

Challenges, Opportunities and Prospects of Cooperation Under The 16+1 And Belt and Road Initiative

SUN JIE

Senior Fellow

Institute of World Economics and Politics,
Chinese Academy of Social Sciences

Abstract: The world economy could be divided into several zones, and according to the basic framework of economic theory, trade which promoted by labor division, will increase productivity, give incentive to growth and improve welfare. The BRI intends to strengthen cooperation among relevant countries by facilities connection, convoy the ideas of open, harmony and inclusive development by market-oriented actions. Cooperation under the 16+1 and the BRI aims at building jointly, facing challenges together and sharing benefits mutually.

Key words: 16+1, BRI, trade

JEL Classification: F, F0

1. Introduction

Chinese President Xi Jinping raised the initiative of jointly building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, hereinafter referred to as one Belt and one Road (BRI), and more frequently referred as Belt and Road Initiative (BRI), during the period when he visited Central Asia and Southeast Asia in 2013. Almost at the same time, Chinese Premier Li Keqiang emphasized the need to build the Maritime Silk Road oriented toward ASEAN at the China-ASEAN Expo. The BRI initiative soon have attracted close attention from all over the world, suggesting that accelerating the building of the BRI may help economic prosperity of the countries along the Belt and Road, deepen regional economic cooperation, strengthen exchanges and mutual understanding among different civilizations, and promote world peace and development.

However, one year before the BRI was put forward, the "16+1" mechanism, a platform created in April 2012 by China and 16 Central and Eastern European (CEE) countries, has injected fresh impetus to cooperation between them, especially within the new framework of BRI. Beyond doubt, both are great undertakings that will benefit people of CEEC and China.

16+1 cooperation and BRI in Commons and their Supplementary

In fact, 16+1 cooperation and BRI are platforms of economic cooperation, or a mechanism, and an initiative/mechanism. Both emphasis on the cooperation and connectivity among countries, however, 16+1 cooperation focus on China and 16 Central and Eastern European (CEE) countries, while BRI not only primarily in Eurasia, but also open to all over the world. But both aims at the development and the establishment of economic partnership among countries, build community of interest, responsibility by economic integration, and political mutual trust. The Key of BRI is Facilities connectivity under initiative and implemented by market, and the key of 16+1cooperation is the promotion of cooperation with recognizing that strong support from governments is essential.

16+1 cooperation and BRI are all devoted on free trade and investment, became more important in facing of protectionism. 16+1 cooperation mechanism is an important part of BRI, was put forward one year ahead of BRI. BRI focus on facility connection and 16+1cooperation expends to cooperation in more fields. BRI is an initiative but 16+1 cooperation is a series of summit of top leaders, and already publish several compendiums and programs of Bucharest, Riga and Suzhou at governmental level. BRI is a open platform and 16+1 is a regional platform.

2. The Background of the 16+1 cooperation and the BRI against Stagnation and De-globalization

According to the general view of point, the world economy could be divided into several zones, such as North American, Europe, Asia and Africa. According to the basic idea of economic theory, trade which promoting labor division, productivity, growth and development.

People of Eurasia explored several inland and maritime routes for trade and cultural exchanges that linked the major civilizations of Asia, Europe and Africa more than two millennia ago, collectively called the Silk Road later. The key Spirit of Silk Road, peace and cooperation, openness and inclusiveness, mutual understanding and mutual benefit, has been passed generations and generations, promoted the progress of human civilization, and contributed the prosperity and development of the countries along the Silk Road. The Silk Road is symbolizing the communication and cooperation between the East and the West, and is a historic and cultural heritage shared by all countries around the world.

The theme of 21st century marked by peace and development, cooperation and mutual benefit, make the Silk Road Spirit more important for us, especially in facing of the weak recovery of the global economy, and complex international and regional situations.

The underlying impact of the international financial crisis in 2008 keeps emerging and profound changes are taking place in world economy like secular stagnation. Savings exceed investment and made the natural interest rate keep low to negative. To find investment opportunity is crucial and the jointly building of the BRI and 16+1 cooperation mechanism might solution. The world economy is recovering slowly, and global development is uneven after decade of globalization; international trade and investment is facing the challenge of protectionism, rules for multilateral trade and investment are undergoing major adjustments. Both is devote to the jointly building of the infrastructure that will embrace the trend toward a multipolar world and global inclusive development.

