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Inclusive globalization: unpacking China's Belt and Road Initiative

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**ABSTRACT**

China’s Belt and Road Initiative (BRI) is a call for an open and inclusive (mutually beneficial) model of cooperative economic, political and cultural exchange (globalization) that draws on the deep-seated meanings of the ancient Silk Roads. While it reflects China’s rise as a global power, and its industrial redeployment, increased outward investment and need to diversify energy sources and routes, the BRI involves the establishment of a framework for open cooperation and new multilateral financial instruments designed to lay the infrastructural and industrial foundations to secure and solidify China’s relations with countries along the Silk Roads and to extend the march of modernization and poverty reduction to emerging countries.

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Globalización integradora: análisis de la iniciativa La Franja y La Ruta de China. La iniciativa Belt and Road (la Franja y la Ruta) de China es una invitación a un modelo abierto e integrador (mutuamente beneficioso) de intercambio económico, político y cultural de cooperación (globalización) que se basa en los significados arraigados de las Rutas de la Seda. Si bien refleja el crecimiento de China como potencia internacional, y su redistribución industrial, creciente inversión exterior y necesidad de diversificar fuentes y rutas energéticas, la iniciativa de La Franja y La Ruta implica la creación de un marco para una cooperación abierta y nuevos mecanismos de financiación multilaterales diseñados para sentar las bases industriales y de infraestructura con el fin de asegurar y fortalecer las relaciones con países en las Rutas de la Seda y ampliar la marcha de la modernización y la reducción de la pobreza en países emergentes.

PALABRAS CLAVE
Ruta de la Seda, globalización, n integradora, estado de desarrollo, inversión, n extranjera directa (IED), China, Eurasia

1. INTRODUCTION

Globalization – which denotes increasing international interdependence mainly as a result of the increasing organization of economic activities across national boundaries and unprecedented increases in international trade, foreign direct investment (FDI), international financial flows and movements of people, ideas and technologies – is at a crossroad (Sheppard, 2016). Made possible by developments in technology, a liberal international trade and investment regime, and domestic regulation, this phase of globalization, which accelerated from the 1980s, saw a global shift of manufacturing/services from leading economic powers to some but not all emerging economies. Countries with substantial inward and domestic investment made remarkable progress, reducing poverty and improving the lives of millions of people. Global poverty and global income inequality, however, increased, some countries fell behind and some countries with investment outflow experienced a deeply resented loss of well-paid industrial jobs.

Chinese development is also at a crossroads. China must restructure and upgrade its economy from an export-oriented and factor-intensive to a more balanced, innovative and sustainable path. These pressures are driving China to seek a new and active role in global markets. Given that China is the second largest economic power, the largest exporter and third largest global investor, its new development model and going-global strategy will
influence future globalization. Recently, China proposed several major international projects, including the Asian Infrastructure Investment Bank (AIIB), BRICS New Development Bank (NDB), the Belt and Road Initiative (BRI) and the national Silk Road Fund. The BRI sets out China’s new thinking about its globalization strategy, while AIIB and NDB are multi-lateral financial instruments (Jin 2015).

Arguably, China’s BRI is designed to lay some of the foundations for a new inclusive phase of globalization. The proposal has already received a great deal of support, leading Fukuyama (2016) to argue that it is part of ‘an historic contest . . . over competing development models . . . between China . . . and the United States (US) and other Western countries . . . [whose] outcome will determine the fate of Eurasia for decades to come’ (see also Kim & Indeo, 2013).

The Chinese vision differs in significant ways from neoliberal/Washington Consensus globalization and some other recent international initiatives in that it is inclusive. China’s emphasis is on strategic international economic partnerships and multilateral credit to address investment, infrastructure, employment and economic development. This emphasis derives from China’s own inclusive development experience which involved a quest for quick results, ultimate self-reliance, engagement of relatively low-income communities as suppliers of work, goods and services, and supply of affordable goods and services. Socially it reflects a model in which the hand of the state accompanies the hand of the market. Economically it is designed to deliver not simply net gains as in the neoliberal case but win–win outcomes. Politically partnerships are inclusive in that they are open to all, respect sovereignty and do not entail political conditionality. Strategically they are experimental and centred on dialogue, ‘crossing Eurasia feeling for the stones’. In these ways China hopes to develop a new inclusive international platform where economic globalization could benefit more regions and more people.

To develop this argument the paper is organized as follows. Section 2 will introduce the BRI and the Silk Road metaphor. Section 3 emphasizes the role of states and politics in shaping not only national development models but also the trajectories of international trade, aid and investment, and examines the ways in which the evolution of China’s development model and its emergence as a rising power push in the direction of a new phase of globalization. Section 4 documents the historical–geographical background of the BRI in more detail, identifying the reasons why BRI came to the fore, and its main characteristics. Section 5 concludes.

