



What does China's Global Economic Strategy mean for Asia, India and the World?*

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The well-known geopolitical theorists, Halford Mackinder, postulated in 1904 that the inner area of Eurasia characterized by interior or polar drainage and impenetrable by sea-power, was destined to be the 'Pivot Area' of world politics. It was his view that the rule over the heart of the world's greatest landmass would become the basis for world domination, owing to the superiority of rail over ships in terms of time and reach. Russia and China, if they came together, he predicted, could outflank the maritime world. Of course, the course of the First World War led him in later years to modify his initial perspective. In looking at the shape of the post-World War II order, he foresaw a world geopolitically balanced between a combination of the North Atlantic, or what he termed as Midland Ocean and the Asian heartland powers. In effect, he conceded that geopolitical

dominance required both a continental as well as a maritime dimension. The later geopolitical theorist, Alfred Mahan, too had a Eurasian centered global perspective, but his emphasis was on maritime power, mediating between a two-fold global framework, a Western and an Oriental system.

China Attempts to Shape Geopolitics

Against this backdrop, what we may currently be witnessing is a carving out by China of a continental-maritime geostrategic realm constituted by its initiative labeled 'one belt, one road' (OBOR). The Belt manifests the continental dimension of this geo-strategic realm. It consists of a network of rail routes, overland highways, oil and gas pipelines and other infrastructural projects, stretching from Xian in Central

China, through Central Asia and Russia, with one artery crossing Kazakhstan and the other through Mongolia with, but both linking up with the trans-Siberian railway and going on to Moscow, Rotterdam and Venice.

The Road is the maritime dimension and consists of a network of ports and other coastal infrastructure from China's eastern seaboard and stretching across South East Asia, South Asia, the Gulf, East Africa and the Mediterranean, forming a loop terminating at Piraeus (Greece), Venice (Italy) and Rotterdam (Netherlands) in Europe and Mombasa (Kenya) in Africa.

OBOR is not just an economic initiative. It has obvious political and security implications.

Both the Road and the Belt include regional loops and branches which extend the reach of the emerging transportation networks but also serve to tie the Road to the Belt at critical points. Thus, the China- Pakistan Economic Corridor is significant precisely because the port of Gwadar is one of the points where the Road and the Belt intersect. Of interest to India is the branch constituted by the BCIM Economic Corridor, which proposes to connect Yunnan in southern China with Myanmar, Bangladesh and eastern India.

The OBOR is not only about putting in place physical infrastructure, although this is an indispensable component of the initiative. The Vision and Action Plan for the Belt-Road Initiative, announced by the China National Resource and Development Commission and the Ministry of Foreign Affairs in March this year sets out the overall rationale behind the initiative. According to Zhang Gaoli, Vice Premier and

head of the high level group charged with piloting the project, its objectives are:

- enhancing policy coordination across the Asian continent;
- trade liberalization;
- financial integration; and
- connectivity including people to people links.

The Document describes OBOR as 'a systematic project which should be jointly built through consultation to meet the interests of all and effort should be made to integrate the development strategies of the countries along the Belt and the Road'.

Thus, the initiative is seen as an instrument to create a contiguous land and maritime zone where countries pursue convergent economic policies, underpinned by both physical infrastructure and supported by trade and financial flows. The inclusion of people to people links is a recognition that soft power will play an important role in creating a congenial political environment for the sustained roll-out of the ambitious initiative.

The Document further states, 'The initiative to jointly build the Belt and the Road enhancing the trend towards a multi-polar world, economic globalization, cultural diversity and greater IT application, is designed to uphold the global free trade regime and the open world economy in the spirit of open regionalism'.

The OBOR may thus, also be seen as China's response to the more exclusive mega-economic blocks in the making, the Trans-Pacific Partnership (TPP) in Asia and the Transatlantic Trade and Investment Partnership (TTIP), both of which are led by the United States. The Road, for example, is explicitly oriented towards Southeast

Asia, while Europe is the destination of the Belt. The OBOR, therefore, represents an alternative and supposedly more inclusive economic architecture led by China, competing with that promoted by the US. The Document says:

‘The Belt and the Road run through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other, and encompassing countries with huge potential for economic development.’

