A look into the Complexities of the One Belt, One Road Strategy

SARMIZA PENCEA
Ph.D., The Institute for World Economy, Romanian Academy
ROMANIA
pen_sar@yahoo.com

Abstract: Well-known for their practical thinking and approaches, Chinese planners took the most simple and obvious idea – that strong interconnections among countries favour economic activity, growth and wealth creation – and they turned this idea into the most ambitious, bold and complex strategy: the revival of the ancient Silk Road, in a multi-dimensional, modern version, upgraded for the 21st century. This paper looks at the One Belt One Road (OBOR) strategy from the angle of complexity which springs from both its design and goals, and from its implementation which is prone to face significant challenges and risks. It examines the interests at stake, the risks involved, the potential benefits to be reaped and the nascent after-effects of this daring and far-reaching endeavour.

Keywords: Silk Road, OBOR, One Belt One Road, China, cooperation

1. OBOR – complexity in the conceptual blueprint

Already well-known for their pragmatic thinking and approaches, Chinese planners took the most simple idea – the one that, by connecting Eastern-most and Western-most developed extremities of the Eurasian continent (that is China’s East coast, at one end, and the Western European countries at the other), the economic activities and trade along the newly created connections would flourish - and they developed this idea into the most ambitious, bold and complex strategy: the revival of the ancient Silk Road in a modern version, upgraded for the 21st century. The strategy, which implies the building - sometimes from scratch – of composite networks of highways, railroads, air lines, sea-lanes, pipe-lines, electrical grids, digital systems etc., linking ports, airports, energy hubs, industrial and technological parks, developed and developing communities, is, obviously, a highly complex endeavour, both in its design and goals, and as it concerns its implementation, which is prone to face numerous challenges and risks. On the other hand, if successful, this daring initiative could generate huge benefits in terms of faster economic growth and development, innovation leaps, industrialization and modernization of the countries lagging behind, positive synergies and spillovers, job creation and improved living standards for the populations involved.

After almost four decades of successful implementation and outstanding results of the reform and opening up strategy thought of by Deng Xiaoping, China needed a new vision to invigorate its growth, avoid “the middle income trap” and ensure ongoing development in a sustainable way. This new strategy was unveiled by president Xi Jinping in the autumn of 2013 and was laid out in more detail in the document “Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road”1, framed by the National Development and Reform Commission (NDRC) and the ministries of Foreign Affairs (MoFA) and of Commerce (MoC), in 2015. As envisioned in this document, the new inter-continental linkages between Asia, Africa and Europe should have two components – a terrestrial one (the Belt) and a maritime one (the Road) - named, for short, One Belt, One Road (OBOR). In spite of the name, though, the OBOR initiative is not about just two routes, but it includes, besides the maritime lanes, every other type of land transport networks, developed around six main corridors (Map 1), plus airline connections, energy, telecommunications and production networks, as well as more intense interpersonal cultural, academic and scientific exchanges. As such, OBOR will be much beyond the mere re-creation and expansion of the ancient trading routes.

1 Document further abbreviated in this paper as Vision and Actions
Although it is Chinese by design, its promoters underline that the OBOR strategy is not a “solo voice”, but a “chorus” performance aiming at creating “... a Belt and Road that is politically cohesive, economically integrated and socially harmonious...”, able to narrow development gaps – both within and among its participant countries - and to foster greater institutional, physical and people-to-people connectivity (Yang Yanyi, 2015). Participation is open to any interested party, but, if it were to approximate, there are at least 65 countries along the envisioned routes (Table 1) which are currently considered by the OBOR literature and, potentially, other additional 48 countries\(^2\), including some of the founding members of the Asian Infrastructure Investment Bank (AIIB) (Chin&He, 2016).

Table 1: 65 Countries along the One Belt One Road routes

<table>
<thead>
<tr>
<th>Region</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>China, Mongolia</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor Leste, Vietnam</td>
</tr>
<tr>
<td>Central Asia</td>
<td>Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Palestine, Syria, United Arab Emirates (UAE), Yemen</td>
</tr>
<tr>
<td>South Asia</td>
<td>Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka</td>
</tr>
<tr>
<td>Europe</td>
<td>Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Rep., Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine</td>
</tr>
</tbody>
</table>

Source: World Bank (country grouping by regions based on World Bank Classification)

*Belt and Road* targets five major areas of cooperation (the “Five links”) in its implementation and development (Figure 1), which expands substantially its complexity:

---

\(^2\) Middle East and North Africa: Algeria, Djibouti, Malta, Morocco, Tunisia; Europe: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK; Sub-Saharan Africa: Burundi, Comoros, Ethiopia, Guinea, Kenya, Madagascar, Mauritania, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, South Africa, South Sudan, Tanzania, Uganda, Zambia, Zimbabwe; Oceania: Australia, New Zealand; Latin America: Argentina, Brazil, Peru;
1) *policy coordination* among participating countries, by way of multi-level intergovernmental macro policy mechanisms (without replacing the existing ones, but using and extending them);

2) *facilitation of connectivity* (through transport, energy, telecommunications and all the other forms of networking). On land, OBOR will take advantage of, and build on the existing international transport routes, core cities, key economic and trade zones and industrial parks. At sea, it will focus on jointly building efficient and secure lanes between major OBOR seaports (Wong, 2015).