Cultural diversity, national heterogeneity on endowment and ITC application, is designed to uphold the global free trade and investment, countries' opening up as well as regional cooperation by trade and investment. International trade and investment aimed at promoting orderly and freely flows of economic factors, highly efficient allocating resources and deepening integration of markets; encouraging countries along the belt and road to achieve economic policy coordination, pushing a broader and more in-depth regional cooperation to a higher standard; and jointly creating an open, inclusive and balanced international setting for global economic cooperation framework and architecture that benefits every member.

Globalization is the process of sharing ideas and resource among nations, the evidence is more positive than otherwise. The progress of globalization depends on two forces: technology, which eases travel and communication, and politics that underpin an open world. Now, Technology still drives integration forward, but political resistance is growing, because of the Globalization and its Discontents (Stiglitz) and The Globalization Paradox (Rodrick). But historically, the drag from politics seems weaker than the thrust from technology. There is no denying that the world finds itself in a new era, technology still drives integration forward, but political resistance is growing. Although there is no denying that finance is less international than it used to be, Globalization reset suggest something more positive, or sounder global management. After all, the new regulatory restrictions are at least partly a response to the risks of fast globalization, a desirable level of flows considerably lower than the pace during 2002–04. If the optimal ratio and manner were, globalization might be just about right.

The BRI and 16+1 cooperation represent the new process of globalization reset.

In short, jointly building the belt and road, BRI and 16+1 cooperation will benefit inclusively to world economy in the interests of the world community, reflecting the common ideals and pursuit of international societies. So, it is no wondering that the BRI received widely response all over the world. It is a positive endeavor of establishing a new model of international cooperation and global governance, and will contribute world peace and development.

3. The Rise and Fall of the Ancient Silk Road and the development of GVC

The rise of the ancient Silk Road is promoted by the demand for silk and tea from the west, and hence is driven by the inter-industry trade. It is true that the geographic difficulties through the hot and dry inland desert made the trade only limited to some high value goods like silk and tea which are insensitive to high transportation cost, and only few people and goods could traveled. This is the limitation of the ancient Silk Road. Even though sea belt transportation was established later, the limitation is still there.

However, thanks to the technical progress, the road through the inland desert from Asia to Europe is no longer harsh for transportation neither for goods nor people, and the transportation cost is greatly decreased today. Not only the trade goods can be expanded, but also the trade itself can also be shift from inter-industry trade to intra-industry trade against the background of the expansion of global value chains network around the world, especially between developed countries and developing countries.

The key reason of the fall of the ancient Silk Road is the industry revolution in Europe change the trade advantage among countries. The huge production capacity in Europe made the trade dominated by raw materials and final product between Europe and the rest of the world, saying inter-industry trade. The low cost of final products from Europe is competitive on world market and result in the imbalance of trade. However, thanks to the technical progress, the intra-industry trade in global value chains reshaped trade advantage among countries along the Silk Road and made it is possible of the re-flourishing of the ancient Silk Road.

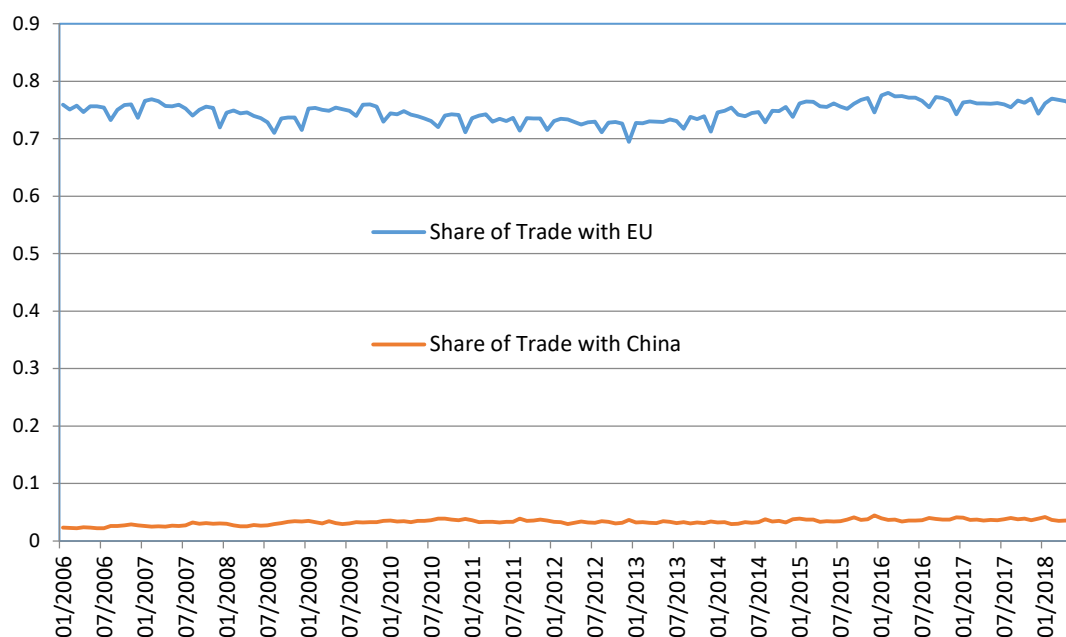
The shift from inter-industry trade to intra-industry trade is an important feature of the BRI and it can stabilize the trade relation in the long term. The ancient Silk Road was breakup several times in its history for the reason of war along the road, but now it is the time for peace and development, even though there may be some conflicts but will not lasted for long time.