### 2. THE BRI, SILK ROAD AND ITS METAPHOR

The BRI, where the ‘Belt’ refers to the Silk Road Economic Belt and the ‘Road’ to the 21st Century Maritime Silk Road, was proposed by China’s President Jinping Xi on visits to Central and Southeast Asia in September and October 2013 respectively. In December of the same year, at the Central Economic Work Conference of China, the BRI became a specific notion representing China’s new thinking about open development and China going-abroad. Since then the BRI has stirred the world. At present over 30 countries have signed memorandums of understanding (MOUs) with China on jointly building the BRI, while another 40–plus countries have expressed interest in the initiative, indicating that the BRI is having a profound impact on world development. And yet the first official Chinese government document on this initiative only appeared in March 2015 when the National Development and Reform Commission (NDRC), Ministry of Foreign Affairs (MFA) and Ministry of Commerce (MC) of China (2015), with the authorization of the State Council, issued the Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road (‘Vision and Actions’ hereafter).

Cross-border trade has existed for thousands of years. Archaeological and historical studies (Sun, 2014) show that trade between China and Central and Western Asia can be traced back at least 2500 years to before the Warring States period (475 BCE–221 BCE). After the Qin
dynasty (221 BCE–207 BCE) reunified the warring states into an empire, this trade was regular and officially recorded, while Han dynasty (202 BCE–220 CE) records noted that Qian Zhang made several diplomatic missions to the west. Although his first embassy did not establish an alliance with the Darouzhi (driven further west into the upper reaches of the Amu Darya in northern Afghanistan by the time the embassy reached them), his reports provided the imperial court with reliable information about potential trade partners. Trade between China and the West was subsequently powered by official state involvement.

Throughout 2000 years from the Han to the Tang, Song, Yuan, Ming and Qing dynasties, trade continued. Although it waxed and waned, its spatial reach extended, covering most Eurasian countries and even parts of Africa. Although the range of commodities traded increased, several were symbolic: silk, especially until domestic production (with stolen silk-worms) started in the Byzantine Empire under Emperor Justinian I; china since the Song dynasty; and tea in recent centuries. Cultural exchanges also often occurred between trade partners. In the Han dynasty, Buddhism spread into China, Korea and Japan along trade routes.

Although these ancient trade and cultural exchange routes (see Figure A1 in the supplemental data online) were officially recorded and had far-reaching influences on Eurasian socio-economic development, a symbolic representation had to await the coining of the term ‘Silk Road(s)’ by the German geographer Ferdinand von Richthofen (von Richthofen 1877) after a four-year fieldtrip in China (Waugh, 2007). In the early 20th century, the French Sinologist Édouard Chavannes (Chavannes 1903) extended the Silk Road concept to include historically existing maritime trade routes.

Although the Silk Road refers to an iconic Chinese product, it is actually part of the trade and cultural history of the Eurasian continent and Africa, connecting multiple countries/civilizations and facilitating religious, scientific, technological, people-to-people and cultural exchange. In 2014, China, Kazakhstan and Kyrgyzstan drew on this shared historical and cultural heritage to secure recognition of a 5000 km Silk Roads section (the Routes Network of Chang’an–Tianshan Corridor) as a UNESCO World Cultural Heritage site.

Why then did China resurrect the Silk Road notion in proposing the BRI, an international cooperation initiative? The Vision and Actions document suggests that China intended not simply to re-establish the ancient trade routes but to use the cultural meaning of Silk Road as a ‘soft’ basis for international cooperation. First, the Silk Road is probably the only symbol of the common cultural heritage and close historical trade and cultural relationships of most countries in Asia, Europe and Africa. Second, Silk Road is metaphor for ‘peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit’. This metaphor is called the Silk Road Spirit in the Vision and Actions document. Obviously China hopes to use this cultural metaphor to refer to a solution to the problems confronting the revitalization of global economic growth and sustainable development.

3. GLOBALIZATION: FRAMING THE BRI

The BRI is in part a reflection of China’s emergence as a major economic power, a driver of global economic growth and a catalyst of regional economic integration. Contemporary China is the second largest economy in the world, holds huge foreign currency reserves, has a vast and highly coveted domestic market and owns a currency that is increasingly used to settle international payments (Reilly, 2016). China’s success has, moreover, generated considerable interest in its development model in countries that also wish to get richer, opening the possibility that the Asian ‘march to modernization’ will spread to Islamic countries, including Pakistan and Iran (Mahbubani, 2008).

The rise of China was associated with the latest phase of globalization extending from the mid-1970s Fordist crisis until the 2007–08 Western financial crisis. This phase witnessed a ‘global shift’ of
relatively unskilled manufacturing industries from more developed economies (Western countries, Japan and the four Asian Tigers) to some emerging economies (Dicken, 2010). A compression of time and space that revolutions in information, transport, communications and logistics permitted, and decreased profitability in developed countries encouraged an increasing transnationalization of capital and the creation of global production networks, as investment sought out relatively low-cost production locations: places in which the cost of labour and other inputs, logistic costs and exchange rates were favourable (Dunford, Liu, Liu and Yeung, 2014).

These trends coincided from the 1980s with the increasing dominance of neo-liberal ideologies that advocated trade and investment liberalization and the withdrawal of the state from national economic management (Washington Consensus measures). The neoliberal reform agenda redistributed functions and power from public to private actors, reduced the capacity of modern territorial states and devolved residual state functions to subordinate administrations (Arrighi, cited in Golub, 2005).