3) *unimpeded trade* (by trade liberalization, removing barriers to investment, enhancing cooperation in various forms, developing free trade zones, cross-border e-commerce, improving industrial chains distribution and the regional division of labour, etc);

4) *financial integration* (by deepening financial cooperation, improving rules, developing the bond market in Asia, encouraging private funds to invest in OBOR countries etc.);

5) *people-to-people bonding* (through extensive cultural, academic and interpersonal exchanges, outbound tourism, cooperation in education, arts, science, technology, innovation etc.).

The main stress of the OBOR strategy is primarily laid on connectivity as a precondition of growth and development, and, therefore, in Chinese vision, building and upgrading infrastructure deserves priority. As such, besides China’s own investment plans, the strategy calls for an effort of coordinating all the local infrastructure investment programs in the countries along OBOR within this grand vision of transcontinental linkage, so that an uninterrupted, strongly interconnected area, stretching over tens of thousands of kilometers, is created for trade, investment and cooperation.

a. The impressive geographic coverage of the OBOR initiative, its size and scope, contribute to its increased complexity. In terms of geographic coverage, the 65 countries along Belt and Road account for *over 38% of the world land surface* (Figure 2). Many of these territories are rich in natural resources and have a great potential of development, but they are also difficult landforms (very high mountains, deserts) with harsh weather conditions which makes them sparsely populated and render infrastructure building and any economic activities much more difficult and expensive. For the OBOR strategy, capitalizing on the natural richness of these stretches of land is an important incentive and a goal, but that calls for high and risky investments, and it implies long-term construction, complex technical solutions, belated and sometimes insecure returns.
b. The extensive and, potentially, expanding geographic coverage of China’s initiative is increasing the complexity of Belt and Road also in terms of the populations involved, which already account for an impressive 62% of the world totals (Figure 3). These populations, living in three continents, belong to many ethnic groups and are extremely different as regards their history, language, culture, religion, native customs, political organization, local governance and living standards. Some of their countries (in Africa, Middle East, Asia) are politically instable, some are caught in endless rivalries and conflicts, some face separatist movements and some are at war. Many of these populations live in very insecure areas, facing all sorts of threats, from piracy and plunder, to smuggling, illegal trade and local corruption, and even to terrorist attacks and to wars. Investor companies and their project implementation face many of these threats and risks too.

c. The diversity of the 65 countries expected to get involved in the implementation of OBOR is huge not only in terms of their geography, demography or culture, but also as regards their development level (approximated by GDP/capita at PPP), their business environment, their legal framework and degree of law enforcement, as well as in terms of their technical and quality standards. The 65 include both developing countries of less than USD 3 000/capita (Nepal, Tajikistan, Timor Leste), and countries of over USD
70000/capita (Brunei, UAE, Kuwait, Singapore), or even of over USD 100 000/capita (Qatar) (World Bank, 2016). However, almost half of these countries (31) are below the world GDP/capita average - China and a few European countries (Albania, Bosnia Herzegovina, Macedonia, Moldova, Serbia) included - and most of them need large and systematic investments to propel their growth.

Overall, the 65 countries along Belt and Road account for 30% of the world GDP, and for 24% of the world household consumption (Figure 4). Given that they also account for an impressive 62% of the total world population, their contribution to the global GDP and, most of all, their share in the global household consumption is obviously quite low. The opportunities are staggering, but, in many cases, so are the challenges and the risks.

![Fig. 4: OBOR countries’ contribution to world GDP and household consumption](source: the author’s representation, World Bank data)

Among these countries, some of the most populous countries of the world may be cited, many of them still developing or emergent economies and, also, some of them industrializing and trying to catch up. Nevertheless, all of them need infrastructure development and almost all face important budget shortfalls in this respect.

In a global picture of the infrastructure financing trends given by IFC/World Bank (2016), it is estimated that the emerging markets worldwide can absorb yearly USD 2 trillion in infrastructure spending and that about half of that demand remains unmet. Also, their forecast is that the infrastructure needs of the developing economies will double annually, for the next decade. In Asia’s case, according to the Asian Development Bank’s estimates, the total continental needs of infrastructure investments amount to USD 8 trillion between 2010-2020 (ADB, 2010), or the equivalent of about USD 800 billion annually. IFC/World Bank indirectly confirms ADB estimates, by contending that the bulk of the infrastructure investments needed by emerging markets (of USD 2 trillion) will be required by East Asia, China included. Other sources speak about cumulated infrastructure needs in all the countries along the OBOR routes, amounting to USD 21 trillion (McKinsey&Co., HKTDC, 2016).

