Belt and Road: China’s Aspiration and a New Asia-Africa Partnership Network

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Introduction

China’s Belt and Road initiative, or in a lengthier and more conventional phrase “One Road, One Belt”, has been evolving into a set of top national strategic ideas in China. By improving connectivity between its still underdeveloped southern/western provinces and its richer sea coast, and between China and the countries along its periphery, this enormous project is expected to improve China’s internal economic integration and competitiveness and spur more regionally balanced growth. Moreover, the construction of mega-infrastructures is intended to help make use of China’s enormous industrial overcapacity by easing the entry of Chinese goods and investments into regional markets, in an effort to provide a stimulus to cushion the effects of economic slowdown at home. The Belt and Road strategy is expected to promote greater financial integration and use of the Renminbi by foreign countries in the region. New financial institutions like the Asian Infrastructure Investment Bank (AIIB) and the New Silk Road Fund are designed to support it. Diplomatic endeavors have begun to advance Belt and Road enterprises, especially in launching AIIB in June 2015.

In this context, it is pertinent to reflect on the shortcomings of China’s partnership network with Asian and African developing countries along the way of Belt and Road. Notably, Asian and African countries involved in the Belt and Road efforts are heterogeneous in terms of political system, economic development, cultural character, and religious belief. A sound and coherent engaging policy will help China minimize the potential political risks embedded in future Belt and Road development.

Challenges to China’s Current Asia-Africa Partnerships

China is launching efforts to build two transcontinental “New Silk Roads” which would connect Asia, Africa and Europe in infrastructure, trade, investment, and human exchange. The initiative of Belt and Road, i.e. the “Silk Road Economic Belt” and “21st Century Maritime Silk Road”, were first introduced by China’s President Xi Jinping in the fall of 2013 during his visits to Kazakhstan and Indonesia respectively. In spring 2015, China’s top economic planning agency, the National Development and Reform Commission (NDRC), released a general plan for action, outlining some key points of Belt and Road, and highlighting the need to build land and maritime “economic corridors.” They are expected to be prioritized in China’s 13th Five-Year Plan, which will run from 2016 to 2020 and guide national investment strategy throughout that period.

Arguably, Belt and Road has become China’s paramount design to engage with Eurasia and Africa for long-term economic growth, development, and integration. It signifies an aspired new stage of China’s “Going Out” approach, which encourages Chinese firms to go abroad in search of new markets and investment opportunities. The first and foremost step is perceived as increasing regional connectivity through financing mega-infrastructure projects in Asian and African countries, which has been illustrated by the launching of a US$40bn Silk Road Fund and a US$ 100bn Asian Infrastructure Investment Bank (AIIB).

With ambitious and promising economic gains expected, the potential political risks associated with this grand design should not be underestimated. The different political systems, diverse developing stages, and heterogeneous cultural attributes and religious faiths in the Asian and African countries will surely complicate the implementation of Belt and Road on paper. To mitigate the potential risks in investments and infrastructure financing, the Chinese policy makers should scrutinize the current Asia and Africa partnership network, keeping in mind especially the constant chaotic features and tumults in the Middle East and North Africa.

Partnerships are important in understanding China’s political and diplomatic engagement in an increasingly multipolar world. Since the end of the Cold War, China has been devising a global partnerships network in the frame of its foreign policy with neighboring and distant countries, as well as with some multilateral organizations. China’s leadership in recent years has swiftly expanded the scope of a global network of partnerships, and established to date 72 declared partnerships in different forms with 67 countries and 5 multilateral organizations, covering all the major countries and regions in the world.

These partnerships can be roughly divided into two levels: “strategic partnerships” and non-strategic ones. In the Chinese discourse, political synergy aside, the former means closer trade and investment relations. As China upholds a non-alliance policy, strategic partnerships as termed by the Chinese government mean that both sides agree to make a long-term commitment to bilateral relations, in which bilateral problems are evaluated in that context and occasional tensions not permitted to derail them. Insofar, China has established 53 strategic partnerships in the world, among them 27 are in Asia and Africa, including 25 countries and 2 multilateral organizations (ASEAN and African Union). On top of that, the bulk of Chinese Foreign Direct Investment (FDI), foreign contracted projects, and oversea labor services are concentrated in Asia and Africa, which overlap the geographic scope of the New Silk Roads.