It should be apparent from these Chinese pronouncements that China sees the twin-dimensional initiative as a long-term project to secure its geostrategic realm, which has both a continental and a maritime dimension. It is not just an economic initiative. It has obvious political and security implications. In any case, China’s strategists do not draw lines separating economic and security objectives. Each dimension reinforces the other even though the economic dimension may sometimes mask the security imperative.

Having spelt out its Vision and a broad Plan of Action, China is now focusing on the deployment of the next phase, identifying ‘key directions, key countries and key projects’.

OBOR as Economic Strategy

It may be worth mentioning at this point another major Chinese strategic plan labeled as ‘Made in China 2025’ which seeks to transform the country from a ‘world factory to a world manufacturing power, complete with innovative products and manufacturing processes’. This Made in China 2025 fits in neatly with the OBOR initiative. Li Teng, the CEO of Bank of China International

claimed recently that OBOR ‘will push China to transform from low-end commodity export to high-end commodity exports, capital and technology exports’.

The OBOR is part of an economic strategy that will enable China to deal with the problem of massive overcapacity in its industry. The infrastructural required to implement OBOR will require vast amount of construction materials and capital equipment, precisely sectors where China has vast unused capacity. There will also be an incentive to export skilled and semi-skilled labour employed in these sectors, also rendered surplus by a slowing Chinese economy.

China has attempted to fold the OBOR into the Russian-led Eurasia Economic Union and into the Shanghai Cooperation Organization.

Furthermore, such infrastructural investment will require significant financial flows. The OBOR initiative is underpinned by the Chinese led Asian Infrastructure Investment Bank (capital of US\$100 billion), the BRICS New Development Bank (capital of US\$50 billion but which may rise to US\$100 billion) and a proposed Shanghai Cooperation Organization Financing Institution. A dedicated Silk Road Fund of US\$40 billion has also been established to finance projects under the initiative. Part of the China-Pakistan Economic Corridor project comprising of roads, railways and Gwadar port totaling US\$11 billion will be financed from this Fund. The Chinese business paper, *Caixin*, reports that China will draw upon its substantial foreign exchange reserves to inject US\$62 billion of capital into the State-owned ‘policy banks’ in support of the OBOR initiative. Half of

the amount will go to the China Development Bank and US\$30 billion to the China Exim Bank. The residual amount will be available to the Agricultural Development Bank of China. Therefore, a significant stream of finance is available to fund projects under the OBOR.

One important motivation behind OBOR is to accelerate the development of the country's relatively poorer western and southern provinces. It has been reported that a sum of US\$20 billion is available for infrastructure and cross-border projects in the provinces which will be linked to the 'Belt' component of the initiative, in particular Sichuan, Gansu and Qinghai on China's western flank and Yunnan on the southern flank. Thus, Chongqing is being established as the starting point of one of the branches of a rail freight corridor, linking it with the German city of Duisburg. (Another freight corridor will link Beijing with the port city of Hamburg, while a third corridor is proposed linking Wuhan with an as yet unidentified terminus in Europe.)

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It is apparent that China has managed to secure the participation of Russia in the Eurasian component of the initiative, overcoming the earlier hesitations in Moscow about China muscling Russian aside in what the latter regards as its 'near neighbourhood'. China has attempted to fold the OBOR into the Russian-led Eurasia Economic Union, which currently groups together Russian, Armenia, Belarus, Kazakhstan and Kyrgyzstan as well as into the Shanghai Cooperation Organization. A

Russian statement has welcomed the initiative, claiming that Siberia, Kazakhstan, Central Asia and Western provinces of China 'are the natural centre of Eurasia'. At the last SCO Summit, Chinese President Xi Jinping said that his country would push for the completion of 4000 kms of railways and 10,000 kms of highways within the region and that US\$ 16 billion of the Silk Road Fund would be dedicated to projects in central Asia.

