Kenya. For China, Kenya is a gateway to the East African region and therefore holds strategic importance. The Kenyan economy and local population benefits from the provision of cheap consumer and producer imported goods. On the other hand, local manufacturers suffer from acute losses and impeded access to market share on account of the competitive pressure arising from Chinese retail goods. However, Chinese FDI presents an opportunity for technology transfer and possibility of upgrading local enterprises. In recent years, Kenya has been keen to propel industrial growth in line with President Uhuru Kenyatta's big four agenda. This entails harnessing capital and technical support and specialisation. In order to recognise this objective, Kenya is bent on attracting Chinese investors with transferable skills to

develop local industries. Kenya has benefitted from Chinese investments in energy sector for resolving problems of energy shortages plaguing the local industry.

Regulatory weaknesses have been cited as a major stumbling block to larger, mutually beneficial economic cooperation with China. Ambiguity in and loose application of laws surrounding property rights and rent-seeking behaviour from the elites continues to stifle economic progress and deter fruitful foreign investment in the country (Pueyo, Spratt, Bawakyillenuo, & Hoka Osiolo, 2017). Lack of consistent policy implementation has led to claims that there are only a few technology transfers from China to Kenya and Kenyan consumers have had little benefit from availability of affordable Chinese products (Sanghi & Johnson, 2016).

Nigeria

The bilateral relations between China and Nigeria command a great deal of significance in Africa, each asserting the other as an ally and an economic partner, and there is an underlying strategic relationship. Ogunsanwo traced the unsteady relationship between the two countries by considering how Chinese support of Biafra's secessionist ambitions during the 1967 Civil War undermined its bilateral relationship with Nigeria. However, an alliance came into being between the two countries in the following decades (Ogunsanwo, 2008). This alliance began in 1971 with the signing of the Joint Communiqué on the Establishment of Diplomatic Relations and the establishment of the Chinese Embassy in Lagos (Atomre, Odigie, Eustace, & Onemolease, 2009). The foundation upon which this relationship ensued was initially political: Nigeria extended its support to Beijing's 21-year bid to acquire international recognition as the one true government of China (Mthembu-Salter, 2009).

In return for this support, China began to extend its own support towards various liberation movements in Africa (Odeh, 2013) and eventually continued on a path of large-scale capital investments in the region. These relationships were strengthened by the West's condemnation of Nigeria's military regimes, imposition of economic sanctions, and the consequent isolationism the former British colony experienced. China

has provided economic, military and political support to the country in the years that have followed, benefitting from the trade relationship exacerbated by oil and petroleum imports as well as finding within Nigeria, an ideological ally.

Sino-Nigerian relations have been mutually beneficial for the economies of both countries. This is because China needs Nigeria's oil and large domestic market to sell its products, thus driving up profits and favourably tipping the balance of trade, while Nigeria requires the technical expertise, finance, technology and industrial goods that a developed country such as China offers, as well a market for its non-oil export (Atomre et al., 2009). Furthermore, the trade relationship between the two countries is governed by China's Five Principles on Economic and Technological Cooperation with Africa—equality, mutual benefit, efficiency, diversity and mutual development.

Despite the provisions of mutual benefit, the underlying danger of an extremely interdependent relationship persists in two regards. Firstly, as China exports a large number of incomplete and complete manufactured goods to Nigeria, including automobiles, auto parts, textiles and garments, electronic appliances and chemical products, there has been a concern that local manufacturers and infant industries lack the promotion and market share they seek in order to generate revenue. In this regard, the Ministry of Finance, in 2005, issued a list of items that Chinese manufacturers were prohibited from exporting to Nigeria. In a bid to further restrict imports, the list was reviewed and circulated in 2016, consisting of 25 banned items (Olawoyin, 2017). Secondly, Nigeria's exports to China consist mainly of crude oil, cotton and timber. There exists a possibility that China may become self-sufficient in these goods and this will weigh in on the trade balance. However, this fear is displaced on account of the high price of crude oil in the international market.

