RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES Nanyang Technological University

MULTILATERAL MATTERS

http://www.rsis.edu.sg/research/cms/ Issue 15 April 2015

China's "One Belt, One Road" Initiative: New Round of Opening Up?

By Li Mingjiang

IN THIS ISSUE

CHINA'S PRESIDENT Xi Jinping put forth the Silk Road Economic Belt and the 21st Century Maritime Silk Road proposals, also known as the "One Belt, One Road" Initiative, during his visits to Kazakhstan and Indonesia in September and October 2013 respectively. Since then, the "One Belt, One Road" grand project, also known as the "Belt and Road" (BRI), has become a priority in China's foreign policy drive.

Although the BRI idea is much-discussed at almost every major international affairs forum or conference in China, the outside world does not seem to be too excited over it or has overlooked the significance of this important emerging Chinese strategy.

China seriousness with "Belt and Road" Initiative

A few facts would demonstrate how seriously China regards the initiative. The BRI proposal was included in the Resolution of the Third Plenum of the 18th Central Committee of the Chinese Communist Party, a historical document on the new leadership's push for a new round of comprehensive reforms in China.

The 8th meeting of the Central Leadership Group on Financial and Economic Affairs, chaired by President Xi, specifically deliberated on the BRI in November 2014. At the annual central conference on economic affairs in December 2014, the BRI was highlighted as one of the priorities for China in 2015.

China has taken follow-up actions as well. It has launched the Asian Infrastructure Investment Bank (AIIB) and set up a US$40 billion Silk Road Fund. The BRI proposal was showcased to many foreign leaders during the Beijing APEC meetings. From all accounts, the BRI has become China's national strategy. Very likely, the initiative will be regarded by Xi as a major component of his foreign policy legacy at the end of his tenure.

The National Development and Reform Commission (NDRC), with support from relevant agencies, is developing an implementation guideline and a vision document for the BRI. Chinese statements suggest that the initiative will include five areas of connectivity: policy, infrastructure and facilities, trade, currency, and people. More specifically, the implementation of the initiative would involve trade and investment facilitation measures; infrastructure development (railways, highways, airports, ports, telecommunications, energy pipelines, and logistics hubs); industrial and sub-regional economic cooperation (primarily overseas industrial parks and economic corridors); financial cooperation; and the promotion of people-to-people relations.

Why the "Belt and Road" Initiative

Many Chinese sources mention that the plan would eventually involve as many as 65 countries ranging from Asia to Europe. At the same time statements and remarks made by senior Chinese officials also indicate that the focus will be China's neighbourhood.

The BRI appears to be an unprecedented proposal in the history of contemporary Chinese foreign relations. Although China has tried to downplay the strategic dimensions of the initiative, in private conversations many Chinese scholars would suggest that the plan is indeed partly a response to the strategic realignments that have been taking place in China's neighbourhood in the past few years, particularly the US strategic rebalance to Asia. It is a reflection of the "Look West" proposal made by some foreign policy elites in China a few years ago.

President Xi Jinping meeting with European Parliament President Martin Schulz. Courtesy of Flickr account of Martin Schultz and used under a creative commons license. Copyright European Union 2014– European Parliament.

Expert Talk: Establishment of the Asian Infrastructure Investment Bank: Implications for the region

The Asian Development Bank (ADB) estimates that infrastructure investment needed in the region could reach $750 billion annually during the 2010-2020 period. The infrastructure needs in the region are great and the establishment of the Asian Infrastructure Investment Bank (AIIB) is seen as a response to the perceived inadequate capacity of the existing global financial order to respond to this demand. When China announced its plan to establish the Asian Infrastructure Investment Bank, it was welcomed by many countries in the region but strongly opposed by the United States raising concerns on the possible lack of transparency and adequate safety nets in in the area of lending policies and governance standards of AIIB. Most recently, we have seen a lot of countries joining the AIIB as founding members including the United Kingdom, Italy, France and Germany. With a growing membership base, how much of a threat and a challenge will the China-led AIIB pose to the existing multilateral lending institutions such as the World Bank and the Asian Development Bank where the United States has considerable influence?

Multilateral matters invited three eminent analysts to share their views on the following questions: How might the AIIB affect the current global economic governance regime? What are the economic and strategic implications of the establishment of the AIIB in the Asia Pacific region?

Dr Miles Kahler
Senior Fellow for Global Governance
Council on Foreign Relations
Distinguished Professor
School of International Service, American University

China, the second largest economy in the world, will necessarily exert growing influence in its region. The United States and China's regional neighbors have a strong interest in having Chinese influence directed toward benign ends and exercised in multilateral forums. The AIIB represents just such an initiative. The AIIB will only pose a challenge to existing regional and global development institutions if its lending practices diverge radically from those institutions. As more members join the AIIB, China's ability to steer the Bank away from existing practices and standards is diminished. Even if China were intent on challenging existing global and regional economic governance, a development bank is hardly the most effective instrument. Although the United States government mistakenly made the AIIB a test of influence with China, the AIIB is unlikely to alter fundamentally the international relations of the Asia-Pacific region.■

Dr Stephen Grenville
Nonresident Fellow
Lowy Institute for International Policy, Australia

The United Kingdom's decision to join the AIIB as a founding member has prompted a number of European countries to follow. Australia and South Korea have also signified their intentions to become a founding member of AIIB. The AIIB clearly has enough support to become a viable regional institution.