With its enormous financial resources and in spite of all the costs and risks, China is well positioned, interested and willing to invest in, or to negotiate loans with even the less-secure countries, because it is motivated by its own long-term strategic and economic (domestic and global) interests (Stratfor, 2015). To this end, since 2014, China has established three new financial entities which will provide financing for infrastructure investment under the Belt and Road initiative, additionally to that provided by China’s global policy banks – China Development Bank (CDB) and China Export-Import Bank (CEIB) – and to other state-owned lenders, such as the Bank of China (McKinsey&Co., HKTDC, 2016). These are:

1) the Silk Road Fund, with an initial capital of USD 40 bn., financed from China’s foreign reserves (plus the Green Silk Road Fund, of USD 4 bn. for renewable energy projects);

---

the New Development Bank (BRICS Bank), with an initial capital of USD 50 bn., financed by the BRICS countries;

3) the Asian Infrastructure Investment Bank (AIIB), with initially registered capital of USD 100 bn. expected to reach USD 250 bn., by 2020, from its 57 founding members.

It is worth mentioning that Chinese policy banks already dominate global development finance and that their activity is complemented by the 14 regional development funds, cumulating USD 116 billion overall capital, created by China, of which at least 10 funds, totaling about USD 79 billion might get involved in OBOR projects (Hing Lee Chan, 2016).

2. OBOR – complexity of goals

The Belt and Road strategy is obviously a Chinese-centric and Asian-centric one, displaying an almost totally unconcealed expression of China’s interests, both in terms of domestic and foreign policy.

China’s domestic economic policy targets, by way of OBOR

China has overtly presented the New Silk Road Strategy primarily as an instrument for adjusting its own domestic imbalances, by supply-side, structural reforms. As it is in full transition from a development model (investment and export driven) to another (driven by services and domestic consumption) and against the backdrop of an international environment defined by sluggish demand and growth, China has to face a host of domestic challenges: overcapacity and inefficiencies in a number of industries (steel, cement, glass, coal mining, real estate, infrastructure etc.), especially in state-owned enterprises (SOEs), which are also burdened with huge debts; unbalanced geographic development (a highly developed East coast and many inland, Northern and Western regions lagging far behind); unsustainable and slowing growth (unbalanced economic structure; high energy and natural resources needs and high dependence on commodity imports - primarily oil and gas - for its resource-intensive activities; investment and production inefficiencies; low positioning into the regional and global value chains; rampant pollution; relatively low innovation and underdeveloped services etc).

Taking all of these into account, China hopes that „going West”, opening and connecting markets under the OBOR strategy, could meet many of its domestic reform challenges, among which:

1) to create jobs (for entire value chains, mainly Asian), to export its know-how and expertise in infrastructure building and to create external demand for Chinese industrial goods (building machinery and equipment, construction materials, petrochemicals, high speed railways and wagons, pipelines, telecommunication equipment, etc) by developing infrastructure projects abroad;

2) to give a boost to its renewable energy industry, especially to the solar energy, which suffers from insufficient orders and excess capacity;

3) to spur economic development in its poorer regions in the central and Western parts of the country, rebalance its overall geographic development and mitigate, in this way, wealth disparities among regions, the rural-urban development gap, urban migration and unrest from ethnic minorities;

4) to relocate (inside and outside the country) some of its low-end, labour-intensive industries with lost competitiveness against the rising Chinese wages on the East coast and to revive, consequently, the „flying geese” Asian development model;

5) to better reposition its industries in the regional value chains;

6) to encourage regional synergies that stimulate domestic entrepreneurship and innovation;

7) to encourage the tertiarization of the economy and the Chinese export of services;

8) to stimulate innovation-led development and avoid „the middle-income trap”;

9) to create a large and stable middle class, able to sustain a domestic consumption - driven development model;

10) to ensure long-term, sustainable growth and rising living standards for its population.

4 The international ranking by the banks’ global assets in 2015 was: 1. China Development Bank; 2. World Bank; 3. Export-Import Bank of China; (Hing Lee Chan, 2016).

China’s foreign policy targets, by way of OBOR

OBOR is also designed as both a framework and a tool for meeting some of the country’s important regional and global goals, among which:

1) to secure long-term and safer access to the rich energy resources of developing Asia and Africa (Central Asia, Middle East, Northern Africa). By constructing new pipelines between China and the hydrocarbon-rich Central Asian countries and by transporting the Middle-Eastern and African oil through the Pakistan-China corridor (using the Chinese-revamped port of Gwadar) instead of taking the South China Sea lanes - where the Malacca and Hormuz straits are vulnerable to a blockade - the country is trying to improve its energy security (Currently, China’s dependence on oil imports is of about 60%, and 70% of its overall oil imports pass through the Malacca Straits) (Jiang, 2015);

2) to improve relations and mitigate conflicts with neighbours;

3) to secure access to the European market and to develop other foreign markets along OBOR, for its exports of industrial goods;

4) to facilitate and foster larger exchanges, higher investments, increased production and growth, along the OBOR routes;