It is more important and we has to mentioned here is the fact that the infrastructure for modern transportation along the Silk Road is less developed, so before the re-flourishing of trade, the first priority is the construction of infrastructures. It is for sure that the construction will benefit countries along the belt and road and lay foundation for further cooperation in the future.

4. Potential and Feasibility of 16+1 Cooperation and BRI

In this section, we will illustrate the potential of 16+1 cooperation within the framework of BRI, but only in term of trade because trade is the fundamental of economic cooperation, investment for example.

CEEC are geographically close to developed European countries and are members of EU, so it is naturally integrated into EU since the breakup of the USSR in early 1990's. The trade share of CEEC with EU continuously increased from that time and reached peak level at the late 1990's. From then on, the ration keeps as high as 70% (Figure 1). At the meantime, according to Broad Economic Classification (BEC), the trade structure of CEEC with the world dominated by intermediate goods, nearly 60%, and most of them are trade with EU (Table 1).



Source: calculated from CEIC database.

Figure 1: Trade Share of CEEC with EU and China

Table 1: Trade Structure of CEEC with the World

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Intermediate goods | 0.57 | 0.57 | 0.56 | 0.56 | 0.54 | 0.56 | 0.57 | 0.56 | 0.56 | 0.56 | 0.55 |
| Household consumption | 0.16 | 0.15 | 0.16 | 0.16 | 0.19 | 0.17 | 0.16 | 0.17 | 0.17 | 0.18 | 0.18 |
| Capital goods | 0.13 | 0.13 | 0.13 | 0.12 | 0.12 | 0.11 | 0.11 | 0.11 | 0.11 | 0.11 | 0.12 |
| Mixed end-use | 0.10 | 0.10 | 0.11 | 0.10 | 0.11 | 0.11 | 0.10 | 0.10 | 0.11 | 0.11 | 0.11 |

Source: calculated from OECD database.

In the past twenty years, against the background of CEEC integrating into EU, CEEC trade ratio with China showed a very slow increase, less than 3%. However, the trade structure also dominated by intermediate goods, about 50% and only a little lower ratio than that with EU (Table 2). It suggests that even China is geographic far from CEEC than EU, but the trade structure is almost identical with that with EU. In Romania case, the share of intermediate goods trade with China sharply jumped since the global financial crisis in 2008, indicating the trade relation was deepened integrated significantly (Table 3).

Table 2: Trade Structure of CEEC with China

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Intermediate goods | 0.45 | 0.47 | 0.49 | 0.48 | 0.47 | 0.51 | 0.48 | 0.46 | 0.45 | 0.46 | 0.45 |
| Household consumption | 0.24 | 0.23 | 0.22 | 0.22 | 0.22 | 0.19 | 0.19 | 0.19 | 0.18 | 0.19 | 0.18 |
| Capital goods | 0.15 | 0.15 | 0.16 | 0.16 | 0.16 | 0.15 | 0.15 | 0.15 | 0.16 | 0.16 | 0.12 |
| Mixed end-use | 0.15 | 0.15 | 0.13 | 0.14 | 0.14 | 0.15 | 0.17 | 0.18 | 0.19 | 0.18 | 0.22 |