If the United States and Japan have concerns about the governance of the AIIB, their most effective answer would be to join. This would give them the opportunity, working together with other like-minded shareholders, to improve governance and provide useful input into operational management and project selection.

In a broader context, wide membership of the AIIB would be another step in giving China an appropriate place in the framework of global financial institutions.■

Dr Tomoo Kikuchi
Senior Research Fellow
Centre on Asia and Globalization
Lee Kuan Yew School of Public Policy, NUS, Singapore

The dissatisfaction is completely legitimate and poses challenges to the World Bank and the ADB to reform themselves to match the reality of the world economy today. The challenges include raising the voting share of China and other emerging economies as well as including more nationals from those countries in the Boards of Directors.

The impact of the AIIB on the current global economic governance regime will largely depend on whether the US will join the AIIB or not. If it does, we will not see a major change in the near term. If it doesn't, it will accelerate the emergence of a parallel system of the US-led regime and the China-led regime.

The establishment of the AIIB will also fasten the internationalization of the Renminbi (RMB). It will promote the outward foreign investment of Chinese private companies as well as State Owned Enterprises.

The RMB will be used more and more not just as a currency for trade settlement but also as an asset portfolio in the form of foreign exchange reserve and RMB denominated corporate as well as government bonds. This will in the long run result in a stronger synchronization of the financial markets in the region with China and less so with the US. ■

Signing ceremony of MOU on establishing AIIB. Photo courtesy of OkNation.net, and used under creative commons license (noncommercial reuse with modification).

APEC Initiatives 2014

On 19 January 2015, Dr Dennis Hew, Director of the Asia Pacific Economic Cooperation (APEC) Policy Support Unit, delivered a lecture titled "APEC 2014 Initiatives" as part of the Seminar Series on International Political Economy Issues. Dr Hew highlighted the main outcomes of APEC 2014 which was hosted by China. These outcomes come under the three main priorities of APEC China which included: (i) advancing regional economic integration; (ii) promoting innovative development, economic reform and growth; (iii) strengthening comprehensive connectivity and infrastructure development.

Dr Denis Hew speaking at the Seminar Series on IPE Issues.

As Dr Hew noted, some of the projects and programmes that were given big boost last year include the APEC Strategic Blueprint for Promoting Global Value Chain Development, APEC Accord on Innovative Development, Economic Reform and Growth and Supply Chain Connectivity Framework Action Plan. According to Dr Hew, pursuing these initiatives is important to achieve APEC's Bogor Goals which aim for free and open trade investment in the Asia Pacific by 2010 for industrialised economies and by 2020 for developing economies. The initiatives introduced would also help in realizing the Free Trade Area of the Asia-Pacific (FTAAP) which APEC member economies endorsed last year. In closing, Dr Hew highlighted that the relative success of APEC in pushing various initiatives in the region is grounded on strong partnership with the private sector. He noted that this is something the institutions such as ASEAN can cultivate to move their agenda forward.■

Navigating Economy at the End of Easy Money: The Case of Indonesia

Dr Chatib Basri, Indonesia's former Minister of Finance from the period May 2013 to October 2014 and now Chairman of Indonesia Infrastructure Finance delivered a lecture on the impact of the tapering of the quantitative easing (QE) policy of the United States on Indonesia. Liquidity tightening as a result of the end of US' QE policy affected the inward flow of capital, an important driver of the Indonesian economy, bringing financial turbulence in the country. In his lecture, Dr Basri discussed the two policy options available to Indonesia post QE- stabilize the economy or focus on faster economic growth.

Confronted with this policy choice, Dr Basri shared Indonesia's experience having chosen stabilizing the economy as opposed to aiming for higher growth rate as a policy objective. A slew of measures were introduced to stabilize the economy such as providing incentives to employers to discourage laying off their staff, measures to manage inflation and other fiscal and monetary stabilization measures. By 2015, Indonesia has been hailed by the World Bank and IMF as one of those countries that successfully handled the effect of the QE tapering. Reflecting on his experience, Dr Basri shared that the most difficult part in introducing economic reforms is dealing with the politics involved in carrying out these needed reforms. To successfully implement reforms, he stressed the importance of having the support from top leadership. In order to get buy-in from all stakeholders, it is necessary to explain fully the benefits and costs of the chosen intervention and provide strategies on how to manage the perceived costs. Moving forward, Dr Basri shared that for countries to be competitive, policies aimed at improving urban infrastructure, governance, and quality of human capital should be adopted.■

Shaping Singapore's Economic Future

As part of the RSIS Seminar Series on the Practice of Diplomacy and International Affairs, Assistant Managing Director of the Singapore Economic Development Board (EDB) Mr Alvin Tan addressed RSIS students and staff on the topic "Shaping Singapore's Economic Future" last 11 March 2015. EDB is the lead Singapore government agency for planning and enhancing Singapore's position as a global business centre. In his presentation, Mr Tan outlined the challenges, strategies, and opportunities that the local economy faces from EDB's perspective.