5) to negotiate with the OBOR countries preferential treatment on the back of the large Chinese outbound investments - fiscal concessions, other facilities - to lower China’s cost of doing business and boost its products’ competitiveness, giving rise to global ripple effects (Sahoo, 2016);

6) to invest China’s huge foreign reserves and earn reasonable returns from large-scale transport and energy infrastructure projects abroad;

7) to implement profitable, long term strategies along OBOR routes (such as, for instance, by developing quality infrastructure corridors which become attractive for industrial investments and turn themselves, in time, into industrial corridors where the transaction costs get minimized, leading to higher competitiveness, increased production, employment and profits);

8) to advance in the global value chains, transiting from low-end/low-quality, to high-end/high quality manufacturing;

9) to capitalize on the attractiveness of the Chinese development model and “export” it to other developing countries, strengthening their ties with China and China’s influence in those respective countries;

10) to uphold the “going out” policy and the internationalization of China’s companies;

11) to broaden the international usage of China’s currency (RMB) and help its internationalization by advancing RMB-denominated loans or credit lines for projects;

12) to increase China’s regional and global influence, cement its position as a major power on the global scene and increase its role in setting the international agenda and “writing the rules” that govern international relations (Jiang, 2015);

13) to push for a free trade zone (FTZ) covering the entire OBOR countries area, in the longer run (Churchman, 2016).

As it can be noticed, the targets envisioned by China through its OBOR strategy are many, very complex and far-reaching. This very fact may become a serious drag in terms of its implementation, the more so if the challenges and risks in different regions combine.

Some of the other OBOR participans’ hopes and worries

The Belt and Road planners trust that the initiative will contribute to creating a more harmonious Eurasia, with everybody having to gain. As it was already shown, a significant part of the OBOR participants are developing, industrializing and catching-up countries, with large investment needs, but depressed financial means. Additionally, some of these countries lack the know-how and skills to design, organize and manage large-scale projects and are often plagued by corruption and faulty law enforcement. Foreign investments and know-how are vital inputs for many of these countries, either for pushing further their development efforts, or to start changing their fate. For all of them, anyway, Chinese potential infrastructure and manufacturing investments are extremely attractive and embody a chance to develop and improve their living standards. On the other hand, although the developing economies along the OBOR are assured that the strategy is a win-win one, asymmetries do exist and they may generate drawbacks. For instance:

FOREIGN TRADE. The OBOR strategy clearly aims at opening the markets as far as Western Europe to create demand for China’s industrial goods throughout Eurasia and Africa, and to access valuable commodities from the countries along the OBOR routes. But:
1) *If China continues to subsidize its export industries in various ways, competition in these markets will be unfair*, Chinese exports will, then, trigger other exporters’ market exit and bankruptcies among the local producers, followed by job losses, impaired living standards and, in time, higher import dependency of these countries, with a negative impact on their balance of payments and current accounts;

2) On the other hand, *it is not equally clear if China opens its markets too, and to what extent. If China is only going to negotiate long-term imports of commodities at preferential prices and terms, against its infrastructure investments, this will probably meet very well China’s needs, but it will not make its partner countries richer, even if they will benefit from some job creation. The more so, if all the new jobs and procurement needed for project implementation go entirely to China*. To help these countries develop, they should be entrusted with some parts of the projects’ implementation and/or procurement and, also, *China should constantly increase and diversify its imports from these countries, besides those of commodities. Additionally, to maximize external support for the strategy - and let the market allocate resources - Chinese-led funding initiatives should be open to foreign contractors* (Pantucci, 2016).

3) At the same time, a situation of *growing indebtedness of these countries to China* (following investments) *and synchronized deficit growth in their balance of payments and current accounts should be avoided if these countries are to be truly helped develop and become able to pay back their debts*. Also, creating a balanced trade relationship is critical for easing tensions between countries.

**CHINESE INVESTMENTS.** All the countries along Belt and Road need investments. As OBOR has such a large coverage, including many countries with competing interests which are not easily harmonized, *China should refrain from using a „divide et impera” policy of investment allocation, encouraging a race to the bottom among potential recipient countries*.

**INDUSTRIAL RELOCATIONS** from China to the other OBOR-participant countries could make positive contributions to their rapid industrialization, job creation, economic growth and development, but *China should consider ways of not also transferring to the recipient countries the high pollution problems it is currently facing itself*. Additionally, to encourage the local production and job creation, it should foster its imports of manufactured goods produced in the relocated units, helping this countries establish an investment-and-export-led development model in their economies and become the next generation of „flying geese”.