According to the Brookings Institution, at present, one quarter of all Chinese investments in Africa are concentrated in Nigeria and Angola. In recent years, Nigeria has also received relatively large funds from China for railways. The Asian country is providing funds for two major railway infrastructure projects: a line from Lagos to Kano and a coastal railway from Lagos to Calabar (Sow, 2018). Adjacent to this, China's investments

in Africa have, for the most part, taken place in the form of FDI. In 2016, the U.S. State Department's Office of Investment Affairs estimated China's FDI stock in Nigeria to be $4.2 billion. By June 2017, McKinsey & Company issued a report estimating FDI figure at $4.7 billion. Atomre et al. (2009) shrewdly observe that a large portion of these funds are actually from the public sector. Essentially, alongside private companies and investors, a large portion of funds come from the Chinese government through its various financial institutions like the Ministry of Commerce (MOFCOMM), Bank of China, Import and Export Bank of China, China Exim Bank and China Development Bank. This emphasises the enhanced role of the state in Sino-Nigerian relations, thus leading to the presumption that the Chinese government views Nigeria as a long-term investment field, reaping many advantages and enabling them to simultaneously secure their underlying strategic political interest in the region.

A key concern when considering China's investment in Nigeria is whether the benefits reaped sufficiently weigh in on the Nigerian economy so as to ensure development and increased rates of economic growth. There are multiple incentives from the Nigerian Investment Promotion Council to attract foreign investors and these incentives take multiple forms: Export-Processing Zones, Pioneer Status, Rights of First Offer and so forth. However, recognising the need to ensure FDI benefits are maximised, these incentives have been supplemented with certain provisions for the domestic economy and local population to also gain from the investments and ensure there is no infringement upon the regulations enacted by the Nigerian state pertaining to economic affairs. Steps in this direction are diverse in their nature and implementation. Firstly, regulatory bodies such as the Standards Organisation of Nigeria and the National Agency for Food, Drugs Administration and Control (NAFDAC) have been set up by the government to ensure that investors and entrepreneurs align themselves with conditions laid out such as promotion of local content, tax remittance, environmental protection, adherence to labour, health and trade rights and technology and skills transfers. Secondly, the Protection of Intellectual and Industrial Property Guidelines issued by the National Office of Technology Acquisition and Promotion states that all technology agreements should provide clauses

to ensure the employment, exposure and training of Nigerian employees (Atomre, Odigie, Eustace and Onemolease). The purpose of this clause is to ensure that whilst companies develop specialised labour and establish competitive advantage, the training and subsequent employment opportunities are inclusive.

In analysing the receptiveness of the local Nigerian population to increasing levels of Chinese interventions over the last decade, it is imperative to consider whether the aforementioned legislations and the like, have been enacted. Chinese companies find it suits their interest best if they rely on cheap Chinese labour for many of the major industrial projects that are undertaken in Nigeria and therefore do not recognise the need for skills transfer to the locals (Utomi, 2008). It is more efficient and convenient for them to recruit skilled Chinese workers as opposed to less experienced local Nigerian workers, since they are more familiar with the technology and are willing to routinely comply with the Chinese work ethic. On this front, it seems there is a neglect of human capital development. However, the socio-economic impact of Chinese investments has also been viewed as comprising of the creation of jobs. Chinese goods infiltrated the local market, generating employment opportunities for locals to sell Chinese products, thus providing a source of income. The opening up of ChinaTown, a large shopping complex in Lagos, is an example of how locals have found jobs through selling imported products.

Chinese investments in Nigeria have also been cited as beneficial for the local population on the ground that products are both affordable and accessible. This creates an impediment for local businesses as they find themselves on an uneven playing field with the Chinese. This is because Chinese manufacturers are able to generate higher profits and better-quality products on account of easier access to loan facilities, lower costs of production and reduced import tariffs. In comparison, little has been done to aid local businesses that are faced with inadequate infrastructure and social facilities, high interests on loan facilities, high costs of production, lack of technological expertise and unskilled labour (Atomre, Odigie, Eustace and Onemolease).

As Chinese investment in Africa increases, a consistent pattern of dependency has developed. The Consul-General, Chao Xiaoliang

(Sessou, 2017), speaking at a joint seminar with Nigerian customs officials, disclosed that from January to May 2018, the China-Nigeria bilateral trade volume has reached $5.8 billion. In 2015, trade in Nigeria was quoted as constituting 21.2% of the GDP. This signifies the key role trade plays in maintaining the Nigerian economy. Additionally, many of the infrastructure projects initiated in Nigeria have come to rely on the import of resources from Chinese manufacturers and companies, thus leading to capital repatriation and loss of foreign exchange by the local economy. Though workers and trade unions are more appreciative of these investments due to the employment opportunities and labour legislations, there are some major concerns about work standards, health and safety standards, production standards, dumping and industrial relations issues. There is also a lack of transparency.