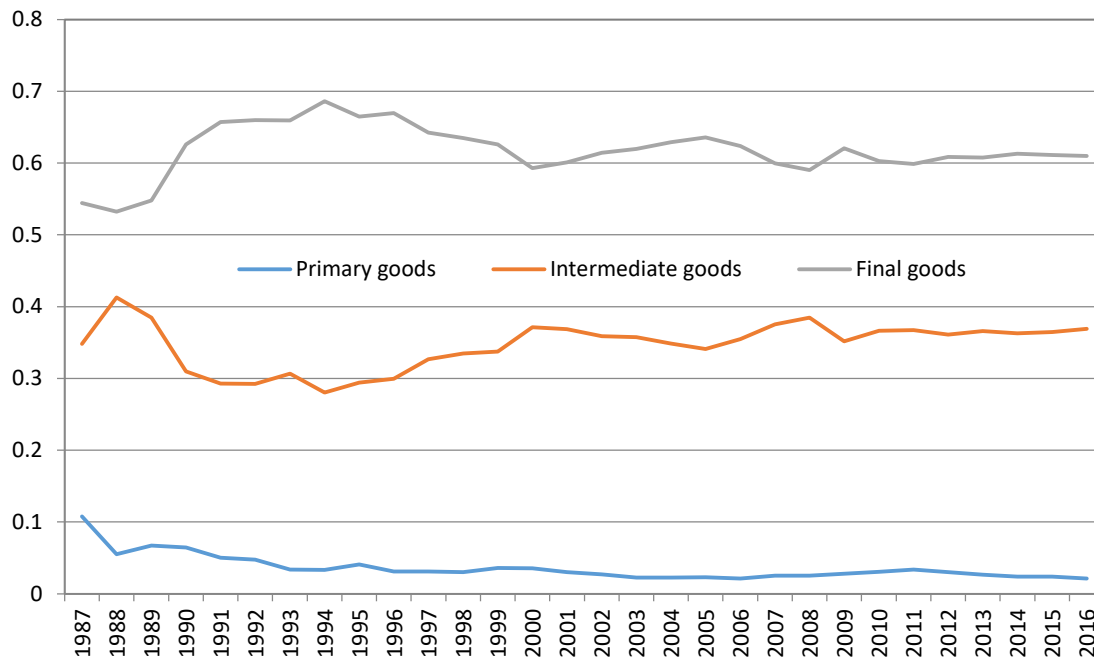
Source: calculated from OECD database.

Table 3: Trade Structure of Romania with China

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Intermediate goods | 0.47 | 0.45 | 0.46 | 0.45 | 0.41 | 0.50 | 0.64 | 0.59 | 0.61 | 0.59 | 0.61 |
| Household consumption | 0.24 | 0.24 | 0.27 | 0.26 | 0.20 | 0.15 | 0.15 | 0.17 | 0.15 | 0.15 | 0.15 |
| Capital goods | 0.13 | 0.14 | 0.19 | 0.18 | 0.16 | 0.15 | 0.16 | 0.19 | 0.18 | 0.20 | 0.18 |
| Mixed end-use | 0.16 | 0.17 | 0.08 | 0.11 | 0.22 | 0.20 | 0.05 | 0.05 | 0.05 | 0.06 | 0.06 |

Source: calculated from OECD database.

By contrast, the trade structure between EU and China is dominated by final goods, about 60% and the rest share, about 40%, are intermediate goods, and the pattern is kept stable in the past 30 years (Figure 2).



Source: calculated from TID database.

Figure 2: Trade Structure between EU and China

The picture shows that the following stylized facts about 16+1 cooperation within the framework of BRI. 1) EU is the largest trade partner of China, but China is the third trade partner of EU. 2) The trade between EU and China is dominated by final goods suggesting the trade is inter-industrial. 3) EU is the largest trade partner of CEE countries and trade dominated by intermediate goods suggesting trade relation between CEE and EU is intra-industrial integrated.

And so we can reach conclusions as: 1) Trade between CEEC and EC, as well as the trade between CEEC and China are all dominated by intermediate goods, suggesting that there exist a GVC between them, and the final goods of the GVC is traded between EC and China. It suggests that CEEC and China are linked by EU in Global Value Chains. 2) The trade of CEEC with EU is dominant and hence, BRI from CEE to West Europe is important. 3) BRI from EU to China is also important from the perspective of GVC between EU and CEEC.

5. The Key Focus of BRI and 16+1 Cooperation

Countries along the Belt and Road have their own endowment advantages and economic complementarity. Therefore, there is a great potential and space for trade and investment cooperation.

Facilities connection is a priority for implementing the Initiative because connection is the key function of the BRI. On the basis of respecting each other's sovereignty and security concerns, countries along the Belt and Road should coordinate for their infrastructure construction plans and technical standards, jointly push forward the construction of the Belt and Road step by step, even it may takes time. The BRI can be not build up overnight but China, jointly with other countries can do something on construction project with its comparative advantages.

BRI aiming at connecting Asia to Europe through a new Euro-Asia bridge will induce new investments in infrastructure that will raise productivity; connecting and integration will form new market and boost demand and growth. 16+1 stimulates the cooperation and integration between Europe and China on the basis of GVC and international labor division, also by finding a new trade and investment opportunity.