Countries that followed domestic Washington Consensus measures (Latin America, Sub-Saharan Africa and formerly Communist Eastern Europe) did not, however, perform well. China, conversely, took advantage of the relocation of industries to promote rapid economic growth. Although rapid growth in China saw increases in inequality (which is to be expected as a country initially industrializes and urbanizes), growth lifted all boats in the sense that the incomes of most sections of society increased, albeit at different rates. The catch-up of China played, moreover, a major role in reducing poverty (inclusive growth) in sharp contrast to much of the rest of the world where neo-liberal globalization saw poverty increase. In 1981–2005, an inclusive development model lifted 627.4 million Chinese people out of PPS US$1.25/day poverty. In the world excluding China, the number increased by 107.9 million (Chen & Ravallion, 2010). The reason for these differences was that ‘the virtues of the invisible hand of the market’ were balanced with ‘the virtues of good governance’ (Mahbubani, 2008).

More specifically, China’s economic success was a result of the capacity of the Chinese government to adopt an effective export-oriented growth model. This strategy involved several elements. First, the new China developed a strong sense of national identity and a strong state capable of delivering collective goods (health, education, law and order, infrastructure, and an industrial policy). Second, China was able to exercise control over its capital account enabling the Central Bank to accumulate reserves and the government to create a sovereign wealth fund. The accumulation of reserves put downward pressure on China’s exchange rate, reinforcing export competitiveness, profitability and investment, and limiting consumption and imports, although on the negative side reserves were invested in secure short-term government securities with low rates of interest. Third, China mobilized domestic savings, alongside FDI and transformed them into investments in agriculture, infrastructure and domestic industrial capacity in capital, equipment and consumer goods industries. The accumulation of reserves also meant that China was generating more savings than it spent on domestic investment providing credit to developed countries that imported its exports. Fourth, China developed an industrial policy in which effective protection was combined with export promotion (Jomo, 2013): import substitution was encouraged, but export orientation disciplined and encouraged domestic industries to become internationally competitive. The lesson of this experience is, therefore, that an ability to take advantage of globalization depends on state capacity which was actually reduced in countries that adopted domestic neo-liberal reform agendas.

The BRI also reflects a change in China’s own development model. An emphasis on growth and increases in income and consumption rather than environmental protection and radically improved working conditions saw mounting environmental costs and increasing inequality that are now receiving more attention. From the mid-2000s wage increases, increases in the exchange value of the renminbi and the financial crisis eroded the foundations of the export-led model, while demand for exports weakened. China’s fiscal stimulus that saw
it act as the main engine of global growth resulted in excess capacity in many industries. High infrastructure investment generated relatively high levels of sub-national government debt. Double-digit growth led to increasing dependence on imported energy and raw materials, while a reduction in overall CO\textsubscript{2} emissions per unit of gross domestic product (GDP) of at least 40\% in 2005–20 announced in China’s 12th Five-Year Plan (2011–15) implied the transformation of energy-intensive industries and the replacement of coal by cleaner sources of imported energy. China wanted to diversify its reserves, and use its international trade surpluses and savings to acquire assets in other countries. In 1999 China adopted a Go Out Strategy (Zouchuqu Zhanlue): government foreign aid and loans increased, as did debt forgiveness, and Chinese companies undertook major overseas infrastructural, construction and investment projects.

All these factors contributed to a process of reform and redirection of China’s growth model. China’s going out is, it must be realized, similar to the trajectories of other rising industrial powers in the past. As John Maynard Keynes (Keynes, 1919) explained in *The Economic Consequences of the Peace*, in the first industrial nations, technical/organizational progress, the saving of sufficient money to acquire capital goods, the accumulation of capital incorporating new techniques in appropriate assets, population growth, and the movement of people from agriculture and the countryside to industry and cities saw productive capacity and output increase. At first wages remained relatively low and profits were high. As living standards did not increase as fast as production, companies sought additional markets in other countries, giving rise to export-led growth. If other countries could not afford infrastructure or products, newly established industrial powers forewent consumption and lent them money, expanding their own markets and giving their neighbours outlets for their own products and for vital raw materials needed by the core economies. The result was the emergence of an unequally developed but integrated world industrial and financial system extending throughout Europe and America, but rarely outside the industrial core.

The subsequent development of industry in Asia involved a similar sequence albeit in conditions that differed in that these countries had to come from behind in a world with economically and politically powerful established industrial powers, although the United States aided its allies. The sequence was outlined in the flying geese model (Akamatsu, 1962; Kasahara, 2004; Ozawa, 2011): a product cycle sequence involving the import of modern manufactures, followed by domestic production, export and finally re-imports once production moved offshore; industrial sequences from lower to higher value-added activities and functional roles (research, design, manufacture, distribution) and one industry to another (textiles, chemicals, iron and steel, motor vehicles and electronic products); and an inter- and intra-national sequence involving the transfer of products, functional roles and industries from more to less advanced areas. Whether driven by domestic and/or international investment, these structural transformations depend on conditions (resource endowments, infrastructure, human capital, externalities and coordination) which do not improve spontaneously but require active government support.