China seeks to gain as much as it gives to African states. In a bid to look for an improved form of development assistance, free from the strings and conditionality usually attached to the provision of aid from Western states, Nigeria has welcomed China into the economy, despite the underlying imperialist nature of this relationship. China has an access to natural resources for its own markets and is ideologically motivated in its partnership with Nigeria but in order for Nigeria to move towards sustainability and self-sufficiency, it must begin to develop the necessary ability to shape its own strategies that govern its interactions with China (Atomre, Odigie, Eustace and Onemolease).

Conclusion

'China's Investment in Africa: The New Colonialism?' asks a *Harvard Political Review* article published on 3 February 2017 (Manero, 2017). This question has been repeated many times, especially in Western media outlets in the context of rising Chinese economic influence in many developing countries. The same is true for increasing Chinese economic interest in African countries over last few decades.

In asserting that China in Africa has neo-colonial connotation, it is useful to assess its distinct state-led model of economic growth. China has developed a substantially greater demand for natural resources to

maintain rapid industrialisation, as well as the need for new export markets for its low-cost manufactured goods (Taylor, 2009). In this regard, Africa seemed appealing as a relatively untapped and underdeveloped economic region seeking economic support and foreign aid. China recognised the potential to elicit a monopoly for this purpose, as the military regimes and ideological conflict Africa was facing with the West had essentially placed it in an isolated state. China thus sought to differentiate itself from the prescriptive and hierarchical approach of other external actors through an emphasis on political equality and mutual benefit, derived in part from shared historical experience (Alden & Large, 2011). This is particularly evident in the discourse and practice of the Forum on China-Africa Cooperation (FOCAC), set up in 2000 as the main framework for collective dialogue. For example, despite the overwhelming differences in power between China and African states, FOCAC's inaugural declaration recognised all as 'developing countries with common fundamental interests' that included 'consolidating solidarity … and facilitating the establishment of a new international order'. China's 2006 White Paper on African policy similarly outlined a new 'strategic partnership … featuring political equality and mutual trust, economic win-win cooperation and cultural exchange'. In stark contrast to intrusive Western conditionalities, it pledged to 'respect African countries' independent choice of the road of development' (FOCAC, 2006).

The parallels with colonialism become more apparent when observing the lack of initiatives to steer African markets and the African economy towards self-sufficiency and sustainability. The reliance on imported goods and the lack of technical and capital investment in independent African industries signals the creation of a system of reliance. Moreover, hierarchical structures are unfavourable towards local Africans, with Chinese officials dominating the management spheres and thus enforcing a passive form of superiority and domination over the host nation. Steps have been undertaken to move towards more progressive and inclusive strands of cooperation and sustenance. In different countries, there is a differential pattern of the emphasis given to labour and trade unions and thus to classify all of China's investments in Africa as a generalised, passive form of neo-colonialism, would be to disregard individual efforts of countries to create policies and strategies that ensure Chinese investment

remains non-interventionist and holistically inclusive. However, given the political economy of numerous African states and the nature of Chinese engagement, it remains to be seen whether, in the long term, China will achieve little more than to 'insert themselves into an existing bilateral relationship between Africa and the West, converting it into a triangular one' (Clapham, 2007).

Since a major motivation for Chinese to invest in African countries has been access to raw materials (Pham, Bello, & Barry, 2018) and access to local markets for their goods, to what extent the Chinese interest in Africa can be construed as 'exploitation' is a matter of perspective and ability of individual countries to develop the relationship in a mutually beneficial fashion. The policy makers and negotiators from the countries expecting Chinese investments need to be aware of the lessons to be learnt from other countries with similar experiences. With Belt and Road Initiative becoming an ever-important cornerstone of China's economic and political philosophy, increasing investments from China into Africa are on the horizon. The recipients of these investments have to perform detailed economic scrutiny of the proposed projects, safeguard national interests, formulate consistent policies and ensure efficient regulatory compliance to extract most benefit from such investments.

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J. Syed, Y.-H. Ying (eds.), *China's Belt and Road Initiative in a Global Context*, Palgrave Macmillan Asian Business Series, https://doi.org/10.1007/978-3-030-14722-8