However, in an increasingly complicated global landscape, China’s current Asia-Africa partnership network is facing two major challenges. The first is lack of institutionalized and market-oriented guidelines. In developing the partnership network, too much emphasis has been put on bilateral political considerations, but less has been attached to economic ones. Consequently, investment preferences and efficiency could be compromised.

For example, the friendship between China and Pakistan has long been praised as an “all-weather” strategic partnership. In April, President Xi visited Pakistan and unveiled a commitment of US $46 billion of investment in that country for the construction of roads, rails, and power plants on a commercial basis by Chinese companies over 15 years. Most of the 51 projects were parts of the China–Pakistan Economic Corridor. Undoubtedly, this move will further consolidate bilateral ties in the context of Belt and Road, but China should have a sober evaluation of the deteriorating security environment in that country, and also its questionable economic efficiency and business practices. To construct high-profile infrastructure, potential operational challenges in Pakistan need to be anticipated, as they could impact quite negatively the outcome of the deal.

The second challenge is how to protect the safety of overseas Chinese citizens and assets. Since the beginning of 2011, the geopolitical upheavals in Middle East and North Africa have led to regime changes in a number of countries, with unfavorable impacts upon Chinese investments and personnel in this region. In the case of Libya, war resulted in a gross loss of almost US $20 billion in contract value projects, and more than 33,000 Chinese citizens were emergently evacuated. After southern Sudan officially separated from Sudan, the economic environment in both counties changed substantially and Chinese investment suffered from political turbulence. Fueled by Saudi-Iranian rivalry, the Yemen civil war forced the Chinese government to evacuate its citizens again this year. Political risks in investment destination countries may put Chinese overseas investments and citizens in jeopardy, and the Chinese administration is already increasingly facing challenges as how to protect its people and investments.

Roadmap for Building a New Partnership Network

The new challenges arise because the internal and external conditions have significantly changed. From the perspective of the domestic environment, China's economy faces over-capacity pressure. The government needs to reformulate the economic structure and upgrade industrial composition, instead of simply absorbing inward FDI. From the perspective of the international environment, many Asian and African countries are in a new round of transition with turbulence, and China's diplomatic priority should be put on fostering amicable neighborhood relations to facilitate the ascent of Chinese clout. So it is imperative for the Chinese government to revise the connotations of traditional strategic partnerships and with an eye to develop a new Asia-Africa partnerships network in the new era.

One major principle for China to build such a new network should be reforming and improving rather than challenging or overhauling the existing international order. On the one hand, China should continue to keep a low-profile posture, refraining from being provocative to the United States' preponderance, but proactively involving all or most emerging economies and developing countries in the region to work for the betterment of the existing world order. On the other hand, China should actively engage with all the countries along the way of the proposed Belt and Road, taking advantage of bilateral trade to deepen international economic cooperation and boosting outward investment, coupled with China's overcapacity exports. It is worthy to note that strong economic linkage will increase the internationalization of the Chinese currency as well.

The initialization of the new Asia-Africa partnership could be associated with the launching and operation of the AIIB. With 57 countries joining the AIIB as founding members, the unexpected success of the AIIB strengthens China's endeavor to advance geo-economic integration with a sort of leading role and strong financial capacity.

With the new AIIB platform, China has two major advantages to tap. The first is to employ geo-economic influence to hedge against geopolitical pressure from the US for the sake of nurturing a good neighborhood in China's periphery, thereby indirectly competing with the US "re-balancing" toward Asia-Pacific. While the US is attempting to use its military and diplomatic power to safeguard its hegemonic system, China may use instruments of trade, investment, and finance to buffer the unfavorable influence.

The second is to make use of AIIB as a public good largely offered by China, to promote regional connectivity by financing infrastructure projects. According to the Asian Development Bank, there is an annual "gap" between the supply and demand for infrastructure spending in Asia on the order of US$800 billion. Given that infrastructure is at the heart of Belt and Road, there is room for the initiator to play a constructive role in regional economic and financial architecture. In addition, the new financial architecture could also help strengthen the political cooperation in the region and reduce the incentives and opportunities for the terrorist movements.