Investment and trade promotion is the major task of the Belt and Road. Improving investment and trade facilitation, and removing investment and trade barriers for the creation of a preferable environment in all

relevant countries might be a tough achievement. Countries along the Belt and Road may establish free trade zone and reach free trade agreement so as to unleash the potential for expanded cooperation.

6. Principles of Jointly Building BRI and 16+1 Cooperation

The Belt and Road Initiative is a way for win-win and inclusive cooperation that promotes common development and prosperity and a road toward peace and friendship by enhancing mutual understanding and trust. The four ideas advocated by Chinese government are peace/cooperation, openness/inclusiveness, mutual learning and mutual benefit. So does ideas of 16+1 cooperation.

During the infrastructure construction for facility connecting, a more important principle suggested by Chinese government is market – oriented which means that enterprises are the main actors of BRI building. They work to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.

Within the framework of BRI, countries are equal on plan discussion, project complementation and benefit sharing. BRI Initiative is an ambitious vision of opening - up of and cooperation among the countries along the Belt and Road. Countries are expected to work harmonized toward the objectives of mutual benefit and common security. To be specific, they need to improve the infrastructure within their territory, and make it secured and efficient on land and at sea, further enhance trade and investment facilitation, establish a network of free trade areas by high standards 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.

The following points are keys in the building BRI:

First, sticking to the principle of mutual respect and trust, and reinforce the foundation for win-win cooperation. Mutual respect is the basis of mutual understanding, and mutual understanding is the premise of mutual trust. The world is diverse with countries differing from one another in terms of size, strength and development level. The rights of all countries to choose their own social systems and development paths should be fully respected. Cooperation for the building of BRI should be set on a voluntary basis and on the principle of equality and mutual benefit.

Second, Openness and inclusiveness are the characteristics of the ancient Silk Road and the experiences of countries along the routes in pursuing development and prosperity, which is necessary to achieve greater success in the future. China's achievement is inseparable from the international community, and it's willing to make its contribution to global development. The construction of the Belt and Road will form wider, deeper and higher-level regional cooperation and forge a framework for open, inclusive and balanced cooperation benefiting all parties.

Third, the foundation of the Belt and Road construction lies in interconnectivity, and the driving force comes from down-to-earth work and innovation. Countries along the routes have different advantages in natural resources and human capital, providing huge potential for innovative and pragmatic cooperation.

Fourth, sticking to peace and development is the safeguard of the path toward win-win cooperation. The evolution of the ancient Silk Road proves that there's no development without peace and no prosperity without security. Solidarity and harmonious coexistence is the gene of the Chinese nation and is also the essence of the Eastern civilization. China persists in peaceful development.

So does the 16+1 cooperation.

7. Potential Challenges of the BRI

We have talk more about the necessary and feasibility of the belt and road initiative, but can it be achieved smoothly? Many Chinese companies are seizing this opportunity, often underestimating the challenges and risks of venturing into the external markets. Outward investment crosses a set of countries that have a diverse range of cultures, economies, and legal, political and regulatory systems in various stages of development. Some of these regions lack political stability and effective governance. When Chinese enterprises expand into other countries, they need to actively research and forecast all types of cross-border operating risks and take steps to mitigate those risks.

In fact, BRI construction might face highly complex and diverse risks including: major political/policy changes by the host nation; religious/nationalist wars and/or civil strife; government nationalization and expropriation; third-country intervention; government withdrawal of cooperative support; discrimination against market access, including trade barriers and invisible investment; breach of contract and/or delayed company payments; commercial trade fraud; and organized crime and terrorism-related risks to the safety of employees and facilities of Chinese companies.

It is thus an urgent priority for the Chinese government and companies to assess, forecast and control such potential risks. To some extent, controlling the risk depends directly on the implementation and survival of the Belt and Road initiative. The Chinese government has already realized its importance. The Ministry of Foreign Affairs has set up a global emergency call center for consular protection and services. The Ministry of Commerce has issued a series of normative documents including Overseas Risk Warning on Foreign Investment and Cooperation, An Early Warning and Information Release System and Guidelines for Safety Management of Overseas Chinese-funded Enterprises. Some policy-based institutions like the China Export & Credit Insurance Corporation enhanced their support for companies seeking to globalize. The China International Contractors Association has established an overseas security platform.

In short, 16+1 cooperation and the BRI initiative conveys the ideals of open, harmony and inclusive by market – oriented actions, calls for the understandings and cooperation among relevant countries for growth and development. More important is that the BRI is an initiative to relevant countries and the building of the BRI should be jointly.