As in the case of earlier Asian drivers, China is a new global growth pole. With some 85 million manufacturing jobs, China is upgrading into more sophisticated industries (although labour-intensive industries are moving to Central and Western China) and moving up the ladder of industrial development. As it does so, it will leave a space for many other economies with lower levels of GDP per capita to establish labour-intensive industries. Countries that go down this road can also embark on a dynamic path of structural change that can lead to poverty reduction and prosperity. China’s experience shows that trade and industrial growth require massive, possibly state-led investments in infrastructure – roads, ports, airports, railways, electricity, gas and water – that facilitate industrial development and the development of related industrial capacity – construction materials, steel and so on. China’s goal in this context...
is to develop cooperative relationships to develop industrial capacity, consumer and producer demand in countries outside of China, to make other developing countries richer encouraging demand for Chinese goods and services, to acquire advanced technologies and management methods from more advanced countries, and to secure energy and raw materials.

In China Go West involves a strategic reorientation to ensure that energy and product supply lines are unimpeded (to the Atlantic, Mediterranean and Indian oceans), and to develop trade and investment cooperation and economic assistance. Although China can connect with countries to the west via sea routes, it is important to remember that it embarked on a western development strategy in 2000, and that traditionally China’s centre of economic and political gravity was always in central China and not along the coast. The coast rose in importance only with European and Japanese economic and military intervention and then with China’s own strategy of reform and opening-up (Wáng, 2012). At that time China’s main partners were the United States, Europe, Japan and the Asian Tigers. Alongside growing trade with the Association of Southeast Asian Nations (ASEAN), trade with South Asia, Middle East and North Africa and Sub-Saharan Africa has, however, increased from 3.6% and 7.2% in 1992 and 2000 respectively to 15.0% in 2014, indicating the potential of Going West.

In East Asia and the Pacific China–US competition might involve a zero-sum game, whereas in Eurasia, with the exception of India, China is involved in no international territorial disputes. There is no risk of military conflict and the United States wants Chinese cooperation in stabilizing Afghanistan and Pakistan (Wáng, 2012). Eurasia nonetheless poses many challenges: complex inter-country relations and tensions (over borders, for example, between Uzbekistan and its Tajik and Kyrgyz neighbours), national political instability, cross-border crime, cross-border nationalism, separatism, ethnic, religious and sectarian conflicts, religious extremism, poverty and under-development. And China’s involvement may well generate misgivings. China’s aim, therefore, is to act responsibly, search for mutual benefit and pay attention to environmental protection, people’s livelihoods and employment by propelling forward a more inclusive model of globalization.

4. GLOBALIZING CHINA: UNVEILING THE BRI

4.1. The rise of China as a global economic power

As already mentioned, the roots of the BRI lie in several developments. The first is the rise of China as a global economic power and an increasingly globalized economy, as a result of China’s absorption of massive FDI inflows and managerial expertise and adoption of an export-oriented development model. In 2014, China was the second largest country in terms of GDP, the largest in commodity trade and the third largest in outward foreign direct investment (OFDI). In recent years China accounted for some 25–30% of annual incremental global GDP growth. Just three decades earlier China was a small, semi-closed economy accounting for just 5% of world GDP, 1.5% of world exports but having 23% of the world’s population. In 2014 the first two figures reached 13.4% and 12.2% respectively. China is the manufacturing workshop of the world, accounting for about 24% of world output compared with 20% for the United States, and it ranks first in the output of more than 200 manufactured goods. In addition OFDI jumped to over US$100 billion annually in the last few years from only several billion a decade earlier.

These dramatic changes have significantly altered world economic geography (see Figure A2 in the supplemental data online), leading to the domination of three continental scale zones: in 2014 North America (the United States and Canada) accounted for 27% of world GDP, the European Union for 26%, and East Asia (mainland China, Taiwan, Hong Kong
and Macao, Japan and South Korea) for 25%. In total, these three regions accounted for 78% of world output.

As a result, the geographical centre of the world economy is shifting eastwards (Quah, 2011), possibly leading to a more equitable international socio-economic order (Dunford et al., 2016). The rapid growth of China and of other emerging economies is also changing traditional core–periphery or north–south conceptualizations of the world and the international division of labour (Hudson, 2016) to more complex networked configurations based on each country’s role in sectorally varying global production networks/global value chains.

4.2. The rise of China as a global investor

The second driver is the start of a new phase of globalization of the Chinese economy and in particular the emergence of China as a major outward investor (Alon, 2008; Yeung & Liu, 2008). Trends in trade, inward foreign direct investment (IFDI) and OFDI identify three different stages of China’s globalization (Figure 1(a, b)). In the 1990s, the Chinese economy witnessed very fast IFDI. In those 10 years, the annual growth rate of IFDI (27.8%) was much higher than that of China’s trade (15.2%). This period can be called the dependent stage of globalization, in that China relied on IFDI to acquire new managerial skills and new technologies and create new industries, upgrade existing ones and improve efficiency. In 1996–2000 IFDI accounted for 8.4% of China’s total fixed assets investments, exceeding fixed assets investment funded by the national budget (4.6%). In 2001–08, after joining the World Trade Organization (WTO) in 2001, China’s trade grew at an astonishing rate (reaching 23.5% per year, which meant that trade volume doubled in 3.3 years). In the same period, however, the annual growth rate of IFDI was only 10.8%. This stage involved trade globalization. As the trade volume and in particular the trade surplus grew, Chinese OFDI started to increase (Figure 2(a)). Since 2006, Chinese OFDI increased much faster than trade and IFDI. In 2006–14, OFDI grew at 23.7% per year compared with 11.8% and 8.3% for trade and IFDI, respectively. Therefore, the post-2008 crisis period can be seen as a stage of globalization of Chinese capital. The globalization of capital differs from the attraction of FDI and export of manufactured goods: it requires expertise in doing business abroad, involves closer international relations and cooperation, and is more reliant on global economic governance, implying a significantly different development model for China. This new stage of