Inspired by the successful experience of establishing AIIB, the building of a new Asia-Africa partnership should put emphasis on two fundamental principles: to adhere to the market-oriented rule and the rule of law; and to combine the Chinese initiative with other countries' interests and active participation, putting emphasis on multilateral mechanism.

First, China’s leadership needs to adopt a top-level design for regularization regarding the partnerships network along Belt and Road, which should be put in line with market-oriented rules and the of rule of law. China’s “Going Out” approach should aim at not only sustainable growth of the Chinese economy, but also benefits to the Asian and African nations. Specifically, as the Chinese leadership is struggling to manage a difficult transition to a “new normal” of slower but more sustainable growth, the acceleration of going globally should be conducted in a well-organized and systematic way. There are more than 60 counties involved in Belt and Road, and all of them should be engaged by China in a balanced way, ensuring that whether small or big, rich or poor, every involved country has equal opportunity to access the investment and finance resources offered.

Moreover, when making the decision for foreign aid and investment, Beijing should bear in mind the principle of market orientation. Simply relying on bilateral political relations with a certain nation to decide the investment preference is not an advisable approach. Instead, China can apply multilateral institutions such as the AIIB to decision-making, in order to reduce the probability of bad planning. Reflecting on the political risks encountered by the Chinese companies in Libya, Sudan, and Iraq, it is obvious that they overestimated the government-to-government relations while underestimating the role of market-oriented values. The best approach to obviate or mitigate risks caused by political turbulence is to adhere to the market orientation and rule of law, which could protect better the assets of the Chinese companies in case of regime change. When handling relations with Pakistan, China should use the same framework to decide the aid or investment by following the norms of openness, transparency and market value, instead of simply relying on the “all-weather Friendship” label.

Second, while China is playing a leading role in the new development landscape, the interests of Asia and African countries involved in Belt and Road should always be respected with sincerity and substance. From the governance structure of AIIB stipulated in its charter, it could be argued that China is not seeking a dominant role. The capital and voting rights of AIIB is divided on the basis of current world economic reality, while there is also a guarantee that the developing countries have more representation among its top shareholders. China (30.34%) and India (8.52%) are the biggest shareholders of the AIIB, followed by Russia (6.6%), Germany (4.57%), and South Korea (3.81%). Australia, France, Indonesia, Brazil, and the United Kingdom are listed on the top ten. Notably, 75 percent of shares were reserved for Asian members, giving them a proportionately larger say in bank governance.

Capital shares translate into voting power. According to the AIIB Charter, total voting power of each member is a composition of basic votes, share votes, and founding member votes. Basic votes consist of 12% of the aggregate sum of all votes available to its members. While no country has one-vote veto power like the US does in the World Bank, China does have de facto veto power with its 26.06% vote share, although it is possible to be diluted with more members joining. The governance structure of AIIB gave a good example for China to follow in the future. To build a new Asia-Africa partnership, China should stick to the spirit of multilateral cooperation, with features of openness, inclusiveness, and mutual benefits.

Concluding Notes

There are so many countries in Asia and Africa, and consequently the distinctions among them are numerous and prominent. There is cultural pluralism: Confucian, Islamic, Buddhist, Christian, and Hindu cultures co-exist in the region. There are also quite diverse levels of economic development and quite different economic sizes: huge emerging economies like China and India, rich oil producing economies in the Gulf countries, and the least developed economies like Bangladesh. Moreover, also prominent is the diversity in terms of political system: democracies, authoritarian regimes, and monarchies. The enormous distinctions in the region demand a close and imperative scrutiny from China in promoting and implementing the Belt and Road aspiration. Policy coherence should be coupled with country-to-country particularity. China should flexible in engaging with different countries along the way of Belt and Road, by corresponding different approaches.

A multilateral way is indispensable for building a new type of Asia-Arica partnership. Economically, China should by means of trade and investment cooperation transfer more tangible interests collectively to developing countries. Such economic boon could increase political synergy. Politically, China has to pay more attention to multilateralism in advancing bilateral relations. China can give more political support in the global arena to Asian and African countries for the sake of boosting regional integration. The road ahead will be far from an even one, but major barriers are not all insurmountable.

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