**REGIONAL VALUE CHAIN DEVELOPMENT.** The same applies to the industries in which China gradually moves up the industrial value chains (VCs), leaving its former positions to be occupied by lower-costs neighbours. *By promoting OBOR, China hopes to remodel the Asian VCs into complete production cycles in which it occupies the dominant position over the entire downstream processing*, similarly to what Japan did in the 1980s-1990s when it was facing industrial overcapacity and economic slowdown pressures. But, if it reproduces the Japanese experience (using the regional VCs and production networks as instruments of its own export growth, rather than helping its partner countries develop by absorbing growing imports of their manufactured goods) China would, most probably, get the same unwanted results (bilateral tensions with partner countries). Therefore, *China should not treat its partners in the VCs as just destinations for its own excess capacity, products or capital, but it should try to become their primary market for final products, to consequently alleviate trade imbalances, strengthen ties and grow its influence in the region, while genuinely helping these countries develop. As such, a big challenge for China would be to strike the right balance between expanding the international market for its own products, on the one hand, and boosting domestic demand to absorb more imports and address the rising trade imbalance with its partners, on the other*. Regional VCs boost market integration, but this benefits all only if it contributes to a balanced trade relationship (Yu, 2016).

**REGIONAL INFLUENCE AND CONFLICT MITIGATION.** As shown above, by increasing its presence in the Belt and Road participant countries, China may either improve its local image and influence – as it hopes – or, on the contrary. It all depends on the way in which it manages this undertaking. By forcing certain conditionalities or ways of action on its partners, by systematically and primarily seeing to its own interests, pretending favourable treatment and ignoring local expectations and needs, or by bending local or international rules, it will only increase tensions in the neighbourhood and farther. This is why the principles iterated in the *Vision and Actions* document on OBOR, where it is contended that the initiative is ment to be „open and inclusive”, promote „mutual benefit”, abide to „market rules and international norms” and to the principles of peaceful coexistence, must be obeyed to the letter.
3. OBOR – complexity in implementation

Some early accomplishments

There have certainly been some very favourable developments for the OBOR strategy, in recent years, and, currently, there are some early accomplishments worth mentioning. Among the favourable circumstances, we must highlight the proliferation of free trade agreements (FTAs) in Asia - where their number jumped from only 9, to 58 between 2000-2015, while some other 64 new ones are either proposed, or already under negotiation.

We also highlight the higher annual growth rate of trade between OBOR the countries, China included (13,1% , 1990-2013), as compared to that of the overall world trade (7,8%). Furthermore, it is worth noting that, after the financial crisis, this discrepancy has become even larger: 13,9% average growth rate in OBOR trade, as compared to just 4.6% in world trade. Particularly spectacular was China’s export growth to these countries: over the decade between 2004-2014, its exports have risen over 6 times, from less than USD 100 billion in 2004, (accounting for 16.5% of China’s total exports), to over USD 630 billion (25.8%) ten years later (Yue, 2016). In 2015, China’s total trade with the countries participating to the Belt and Road initiative exceeded USD 1 trillion, accounting for a quarter of its foreign trade (Xinhua, 2016 a).

According to the same source, since 2013 - when the strategy was announced - more than 70 countries and international organizations have participated in the initiative and more than 30 countries have signed cooperation deals with China. Also, more than 200 enterprises have signed cooperation agreements along the OBOR routes (Tian, 2016). Official figures speak about 900 deals under way, worth about USD 890 bn., and also about cumulative Chinese investments in OBOR countries which will amount to a total of 4 trillion US dollars (Economist, 2016).

It is also important to mention that critical institutional building has taken place during the last few years, primarily by founding of the OBOR new financing institutions (the Silk Road Fund, AIIB, BRICS Bank), but also by establishing specialized OBOR departments at all levels, from the top of the Chinese leadership system down to the enterprise level.

In terms of outbound direct investments (ODI), it is remarkable that, by official data, in 2015 Chinese investments in OBOR countries rose twice as much as their total ODI and that 44% of the total engineering projects were signed with OBOR countries. This proportion grew to 52%, in the first half of 2016 (Economist, 2016). More recent data show, additionally, that since its announcement in 2013, to the end of 2016, the OBOR strategy has led to Chinese ODI amounting to USD 50 billion in these countries (The Standard, 2017).

Challenges and risks of OBOR implementation

Challenges of geopolitical nature. The Chongqing-Duisburg route – resulted by interconnecting the railway systems of China, Kazakhstan, Russia, Belarus and Germany – was practically in place for almost a decade without becoming operational due to difficult and stagnating negotiations with Russia and the other transit countries. China had to make a huge diplomatic effort to conclude a customs agreement with Russia and also to establish a joint transport company to run the business. It needed ten years. This example highlights one of the biggest challenges for OBOR: the resistance by other powers, which fear of losing their influence in the region, or have their economic interests affected (in this case, Russia saw in the OBOR rail networks a competitor and menace for its own Trans-Siberian rail).

China’s larger neighbourhood is one of historically chronic regional rivalries and confrontations which developed, at times, into conflicts. Regional political sensitivities are also overabundant and, even if countries might be willing to become recipients of infrastructure investment from China, they will be, most probably, reluctant to accepting the sino-centric rules attached. Russia and India, for instance, two major regional players, have already shown discomfort with OBOR implementation (India as regards the China-Pakistan Economic Corridor and some other projects in the territories which it claims from China, Russia regarding the projects involving Central Asian countries, an area which it considers its own backyard) (Ntousas, 2016). The USA and Japan, on the other hand, have vigorously opposed and lobbied against the AIIB establishment and Western participation, for similar reasons.

