

# Clamoring for a Piece of the Pie

## One Belt One Road amid China's Economic Transformation

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China's remarkable economic growth - over 10% annually, strongly backed by capital accumulation has been well documented in the past two decades. However, since 2010, China's GDP growth rate has slipped from double digits to a 20-year low of 6.9% in 2015. Facing issues including increasing labor costs, low efficiency in state owned enterprises, and stagnating productivity improvement, China is making efforts to advance its economic competitiveness with a range of domestic and international initiatives.

Buttressed by economic growth and accompanied by its comprehensive "Open Door" policy, China seeks to not only be a member of, but also a leader in, global networks like WTO, BRICS, and G20. Meanwhile, China is selective in building partnerships and doesn't push itself into all networks. For instance, China is not a part of Trans-Pacific Partnership (TPP), claiming that it is not ready to meet the requirements. In reality, this selective approach is one of the distinguishing concepts in China's foreign relationship policies. China has long been in favor of developing its own FTA platform, which not only allows it to leverage different factors when negotiating with different countries, but also allows more efficiency and flexibility, in contrast to multilateral partnerships. Given the resistance that such multilateral megadeals typically face, it is noteworthy that China's approach is especially pragmatic, fleet-footed, and effective.

### One Belt One Road (OBOR)

Against this global geopolitical and economic context, building external cooperation plays an important role in domestic economic transformation of China. Dating back to early 1990s, FDIs helped China enjoy growth and benefit from the technological spillovers from these investments. Currently, faced with decelerating growth and over capacity, President Xi Jinping initiated the "One Belt One Road" (OBOR) initiative as China's international cooperation strategy. Very quickly, OBOR has become ubiquitous, with an overwhelming number of private and public sector enterprises clamoring for a piece of the pie. At this juncture, it is necessary to take a step back and see the big picture, before jumping onto the bandwagon.

Centuries ago, China was an important economic powerhouse on the ancient Silk Road, trading extensively with Asia and Europe. In tune with President Xi's "Chinese Dream" which envisions a moderately

prosperous society, OBOR was initiated in 2013. It envisages a network that radiates from China to not only Europe and Asia, but also other parts of the world, and not only as a connection over land, but also supported by maritime channels and naval infrastructure. According to National Development and Reform Commission (NDRC), OBOR is a system project that facilitates the connections of national strategies of countries along the routes.

Though fairly nascent, OBOR builds on China's foreign and domestic policies, incorporating ongoing as well as new projects under a comprehensive umbrella framework. For instance, in 1999 China introduced the "Go Out" policy to promote China's overseas investment, and in 2001, the "Go West" policy was introduced to advance the development of western China. By promoting Chinese investments abroad and putting focus on western China domestically, OBOR brings both these initiatives under its aegis. As an example, in one of the first OBOR projects, China will cooperate with Pakistan to further connect Gwadar Port to China's Xinjiang region. This project is a further development of the bilateral cooperation in Gwadar built by China during 2002-2006. It is now repackaged under the China Pakistan Economic Corridor (CPEC). At the same time, in line with China's bilateral approach towards FTAs addressing strategic strengths of each partner, OBOR projects strongly leverage on advantages of each country or region. For instance, under OBOR, China has nearly three times as many energy related projects as free trade projects with Pakistan, while China's cooperation with Association of Southeast Asian Nations (ASEAN) focuses on infrastructure connectivity and free trade.

Domestically, OBOR significantly benefits the development of central and western China. Western provinces are the interface with the neighboring Silk Road Economic Belt countries, while central provinces fulfill the roles of logistic hubs and connecting points between the coast and the western provinces. Consequently, projects contributing to energy corridors, transportation, connectivity, and trade ports are emerging in the west while economic zones and logistic hubs are forming in central China. Thus, OBOR directly boosts regional development by providing investment and infrastructure projects on one the hand, and improved connectivity and strategic importance of these less developed regions on the other. Therefore, we see increasing business opportunities in these parts of China.