There are two significant energy projects linking Russia and China. One is the much-publicized US\$400 million 'Power of Siberia' pipeline and the other is the Altai gas pipeline connecting West Siberia to China. However, it is reported that both these projects may be delayed due to shortage of funds promised by China.

It is important to highlight an important aspect of OBOR which has not been much in focus so far. This is the European end of the Belt and the Road, which is integral to securing China's influence both on the eastern and western flanks of Eurasia. There are carefully selected nodal points along the land corridor and terminal points along the maritime corridor. For example, Hungary has been chosen as a key logistics hub on the trans-Siberian link. It may serve as a distribution point for Chinese exports to Europe and an aggregating point for imports from Europe.

China has taken advantage of the Greek economic crisis to establish itself at the strategic port of Piraeus. The Chinese Shipping Company, COSCO, has a 35-year concession to expand the port by adding two modern container terminals. It is likely to bid for the 67 percent Greek government stake in the port, when it is fully privatized. Greek shipping tonnage is one of the largest

in the world and most ships for Greek shipping lines are built in China, which has the world's largest ship-building industry. Piraeus will thus serve as a major logistics hub for Chinese trade with Europe. China is planning a Land Sea Express which will link Piraeus with points on the European mainland. A US\$2.5 billion project is envisaged to build a key high-speed rail link from Piraeus into western Europe.

Another major European terminus is the Dutch port of Rotterdam, which is one of the most important cargo hubs for the entire continent. Like Gwadar in Pakistan, Rotterdam is the other point where the Belt and the Road on the land and maritime corridors come together. This, too, is projected as a major logistics centre for China-Europe trade. The third terminal is Hamburg in Germany.

In addition, to Piraeus and Rotterdam, China has set up three major logistics and transport hubs, one at Wigan (Manchester) in the United Kingdom and two more at Schiphol airport, Amsterdam in the Netherlands. The latter will connect with the nearby port of Rotterdam.

Recently, during Premier Li Keqiang's visit to Brussels, China announced its readiness to invest in Europe's new infrastructure. It may contribute funds to the Juncker sponsored €315 billion European Fund for Strategic Investment. It should come as no surprise if China invests in those projects which are aligned to its OBOR objectives.

The OBOR project also includes a Digital Silk Road and a Silk Road in Cyber Space. There is a proposal for a cooperative Internet Plus Plan, which would link the OBOR countries to a super-fast broadband network.

China also attaches importance to promoting financial integration among countries along the OBOR. It seeks to do this both through the setting up of institutions (such as the AIIB and the NDB) and the deployment of substantial sums. In this context, the United Kingdom has become a key platform for the internationalization of the Renminbi, the creation of an off-shore Yuan bond market and the spread of Chinese banking in Europe.

China has probably helped weaken the trans-Atlantic alliance through its use of Europe to create a financial network needed for OBOR

Apart from the Wigan logistics hub London has become China's preferred centre for the launch of Yuan-denominated bonds. China has invested in the redevelopment of real estate in the British capital and will guarantee US\$3 billion for the proposed nuclear power station in Hinckley. Several British banks have been favoured with licenses to operate in China. The British head-start is leading to competitive courting by other European financial centres such as Frankfurt and Paris. Thus, China sees Europe as helping it to put in place a sophisticated financial network, which could underpin the ambitious physical networks that will bind Eurasia together.

This aspect is important because it could and it probably already has weakened the trans-Atlantic alliance, which has been a stable and predictable feature of geopolitics since the end of the Cold War. Britain's rush to join the AIIB followed by several other European powers, against American opposition, was a clear indication of this emerging trend. The longer it takes for the TTIP to be actualized, the greater the

chances of China's Eurasian project succeeding.

India's Choices

While looking at the emerging geopolitical landscape, Saul Bernhard Cohen, in his book *Geopolitics*, envisages the emergence of three strategic realms this century. One is the US-dominated maritime world of the North Atlantic and North Pacific Basin; there is the second realm of maritime Europe, organized around the European Union and, a continental Asia geostrategic realm covering the Eurasia landmass with Russia as the original core. But as pointed out earlier China has emerged as a separate Continental Maritime realm, shrinking the space for Russia in Central Asia and the U.S. space in the North-Pacific.