Challenges of economic and technical nature. Economic rationality has determined Chinese planners to design OBOR as a strategy which makes full use of the existing assets, (either in the form of existing infrastructure networks, ports, airports etc., or as previous local strategies, investment projects, financing mechanisms, institutions etc.). Although this approach is meant to lower costs and to simplify project...
implementation, in practice many problems might still arise. For instance, returning to our Chongqing-Duisburg route example, we notice that even if the connection is currently functional, unavoidable operational issues which generate important inefficiencies maintain: there are technical incompatibilities between participant railroad systems, such as the different track gauges in the transit countries. Consequently, containers have to be reloaded to rail cars of a different gauge at the frontiers, adding to the length and cost of transports. On the other hand, because trade between China and Europe is highly unbalanced, there are important difficulties in providing full load for the cargo trains returning to China, which, once again, has a negative impact on costs and efficiency.

If significant difficulties such as these arise when using the existing infrastructure, even bigger problems may appear when attempting to build sizeable, entirely new infrastructure networks. One of the biggest challenges in such endeavours will surely be how and where to draw the line between the respective roles of governments and markets. Although the initiators of Belt and Road stress that the strategy will „give play to the decisive role of the market in resource allocation and the primary role of enterprises“, in practice this will be difficult to be done, considering that the beneficiary countries are mostly under-developed market economies, in great need of large, long-term investments, but exposing investors to many risks. Such high-cost, long-term, high-risk investments are not easily undertaken by private companies. They most often need governmental funding and involvement, and that is why inter-governmental policy-coordination and cooperation are critical to the OBOR implementation.

Some of these projects, which from their very inception are obviously going to be ineffectual, at least in the short run, may be considered important and necessary in a longer-term view, as other interests, of strategic nature, might prevail against the purely economic arithmetic and logic. In such cases the states are the ones that have to assume responsibilities and risks. For instance, Russia and China have agreed in principle on building a fast train rail connecting their two capital cities. The distance between Moskow and Beijing is of about 7000 km and by high-speed trains the jurney is supposed to take only two days, but the building costs would be huge and impossible to ever be recovered from cargo rates or passengers fares. In a short-term view such investments cannot be justified, but in a long-run perspective, if a range of cities is being built along the way, calculations may change entirely (Yeo, 2015).

Another huge challenge for China – already mentioned above - would be to strike the optimal balance between its need to expand the external market for its products and the imperative of upholding its partner countries’ growth and bilateral amity by absorbing increasingly more of the OBOR countries’ exports. It is critical for the OBOR successful implementation that China refrains from using the strategy only for its own benefit, but, on the contrary, it turns it into a „two-way street“ (SCMP, 2016 a).

But probably the highest challenge of OBOR implementation, expressed in the numerous and diverse risks it generates, is its large and extremely patchy composition by country (Ntousas, 2016). Trying to link Asia, Africa and Europe means not only to overcome distance, tough relief forms, harsh climate and a multitude of other physical barriers, but also to try to overcome historical rivalries, border disputes, competing economic interests and divergent visions on project implementation issues. It also means to consider the multitude of organizational and regulatory frameworks existing in these countries, the legal and bureaucratic mismatches that may appear between their respective systems and, also, the market failures that may arise, such as rent-seeking or corruption.

Risk assessment. The are many risks associated to this highly complex strategy, that come to the fore both while it is implemented and, also, as some of its outcomes become functional. While in some regions there are serious security and political risks to be faced from the very onset of project implementation, new threats might appear afterwards, too. For instance, building infrastructure connections in unstable, conflict-ridden regions, such as Balochistan, could be done only with special security measures. But, when the projects are finished, besides their positive impact, the new links may incress risks, providing new transport networks and impoved access to information (ITC networks) not only for people and companies pursuing honest activities, but also for illicit and dangerous undertakings (illegal traffic of goods and people, smuggling, religious extremism and terrorist acts etc.). Political risks also might arise when leadership changes, opposition takes a

---

6 While China and almost all the Western Europe have standard gauge tracks, Russia and Belarus use Russian gauge and Spain, even wider Iberian gauge (Wikipedia, accessed at September, the 9th, 2016 https://en.wikipedia.org/wiki/Yiwu%E2%80%93Madrid_railway_line).
7 Beijing and Islamabad have concluded an agreement under which Pakistan allocates an army division of 10 000 soldiers to protect Chinese workers involved in infrastructure projects in Balochistan (Stratfor, 2015).
strong stance against projects, or in cases of social unrest. Tensions between neighbour countries may increase political and security risks, too.