## Speed and Efficiency

NDRC marked 2015 as the starting year of OBOR, with over 15 billion US dollars invested from China into 49 OBOR countries. OBOR related FDI reached a year-on-year growth of 18% in this year and accounted for a significant 13% of China's total FDI. The speed and efficiency of OBOR is strongly facilitated by state visits of the Chinese leadership. A stellar example is the case of Iran. On 16th January 2016 the United States and EU lifted sanctions against Iran. Within a week, on 22nd January 2016 President Xi visited Iran and incorporated it into the OBOR map. According to agreements reached in this visit, China-Iran trade will reach USD 600 billion in 10 years. Compared to TPP, which took 7 years to accomplish, the speed and efficiency of OBOR has been extraordinary and laudable!

Besides intergovernmental agreements, financial infrastructures are being set up to further support the OBOR roadmap. Asian Infrastructure Investment Bank (AIIB) was first initiated by President Xi in autumn 2013, coinciding with the introduction of OBOR. Aiming to sufficiently finance development in Asia without being dominated by the western world, AIIB is founded by 57 founding members including non-regional players such as Germany and Brazil. The AIIB serves the target of building China-led international networks much like the OBOR.

## The Middle Kingdom – Center of an Impact Map

We see China as the main but not the only beneficiary of the OBOR initiative. Even though governmental OBOR projects may prefer domestic and state owned players, international projects need contributions from foreign players, especially regarding international business knowhow. Compared to the overall efficiency and competitive difficulties that Chinese companies face, OBOR projects per se are only short term remedies, since there is no guarantee of unlimited projects supply. However, by cooperating with international players in OBOR projects, Chinese companies can learn from their partners and improve competitiveness, just as they have succeeded in leveraging joint ventures in China in the past decades.

China has searched for its optimal international position that fits both its status as a rapidly developing superpower and the second largest economy in the world. OBOR seems a step further towards such a position. With this initiative, China tries to turn its traditional, inwardly-focused mentality to an outward looking one, in order to position itself as a future global leader. OBOR puts China in the center of an impact map, in which it firstly reaches out to neighboring counties as well as Asia, and then radiates its power to the entire world. Such a format meets China's centuries-long self-definition as the 'Middle Kingdom'. Amid challenging economic transformation, this kingdom hopes to maintain control over how it would like to develop and where it wants to go.

Industries and businesses both in and out of China can not only be impacted by, but also smartly leverage the OBOR strategy. Take the infrastructure and construction industry as an example. The domestic construction industry is facing headwind because of overcapacity and stagnating real estate prices. With OBOR incentives, domestic capacity is redirected to overseas projects such as new industrial zones and transportation corridors. Chinese companies from related industries such as infrastructure design and construction vehicles can also benefit from increased demand because construction companies generally prefer familiar products and services that they

use domestically. Chinese investments in Africa over the last decade bear undisputable testimony to this approach and its benefits. Furthermore, downstream businesses such as logistics, transportation, and international trade are positively impacted as a result of the improved infrastructure. In this way, OBOR projects that seem to be in one specific industry trigger a domino of larger business opportunities.

On the other side of the coin, by cooperating with foreign companies, Chinese players will have access to local market knowledge abroad and international management knowhow. As a result, Chinese companies may have the capability of entering those markets with little help of governmental projects in the future. OBOR projects provide export and market entry opportunities for Chinese firms in the short term, which can become significantly profitable in the long term as China makes technological advances with policies like 'Made in China 2025'. In other words, we should realistically expect stronger competitors from China.

## Economic and Industry Transformation

Without doubt, OBOR, emphasizing opportunities in developing economies, is not risk free. The projects that are based on inter-governmental agreements may be precarious because of political wrestling. For instance, in March 2016, the Thai Prime Minister cancelled an 845 km China-Thailand high-speed train project, which was introduced four months earlier because of a lack of agreement on investment sharing and development rights.

Viewing OBOR in the context of China's international relations and economic transformation, we see this initiative as an integrated and influential part of business ecosystem in China. From another perspective, incorporating policies, financial sector, as well as both supply and demand, OBOR is a significant part of economic and industry transformation. Therefore, being on board OBOR not only brings short-term opportunities, but also places the business closer to a powerhouse of future development. Since OBOR searches for international business partners that can bring knowhow to this platform, it can be a unique chance to position an international player into the Chinese business ecosystem as a strategic partner. Being an integrated part of Chinese business ecosystem, instead of being an unconnected player, is more likely to lead to sustainable business success in China.

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