![Figure 1](image-url). Five-year average growth rates (a), and growth of Chinese trade, inward foreign direct investment (IFDI) and outward foreign direct investment (OFDI) (b), 1991–2014.

globalization is a fundamental driver of China’s new international economic cooperation initiatives.

China’s OFDI is mainly concentrated in Asia (68% of the stock in 2014), although the long-run trend is declining (Figure 2(b)). Hong Kong accounted for 84.8% of China’s Asian OFDI stock, but as Hong Kong is just a transfer ‘port’, it is impossible to know where this investment has gone. Asia is certainly not as dominant as 68% suggests. If Hong Kong is excluded, China’s OFDI is more evenly distributed among the continents, and Latin America ranks first (Figure 3(a)). Getting an exact picture of the destinations of China’s OFDI is difficult, but it is clear that it is mainly South–South investment (Yeung & Liu, 2008) (Figure 3(b)). Since many developing economies do not have a good market environment, China is inevitably concerned about the security of current and future investments.

Sectorally, China’s OFDI is concentrated in leasing and business services, finance, mining, wholesale and retailing, manufacturing, and transport, storage and postal services (Figure 3(c)). In 2014, these six sectors accounted for 87.7% of China’s OFDI stock. Of these sectors, mining accounted for 14% and manufacturing for 5.9%, compared with less than 5% and 14% respectively for the United States, although the latter was in long-run decline (Figure 4). China may export more manufacturing capital in future, contributing to a new (second) global shift of manufacturing, but it does not want to follow the American model of hollowing-out manufacturing.

4.3. China as an energy importer
As a result of the size of its population and economic growth, China’s energy consumption and production have increased rapidly, making it the world’s largest consumer and producer. In 2014 coal accounted for 66% of China’s energy requirements, oil for 18%, hydroelectric power for 8% and natural gas for 6% (British Petroleum (BP), 2016). In the early 1990s China was a net exporter of crude oil. In 2014, 53% of China’s consumption (10.7 million bbl/day) came from imports (nearly 6.2 million bbl/day on average). Motorization in particular is expected to see imports increase to 8 bbl/day in 2020, 11.4 in 2030 and 14.3 in 2040 (IEA, 2014).
Figure 3. Distribution of China’s OFDI stock in 2014 by continent excluding Hong Kong (a), by types of economies (b) and by sector (c).
Source: Ministry of Commerce (MC), National Bureau of Statistics (NBS), and State Administration of Foreign Exchange (SAFE) of China (2015).

Figure 4. Share of manufacturing (a) and mining (b) in total US and Chinese outward foreign direct investment (OFDI) stock, 2003–14.
In part to address environmental problems and reduce the CO₂ emissions/GDP ratio, China’s natural gas consumption is expected to reach 350 million Bcm in 2020 and 550 Bcm in 2030, accounting respectively for 10–12% of China’s primary energy consumption. Domestic production is expected to rise from 28 Bcm in 2000 and 99 Bcm in 2010 to 300 Bcm in 2030 (Paik, 2013). China was a net exporter in 2006. A growing gap between demand and domestic supply will require rapidly growing net imports.

To ensure energy security and acquire technical expertise, China’s national oil and gas companies (NOGCs) are attempting to diversify supply sources and import routes, make long-term overseas investments and establish strategic partnerships in upstream oil and gas projects. Most of the world’s oil and gas reserves are held by NOGCs. International companies can, therefore, only access reserves by making agreements with states holding reserves and entering partnerships with NOGCs. In Eurasia oil and natural gas reserves are far from centres of consumption so that transport costs are high. In 2002 a compressed natural gas (CNG) pipeline costed more than over US$1 million/km. The fixed costs of liquid natural gas (LNG) infrastructure are approximately US$1000/mmt/year for liquefaction facilities, and about US$1 bil/bcf for gasification capacity (EIA, 2002). Specialized transport equipment is also very expensive. For suppliers, pipelines carry the risk of non-recovery of capital outlays due to insufficient demand and income. Consumers confront the risks of lock-in to a single supplier and high switching costs. And where pipelines cross different national territories transit operators require payment and face risks if the flow changes. These projects therefore involve complex risk-sharing negotiations. Gas suppliers seek long-term contracts, stable prices and a take-or-pay clause to guarantee revenue streams. Consumers want long-term contracts with a pricing formula that permits market-driven renegotiation and/or seek an equity share in resource extraction and transport to secure some control over supply and costs (Ericson, 2012).