There are also numberless economic risks, born from unexpected changes in the market conditions, in the legal and regulatory frameworks, or just emerged as a result of the local cultural specificities. All of these can, in turn, generate operational risks leading to a high degree of uncertainty in project profitability (Figure 5; Tables 2 and 3). From a risk assessment report by the Economist Intelligence Unit (2015) which looks at 10 risk categories (as in Figure no. 4) and rate them from 0 to 100 by risk intensity, it comes out that different risks combine into different patterns by country, with a few types prevailing in each case (Tables no. 2 and 3). On the whole, all these various risks compose a graphic image of the potential threats to OBOR implementation, in the form of a regional risk map (Map 2).

Fig. 5: Potential risks in OBOR implementation

<table>
<thead>
<tr>
<th>Table no. 2: The highest-risk OBOR countries, by risk category</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk category</strong></td>
</tr>
<tr>
<td>1. Security risks</td>
</tr>
<tr>
<td>2. Political stability risks</td>
</tr>
</tbody>
</table>
Table no. 3: The lowest-risk OBOR countries, by risk category

<table>
<thead>
<tr>
<th>Risk category</th>
<th>Low risk countries (lowest score*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Security risks</td>
<td>Singapore (7); Czech Rep. (11); Hungary (14);</td>
</tr>
<tr>
<td></td>
<td>UAE (14); Qatar (14); Poland (18); Romania (18);</td>
</tr>
<tr>
<td></td>
<td>Kuwait (18); Oman (18);</td>
</tr>
<tr>
<td>2. Political stability risks</td>
<td></td>
</tr>
<tr>
<td>3. Government effectiveness risks</td>
<td>Singapore (7);</td>
</tr>
<tr>
<td>4. Legal &amp; regulatory risks</td>
<td>Singapore (8);</td>
</tr>
<tr>
<td>5. Macroeconomic risks</td>
<td>Malaysia (10); Oman (15);</td>
</tr>
<tr>
<td>6. Foreign trade and payment risks</td>
<td>Singapore (4); Qatar (11); Oman (11); UAE (14);</td>
</tr>
<tr>
<td></td>
<td>Romania (18);</td>
</tr>
<tr>
<td>7. Financial risks</td>
<td>Singapore (4); Israel (17); Malaysia (17);</td>
</tr>
<tr>
<td>8. Tax policy risks</td>
<td>Singapore (6); UAE (12); Oman (12); Bahrain (12);</td>
</tr>
<tr>
<td></td>
<td>Poland (19); Israel (19); Qatar (19);</td>
</tr>
<tr>
<td>9. Labour market risks</td>
<td></td>
</tr>
<tr>
<td>10. Infrastructure risks</td>
<td>UAE (19);</td>
</tr>
</tbody>
</table>

Source: the author, resting on EIU (2015) and (2016); Note: *by EIU methodology, 0-100 scale, 100 = most risky. Only the countries with the lowest scores, ranging between 0-20, have been selected.
We, therefore, notice that some of the most risky countries are in Central Asia (Tajikistan, Azerbaijan, Turkmenistan, Kyrgyz Rep., Kazakhstan etc.) and the Middle East (Iraq, Iran, Syria), but there are also important risks to be faced in some countries of Southern Asia (Pakistan, Bangladesh, India etc.), South Eastern Asia (Myanmar, Philippines, Cambodia, Laos, Indonesia etc.) and even Europe (Ukraine, Moldova, Russia, Georgia). On the other hand, the less risky countries, with scores under 20 for some risk categories, are a few rich oil and gas exporters in the Middle East (Qatar, Oman, Kuwait, Bahrain) and some of the Central and Eastern European (CEE) countries (Czech Rep., Hungary, Poland, Romania). Yet, above all of these safe countries, the best position is that of Singapore, with scores under 10, and even under 5, in more risk categories, and with an overall operational risk of just 11. The rest of the 65 OBOR countries score in the range of the average levels (between 20 and 60) in most of the risk categories, CEE countries included.

We also note that the risk category which gathers the largest number of high-risk countries is the government effectiveness risk. This seems of the utmost importance and significance, as long as Belt and Road relies heavily on governmental involvement in project support and implementation, as well as on policy coordination among governments.

4. Conclusions: the complexity of the OBOR expected impact

Currently, China is the only country which has thought out and has advanced a long-term vision and development strategy for itself, for its three-continents extended neighbourhood and, by way of spillover effects, for the global economy as a whole. On the one hand, the strategy aims at restructuring and rebalancing China’s economy, so that it can continue growth, development and living standards improvement, and, on the other hand, it aims at consolidating China’s leading regional and global role.

Given its size, its high and progressing integration into the global economy, when China changes, the entire world has to change too, and, also, when China’s position on the regional and global stage is redefined, then the whole world architecture will have to be reshaped. Therefore, although it is obviously difficult and very early to make an accurate estimation of the Belt and Road regional and global impact, given its complexity, depth and large geographic coverage, we can presume that this impact is going to be colossal, touching almost every activity and every corner of the world.