In his presentation, Mr Tan provided an overview of Singapore's economic journey and how EDB supported the country's growth through various measures including introducing a number of investment promotion activities, implementing policies aimed at growing industry verticals, and improving the local business environment. Through these measures, Singapore was able to improve its industrial and economic base from one that is labour-intensive to one that is geared for more knowledge-intensive type of activities.

Mr Tan highlighted that the main challenges facing Singapore economy include its limited physical factor endowment such as land, and a tight labour market. To maximize Singapore's limited land resource, industries being attracted to establish hubs in Singapore include those that are focused on niche, disruptive industries such as robotics, advanced materials, additive manufacturing, and big data. To improve the country's productivity and reduce heavy reliance on labour, Mr Tan shared that EDB is encouraging firms to automate their processes and embrace robotics technology where feasible. For Mr Tan, the end goal of all their activities is to encourage firms to consider Singapore to not just be their host location but to be their home location and an integral part of the global footprint of these firms.■

China's "One Belt, One Road" Initiative: New Round of Opening Up?
(continued from page 1)

However the initiative is more than simply a response to US strategic rebalance or the changing strategic environment in the region. It can be argued that the initiative is a reflection of the emerging consensus in the Chinese foreign policy community that Beijing now needs to significantly shift from the "low-profile" international strategy to actively strive for more accomplishments.

Chinese foreign policy elites have already started searching for some sort of a grand strategy to further raise China's profile as a major power towards the end of the 2000s. While the security tensions and disputes from 2009 to 2012 interrupted the Chinese search for a vision, they also incentivised the Chinese decision-makers to develop big policy initiatives to deal with the perceived growing negativity in China's neighbourhood.

A new round of opening up?

Chinese officials claim that the BRI is also part of the new round of China's opening up. There is certainly a lot of truth in this claim. Firstly, China is facing challenges of overproduction and overcapacity, particularly in the steel and construction materials sectors. This can be addressed by the BRI which will open up foreign markets to many Chinese companies. Secondly, as labour costs rise, China will move its labour-intensive and low value-added manufacturing facilities overseas.

In these two respects, the BRI will accelerate the pace of China's domestic economic restructuring. Thirdly, for China's interior and western provinces that have lagged far behind in the past decades of the opening up drive, the BRI is likely to stimulate economic growth. Fourthly, China has become a net capital exporter so more Chinese investors will be looking for investment opportunities overseas.

Clearly, Beijing is seriously committed to the BRI. But partly because China has not provided sufficient information, the responses from neighbouring countries have been ambivalent. Ultimately, they will balance the economic benefits of the "Belt and Road" Initiative with their strategic and national security concerns. No matter what, while regional countries pay attention to the initiative, they should urge China to be more transparent and provide more information on its implementation. ■

Li Mingjiang is an Associate Professor and Coordinator of the China Prorgramme at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University in Singapore .

This article was originally published as part of the RSIS Commentary series.

Upcoming Event

- RSIS– World Trade Organization Parliamentarian Workshop on International Trade
  Venue: Marina Mandarin Hotel, Singapore, 25-27 May 2015 (By Invitation Only)

Selected Publications

- Economic Legacy of Lee Kuan Yew: Lessons for Aspiring Countries , Pradumna B Rana and Lee Chia-Yi, RSIS Commentaries, 31 March 2015.
- Lee Kuan Yew's Leadership: Model for China? , Benjamin Ho, RSIS Commentaries, 26 March 2015.
- Pursuing Mutual Strategic Interests: Lee Kuan Yew's Role in Singapore-U.S. Relations , Ong Keng Yong, RSIS Commentaries, 24 March 2015.
- ASEAN Integration Remains an Illusion Barry Desker, RSIS Commentaries, 5 March 2015.
- ASEAN's Post-2015 Vision: Inclusive and Non-Elitist? , Dylan Loh Ming Hui and Don Rodney Ong Junio, 15 January 2015.

Contributors

Li Mingjiang
Don Rodney Ong Junio

Contact Us

Centre for Multilateralism Studies
S. Rajaratnam School of International Studies
Nanyang Technological University
Block S4, Level B4, Nanyang Avenue
Singapore 639798
Phone: + 65 6790 6982

About CMS

The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in the Asia Pacific. It aspires to be an international knowledge hub for multilateral cooperation and regional integration.

For more information, contact us or visit our website:
http://www.rsis.edu.sg/research/cms/