China’s BRI is in part designed to help address these issues. In the oil sector assets (US$73 billion in 2011–13 alone) have been acquired in the Middle East, North America, Latin America, Africa, Australia and Asia, and Chinese companies have also agreed oil-for-loan deals and established pipeline connections with Russia and Kazakhstan. Two deals with Russia were worth US$50 billion. In 2011 Russia started to supply 300,000 bbl/day of oil transported from its East Siberian oil fields through the spur from the Eastern Siberia–Pacific Ocean (ESPO) Pipeline to Daqing. Russia also exports oil from its west Siberian oilfields through China’s first (2006) transnational oil pipeline from Kazakhstan. A strong increase in Chinese commitments implies diversion of Russia’s oil exports as Russian oil production is not expected to increase in the current decade. The Kazakhstan pipeline was financed by China and developed as a joint venture between the China National Petroleum Corporation (CNPC) and Kazakhstan’s KazMunayGas (KMG). In 2015, a 440,000 bbl/day pipeline from Myanmar to China came into operation in part as an alternative transport route for Middle Eastern oil, avoiding the Strait of Malacca.

China will also increase imports of liquefied natural gas and pipeline gas via new and proposed pipelines from Myanmar, neighbouring countries in Central Asia and Russia, connecting them with an expanding domestic pipeline system. China’s second and third west–east pipelines (WEP II completed in 2011, and III completed in 2015) source Caspian gas from Turkmenistan and gas from Uzbekistan and Kazakhstan. Securing sufficient gas for WEP III and for the planned WEP IV and V will require large-scale pipeline imports from Central Asia and western Siberia. The Central Asian projects stimulated the exploitation of gas resources and the development of local equipment and construction industries, and ended the monopsonist position of Russia in the export of gas from these former Soviet republics.
In 2014, after 10 years of negotiations, Russia’s Gazprom signed a US$400 billion deal with CNPC to supply 38 Bcm of natural gas annually for 30 years starting in 2018 from Russia’s East Siberian gas fields. The Russian pipeline will extend from the Kovyktin and the Chayandin gas fields to the Far East port city of Vladivostok, while the China–Russia East Route natural gas pipeline will cross Northeast China with 100 million inhabitants, traditional industries and gas shortages. This deal also involved Chinese investment in Russian transport and energy infrastructure. The agreement also envisages a second western Altai Natural Gas Pipeline that will increase aggregate capacity to 70 billion m$^3$ per year with Russia eager to find new buyers along the western route to reduce its dependence on Ukrainian and European gas markets. These and other initiatives are part of the ‘comprehensive energy cooperation partnership’ agreed by Presidents Xi Jinping and Vladimir Putin in 2014, and of Russia’s goal of increasing its efforts to develop its eastern territories and integrate more closely into rapidly growing Asian economies. At the same time, China is developing LNG imports from Southeast Asia, the Middle East, Australia, North America and East Africa, while Russia is seeking to avoid exclusive dependence on China by using options to export gas to Korea and Japan.

**4.4. Further globalizing China: advent of the BRI**

Recently China has entered a so-called ‘new normal’ phase of development in which economic growth has declined from 10.5% on average in the 2000s to 7.4% in 2014 and 6.9% in 2015 (Hu, 2015). As China was the main driver of post-financial crisis global growth, this slowdown generated concern. A total of 6.9% is not, however, a low growth rate, while the annual increase in real GDP was close to the highest ever recorded (as GDP is higher). The real change under the new normal is movement from a model/stage of growth characterized by intensive factor inputs and export orientation to a new one that involves exploring innovation, diversifying the economy, expanding the domestic market, embracing a more sustainable level of growth, distributing the benefits more evenly and deepening open development. This model change means that China has to review its globalization strategy.

Three major issues led China to change its development model. First, a decade of rapid increases in labour costs has eroded China’s competitiveness in labour-intensive industries. In 2000–14, the average annual employee wages expressed in US$ increased by 16.2% (Figure 5), reaching US$9172 in 2014. The annual salary of shop-floor workers exceeds US$6000. These wage increases will drive more manufacturing capital to relocate/go out. Second, China’s exports have recently grown very slowly, with exports to major developed economies

![Figure 5. Growth of employee’s annual salary in China, 1990–2014.](image)

stagnating, and China’s exports to Japan and the European Union decreasing slightly in 2013 and 2014. To sustain export growth, China must therefore explore new international markets. Third, as a result of its past resource-intensive growth model, China is facing huge environmental/ecological pressures. In 2013, it ranked first in the world for carbon emissions. The quest for sustainable development will force China to close some resource-intensive industries and restructure the rest.

Upgrading industries via innovation and spatial shift, and exploring new domestic and international markets are, therefore, two major solutions in China’s quest for new normal-era growth. These solutions require China to play a new and more active role in the global arena. Against this background China is proposing the BRI as a new initiative for international cooperation and deeper open development. According to Vision and Actions, the initiative is to

uphold the global free trade regime in the spirit of open regional cooperation by promoting a free flow of economic factors, highly efficient allocation of resources and deep integration of markets, jointly creating open, inclusive and balanced regional economic cooperation networks, and seeking new models of international cooperation and global economic governance.