If China succeeds with the global strategy underlying OBOR, India may well be consigned to the margins of both land and maritime Asia.

There is an incipient effort to co-opt Russia on the one hand and Europe on the other to confine the U.S. to the American hemisphere. The playing out of this story has major implications, because in case China succeeds with the global strategy underlying OBOR, India may well be consigned to the margins of both land and maritime Asia or become, by compulsion or by choice, a subordinate component of the Chinese dominated network that are, in the words of Indian Foreign Secretary, S. Jaishankar, 'hard-wiring' the new world.

Interestingly, Cohen foresaw a time when India, like China, could carve out a fourth

geostrategic realm also continental/maritime in nature. This it would do by dominating the eastern and western reaches of the Indian Ocean and the sub-continental landmass, south of Eurasia but linked to it. If this were indeed possible then India would have an opportunity to deal with the challenge of the Chinese geostrategic realm on its doorstep with greater room for manoeuvre. If there is one country which has the potential to catch up with China and even overtake it, it is only India. The current asymmetry is not riven in stone. What will it take India to achieve this long-term goal is well-known.

Currently, India has neither the resources nor the political and economic weight to put in place competitive and alternative connectivity networks on a global scale. Therefore, for the time being it may be worthwhile to carefully evaluate those components of the OBOR, which may, in fact, improve India's own connectivity to major markets and resource supplies and become participants in them just as it has chosen to do with the AIIB and the NDB. For example, building a road/rail link to Central Asia through Iran using the port of Chahbahar could then use Chinese-built routes to access both Central Asian and Russian destinations as well as Europe.

It may be more important for India to deploy its limited resources to build an Indian Ocean network of ports, with connecting highways and rail routes such as exemplified by the planned Mekong-Ganga corridor and the Sittwe-Mizoram multi-modal transport corridor. There have been longstanding plans to develop the deep water port on Sri Lanka's eastern coast, Trincomalee, as a major energy and transport hub and yet despite the warning message in the shape of Chinese building the Hambantota port in southern Sri Lanka and expanding the Colombo port, virtually

no work has been undertaken since Indian Oil acquired the tank farm located at the port. The Andaman and Nicobar Islands lie at the very centre of the Bay of Bengal and could be developed to serve as a regional shipping hub for the littoral states and beyond. And yet, these islands continue to be treated as a distant outpost rather leveraging their unique location at the very centre of one of the most strategic stretches of ocean space.

There has been much talk about India launching a Spice Route, a Cotton Route and even a Mausam project tying the countries around the Indian Ocean bound together by the monsoon winds. Instead of spreading limited resources thinly over these mostly rhetorical ripostes to China's OBOR, it may more prudent for India to focus on a few but strategically key routes and ports along its adjacent seas and islands to safeguard its most important equities.

To recapitulate, the first priority would be developing our own Andaman and Nicobar Islands as a modern transport and shipping hub for the Bay of Bengal Basin. At the next level would be Chahbahar port in the west with road/rail links to Central Asia; Trincomalee Port to the east, with shipping links to the Bay of Bengal littoral ports and

beyond; the Mekong-Ganga corridor linking India's east coast with Indo-China; and the Kaladan multi-modal transport corridor in Myanmar's Rakhine province, including the port of Sittwe. The proposed BCIM corridor could then become part of this broader network. Once this primary circle has been secured one could move on to progressively expanding circles once resources become available. What is important to note is that in this 21st century strategy, security and economics go together. Creating a dense web of economic and trade relations itself becomes an assurance of security.

It is fair to say that China, in deploying the OBOR initiative, has demonstrated a level of ambition and imagination, which is mostly absent in India's national discourse. Indian scholars and practitioners must think and act strategically on issues such as OBOR which will have a significant impact on India's vital interests.

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