Although quite a big number of the OBOR projects will fail, while others will not be cost-effective (in the short-run, at least), overall, the 35-years-long strategy will increase the linkages, the bilateral and multilateral relations, the cooperation and interdependence between the countries involved. Even if only a part of what this vision seeks to accomplish will be done, the impact will still be remarkable, but we expect that China will uphold and push forward this strategy at any cost, primarily because it is designed for its own better future and, secondly, because it is a question of national ambition and pride to succeed implementing such an
uniquely daring and challenging plan. As such, OBOR is expected, according to some analysts, to "... leave an economic legacy bigger than the Marshall Plan, or the European Union’s enlargement" (SCMP, 2016)

As it is designed by China, largely financed by China and beginning to be implemented from China, this evolving process of growing interconnectedness, as well as its consequences, will have China in its center, firmly establishing, as such, its leading regional position and an undisputed place among the most powerful leaders of the world. China will influence – actively or passively - every economic, political or strategic decision made, every global process, every negotiation, its companies, goods, capital, currency will be increasingly present all over the world, its development model will be replicated by some countries, its culture will expand its reach and its leaders will have a bigger role in global rule setting. In other words, the OBOR strategy can be and, probably, it will be a global game-changer.

Francis Fukuyama (2016) comes to a similar conclusion. He considers the One Belt One Road strategy "...a striking departure in Chinese policy", because, through it, China seeks for the first time to export to other countries its development model, consisting in state investments in infrastructure, which nourish industrial capacity development and create consumer demand for Chinese products outside China. He considers that such a development pathway - which was remarkably successful in China - has better chances to enrich poor countries than the Western model, which focuses on investments in health, civil rights and anticorruption. Therefore, if the OBOR strategy is successful, "...the whole of Eurasia from Indonesia, to Poland, will be transformed in the coming generation."

What changes might happen? We presume that at least some of the following:
- A redistribution of some of the Chinese industrial capacities throughout the OBOR countries and the restructuring of the Asian value chains, resulting in a new regional labour division, with a global impact;
- Rapid and simultaneous industrialization, modernization and urbanization of the lower-developed economies along the Belt and Road; manufacturing upgrading, industrial diversification and a considerable economic activity boost all along the OBOR routes;
- Increased demand for infrastructure-connected industries (building machinery, steel, cement, pipes, bullet trains etc.) both for China and for other producer countries, in the construction phase of networks; a new and growing demand in the operational-phase of the networks, for a host of other products and services offered by the OBOR countries and, in general, by global markets (trade creation);
- Increased competition between more transport routes and cargo transport modes, leading to lower transport fares, regionally and globally. These will be reflected into improved operational costs and economic efficiency;
- Regional trade creation will trigger local production growth, job creation and increasing households’ income in the OBOR countries, which will be reflected into higher living standards and growing consumption needs;
- A redrawn energy map and economics in Asia will be born, with global impact on prices, trade and investment flows, structure and nature;
- Development and economic growth will receive a strong boost in whole Silk Road area and, consequently, the OBOR countries will advance in the world hierarchies;
- As such, a world having currently two huge, well-defined, trade cores (one in the Atlantic basin, and the other in the Pacific) may turn into a three-cores world, in which a new trade-and-economic cooperation core, geographically placed between the first two, will be that of the Belt and Road countries (Map 3). The global trade system might undergo its most profound restructuring since the Uruguay Round (1994) and after 2008 (Zhang Monan, 2016).
While the countries along the OBOR routes, alltogether, are already reaching trade and investment growth rates above the world average\(^8\), their intra-regional trade and cooperation is still relatively low and in an early stage of development. But, the Belt and Road strategy might change that, as well as the entire trade growth mode, which might adjusts to new modalities of integrating international trade, direct investment and the industrial shift (Zhang Monan, 2016). For Europe, One Belt, One Road strategy is beneficial in its first stages of infrastructure development and it should, therefore, be encouraged and upheld. Especially for „...the de-industrialized and de-populated East European states that joined the EU a decade ago...", the Silk Road economic Belt Initiative would be a much needed source of economic revitalisation.“ (Gatev, 2015). On the other hand, the strategy’s later phases, which might aim to evolve towards a free trade agreement (FTA) covering all the participant countries, will concentrate benefits – in case such a FTA is concluded - into the Asian countries, China included, at Europe’s disadvantage, but, as shown by a recent research, the EU trade will be harmed in a relatively limited way (Garcia Herrero & Xu, 2016). All of the elements of this bright scenario are possible, provided that China avoids becoming hegemonic, refrains from forcefully imposing its interests, rules, model, ideology on the other partner countries but, on the contrary, it thrives itself while helping its OBOR partner-countries industrialize, export more, develop, advance technologically and improve their living standards.

References:

---

\(^8\) According to World Bank data, between 1990-2013 the average annual GDP growth in OBOR countries was 5.1%, twice the world average; average foreign trade growth reached 13.9% and net capital inflows 6.2%, above the world average by 4.6% and 3.4%, respectively (Zhang Monan, 2016).