Just as developed economies established international regimes to promote trade and FDI, China hopes the BRI will further its own globalization. However, in contrast to neoliberal regimes of globalization characterized by laissez-faire policies, uneven development and inequality, the BRI incorporates as goals joint efforts, inclusiveness, win–win and even development.

Although many critics have focused on the construction of roads, railways and ports connecting China more closely with other countries along the ancient Silk Roads, the BRI actually embraces much more than infrastructure development. According to Vision and Actions, the BRI proposes five cooperation priorities: policy coordination, facilities connectivity, trade facilitation, financial cooperation and people-to-people bonds. By policy coordination, the initiative seeks to expand shared interests and establish a cooperation consensus with countries interested in the BRI, which is fundamental for co-developing large-scale cooperation projects. By facilities connectivity, China proposes the development of infrastructure networks connecting sub-regions of Asia, Europe and Africa, and facilitation of transport and logistics by removing institutional and technical bottlenecks. The development of several trunk land transport routes is an important part of facilities connectivity (see section 4.5). Trade facilitation means the removal of investment and trade barriers and improved trade technologies (information exchange, inspection and supervision, customs clearance, and cross-border e-commerce) to develop jointly a sound business environment, and expand mutual investment areas and technological cooperation. Financial cooperation aims to offer good-quality financial services and improve the efficiency and stability of financial systems. Symbolic projects in this area are AIIB, NDB and the Silk Road Fund. People-to-people bonds means increasing support and capacity for BRIs through cultural and academic exchanges, student exchanges, media, tourism and medical cooperation, joint research, cooperation between non-governmental organizations, etc.

The BRI is, therefore, an overall proposal of China for promoting socio-economic cooperation among countries along the Belt and Road. In Vision and Actions, the most frequent keywords are ‘jointly’ and ‘cooperation’. Market tools of governance, however, are not abandoned. Although the BRI contains new Chinese thinking about international cooperation and reveals China’s ambition to play a more active global development role, it aims to uphold a global free-trade regime. A major difference between the two is that the BRI seeks to combine market tools with state involvement in promoting international cooperation, expanding trade
and investment, and spreading benefits to areas and people that have not benefited from neoliberal globalization. Combined market–state governance is actually the basis for China’s recent success (Dunford & Liu, 2015). The BRI suggests that further development of the globalization regime may demand more active roles of states alongside the hand of the market.

The BRI therefore embodies a framework for globalization that is different from neoliberal globalization (an agenda for extending private property, universal deregulated markets and shareholder value, win–lose competition between unequal participants, individual responsibility, and a minimal but perhaps strong state) and that we call ‘inclusive globalization’. In many countries the neoliberal model did not achieve increased growth, did not contribute to overall poverty reduction and increased social inequality. Globalization, however, offered remarkable opportunities for growth and generalized increases in prosperity for countries that managed their integration. A model of inclusive globalization draws on this experience. Although market rules remain fundamental principles, the BRI is inclusive in that it involves the identification of shared interests and joint efforts to secure outcomes are win–win/afford mutual benefit. Opportunities for mutual benefit are found in relationships with developed and emerging countries: infrastructure investment, for example, creates employment and income through renewing the infrastructures of developed countries and creating infrastructures for growth and market expansion in emerging economies. The BRI is also inclusive in that it is open, not confined to the ancient Silk Road routes, and respects the diversity of social models, cultural differences and national sovereignty.

4.5. Spatial configuration of the BRI

As an initiative for regional economic cooperation, the BRI’s spatial configuration is a source of two frequent questions: where is the boundary of the BRI, or which countries are included; and where is the Belt and Road? The answers are important as they indicate where (in which cities and regions) China may encourage OFDI and where infrastructures (especially roads and railways) are likely to be built. According to Vision and Actions, the BRI is a multi-scalar notion, ranging from global and continental cooperation networks to transport corridors, major cities and even industrial parks.

The use of the term ‘Silk Road’ in the BRI naturally leads people to infer that the initiative focuses spatially on countries along the ancient Silk Roads and thus has clear boundaries. However, the Vision and Actions proposes an open cooperation network without a spatial boundary that includes, but is not limited to, the ancient Silk Roads. Although the document lists Asia, Europe and Africa, it also says that China will strengthen mutually beneficial cooperation with countries in the rest of the world. In his domestic and international speeches, President Jinping Xi has confirmed many times that the BRI is open and inclusive. The BRI depends upon shared interests and joint efforts, and participation is a matter of mutual understanding and negotiations. In spite of the spatial terminology, the BRI should therefore be understood as an organizational notion that employs the cultural meaning of Silk Road to lay cultural foundations for international cooperation and create a global platform for further globalizing China.

Although it is open, inclusive and global in scale, in terms of facilities connectivity the BRI prioritizes connections between China and countries along the ancient Silk Roads, and proposes six major land transport corridors: a new Eurasian Land Bridge and China–Mongolia–Russia, China–Central Asia–West Asia, China–Pakistan, Bangladesh–China–India–Myanmar, and China–Indochina economic corridors (see Figure A3 in the supplemental data online). These ‘bridges’ and corridors largely follow the ancient Silk Roads. The China–Pakistan Corridor and Gwadar Port are under construction. The China–Mongolia–Russia Corridor is in the planning stage. Agreement has not been reached on the others. In China the westward orientation of these roads created the false impression (corrected in subsequent documents like the 13th Five-
Year Plan of China) that the BRI was a western regional development strategy. The BRI is a national strategy: many aspects depend on central government action, although all domestic regions are involved in developing trade and social and environmental cooperation. Although the BRI seems to refer to transport and communications corridors, it is fundamentally not several corridors but an open spatial system with a network configuration.

5. CONCLUSIONS

China’s BRI, we have argued, is a proposal for an open and inclusive model of cooperative economic and cultural exchange that draws on the deep-seated meanings of the ancient Silk Roads. Communication and exchange require channels of communication and nodal infrastructures (roads, railways, ports, airports, telecommunications networks, pipelines, development zones and cities) that require massive infrastructural investment, and so this project does indeed envisage specific projects and new mainly multilateral financial instruments. The BRI is, however, conceived as open and inclusive and potentially global. It is underpinned by a desire to strengthen an open global trading system in which the hand of the market is accompanied by the hand of government, as it rests on the aim of promoting catch-up development and poverty alleviation, which themselves can expand markets for capital and intermediate goods, create opportunities and increase growth.

A number of factors explain its importance for China. As possibly the largest and one of the most populous economies in the world, China cannot but have a large impact on global development. China’s rise has, however, also elicited concern that China is anxious to reduce. China has therefore placed a great deal of emphasis on cooperation, multilateral financial instruments that it does not dominate and win-win agreements.

At the same time, it also draws on some of the lessons of Chinese and Asian catch-up. In the case of China, however, catch-up is far from complete. The model of development that brought China to its current position has generated problems as well as achievements that China is seeking to address in a new phase of ‘new normal’ development, which also plays a major role in explaining the BRI. In China sustainable growth requires imported energy and a restructuring of energy-intensive industries. Cost increases are leading to a relocation of labour-intensive industries. As China upgrades to more sophisticated industries, it leaves a space for other countries with lower levels of GDP per capita to establish labour-intensive industries, and China will play a role as a market provider for consumer goods. China and the rest of the world can profit from the expansion of markets in new emerging economies. Chinese surpluses and competitiveness are reflected in China’s transition from a net inward to a net outward investor. The BRI is clearly a project from which China can gain, but it is designed in such a way that there are significant potential gains for all other countries that choose to take part.

DISCLOSURE STATEMENT

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NOTES

1 Trade grew after the Han conquest of Xin Jiang secured the routes for Chinese silk to reach ancient Rome, after the north-westerly expansion of the Tang dynasty in the mid-seventh century, and after the establishment of the vast Mongolian Yuan dynasty, when the Venetian merchant Marco Polo travelled to China. The sea route grew in importance after the establishment of Ottoman control over overland routes.

2 Von Richthofen used the term to refer to the overland routes along which trade flourished from the time of the Han expansion into Central Asia in the second century BCE until the fall of the Eastern Han, drawing on Greek and Roman sources. He considered the sea routes more important, but did not include them, and identified the Silk Road(s) with the routes from Chang’an (Xi’an), the capital of China in Qin, Western Han and Tang dynasties, to Central and Western Asia and Europe. Trade routes were much more diversified (see Figure A1 in the supplemental data online). For example, there were northern Silk Roads to Russia (Liu, 1995) and southern ones to South Asia (Zhu, 1991).

3 This possibility depends on infrastructure provision. As Chinese Foreign Ministry spokesperson Hong Lei explained, ‘A place needs to have well-functioning roads before it can get rich’ (cited in Tiezzi, 2014). China can contribute finance and some of the best engineering skills in the world acquired through the completion of many projects in very difficult conditions, such as the Golmud–Lhasa railway.

4 In Turkmenistan the Bagtyyarlyk production-sharing contract on which work started in 2008 was largely financed (US$4 billion), explored, constructed and operated by the China National Petroleum Corporation (CNPC). CNPC is also actively involved in the development of the Galkynysh natural gas field in Turkmenistan. Turkmenistan’s gas is supplied through three parallel lines, A–C (Gedaim to Horgos), of the Central Asia Gas Pipeline (CAGP) developed by CNPC with KazMunayGaz and UzbekNefteGaz in the context of intergovernmental agreements on pipeline construction and operation. Uzbekistan and Tajikistan’s gas was subsequently fed into the CAGP and China’s West East pipeline system. A fourth line, D, of the China–Central Asia Gas Pipeline, routed via Uzbekistan, Tajikistan and Kyrgyzstan to China, will be completed in 2016, providing an alternative route for Central Asian gas and increasing capacity to 85 billion m³.

5 In a speech in Washington state on 22 September 2015 during his US state visit, President Xi Jinping said that the BRI is open and inclusive and welcomes all countries and international organizations including the United States (see http://www.chinanews.com/gn/2015/09-23/7540818.shtml). He also said during his UK state visit on 19–23 October 2015 that the BRI originated from the ancient silk roads but is not limited to countries along these roads (see http://news.xinhuanet.com/politics/2016-01/06/c_1117679375_2.htm).

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