

China's Belt and Road Initiative: Options for South Asian Region- India, Pakistan and Sri Lanka

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Abstract

China's Belt and Road Initiative is one of the President Xi Jinping's most determined foreign and economic policies which aims to strengthen Beijing's economic leadership through a vast program of infrastructure building throughout China's neighboring regions. The Chinese government wants to use Belt and Road Initiative which is also known as One Belt One Road (OBOR) as a platform to address the country's prolonged surplus capacity. It is more about migrating surplus factories than dumping the excess products. One of the least understood aspects of OBOR is Beijing's desire to use this initiative to export China's technological and engineering standards. In this research paper, an attempt has been made to analyze and explain the exact nature of China's Belt and Road Initiative and a trial has been made to examine the funding and investment policy and particularly what will be the options of this initiative for South Asian region especially for India, Pakistan and Sri Lanka.

Keywords: Strategy, Security, Initiative, Encircle, Region.

Introduction

One Belt One Road is China's much-touted new foreign and economic policy. It is a development strategy to connect China with central Asia, Europe and Indo-Pacific coastal countries. The idea of the Silk Road Economic Belt and Maritime Silk Road was exposed and promoted by President Xi Jinping in 2013 during the visits to Kazakhstan and Indonesia respectively. These two visions have now merged into the One Belt One Road (OBOR) or the Belt and Road Initiative (BRI). The overland route or the Belt consists of a network of rail routes, overland highways, oil and gas pipelines and other infrastructural projects, stretching from Central China through Central Asia and Russia, with one route crossing Kazakhstan and the other through Mongolia. The Road consists of a network of ports and other coastal infrastructure from China's eastern seaboard stretching across South East Asia, South Asia, the Gulf, East Africa and the Mediterranean forming a circle terminating at Piraeus (Greece), Venice and Rotterdam in Europe and Mombasa (Kenya) in Africa.

The OBOR is expected to span across sixty-six countries of three continents of Asia, Africa and Europe. It is estimated that it will cover two-third of world's population and one-third of global GDP. Xi Jinping has made the OBOR the centerpiece of both his foreign policy and domestic economic strategy and hopes that the mega-trade volumes among the Silk Road economies would touch \$ 2.5 trillion over the next 10 years. The OBOR has often been compared to the US Marshall Plan that China is using money for achieving its foreign policy and economic goals. But the planned investment for OBOR is \$1.4 trillion which is around 12 times larger than the Marshall Plan which was about \$120 billion in today's value. The OBOR does not involve any binding state-to-state agreements, reflecting China's preference for less formal arrangements which give it flexibility and also helps it to make best use of its economic and political skills. But it does represent a more energetic and better coordinated attempt to expand China's influence overseas.¹

Research Methodology

In this research paper, the historical, analytical and descriptive methods are been used to carry on the study. The secondary sources like books, journals, reports and records have also been used to carry on the research work.

Objectives of the study

1. To analyze the exact nature of China's Belt and Road Initiative.
2. To examine the funding and investment policy of Belt and Road Initiative.
3. To study India, Pakistan and Sri Lanka in the context of China's OBOR.

Review of Literature

'China's Belt and Road: A Game Changer?' (2017) edited by Alessia Amighini. In this book many research articles of different authors have been published which throws light on the nature and reasons behind the enforcement of China's Belt and Road Initiative. They examine the China's strategy played an important role in strengthening and developing its relations with South Asian countries. The authors also discuss the improving relations of China with Russia, Ukraine and the European Union and also discuss China's new ways of trade and investment.

'Chinas OBOR-Initiative, Challenges and Prospects' (2016) by B K Ssharma & N D Kundu. The chapters in this book written by Chinese and Indian academics and researchers from United Service Institution of India and Sichuan University, explaining the inter-disciplinary approaches and comparative perspectives that may help to understand the essence and implication of China's 'One Belt One Road' initiative by identifying the convergences of interest in terms of social and economic development, political and cultural exchanges and remove the potential hindrance. The chapters also explained the scope of the 'One Belt One Road' initiative as the mega development project and framework proposed by China, focusing on connectivity and cooperation among the regional countries which till date received mixed reactions.

'The New Silk Roads: China, the U.S., and the Future of Central Asia' (October 2015) by Thomas Zimmerman. In this book, the author examines the US response of China's new Silk Road. The author discusses the impact of China's Silk Road on the central Asian countries and also explains the role of CPEC in the context of China-Pakistan relations and also highlights its emerging relations with Afghanistan.

'China's One Belt One Road Initiative and Private International Law' (2018) edited by Poomintr Sooksripaisarnkit and Sai Ramani Garimella. This book explores possible challenges to the success of the OBOR arising from the situational interface of diversity of laws with the focus primarily on issues associated with private international law. It shows the latest state of knowledge on the topic and will be of interest to researchers, academics, policymakers and students interested in private international law issues pertaining to the OBOR routes as well as private international law in general Asian studies and the politics of international trade.

'The Silk Road Economic Belt- Considering security implications and EU-China cooperation prospects' (2017) by Richard Ghiasy and Jiayi Zhou. In this book, the authors explain the possibility and objectives of Silk Road Economic Belt and explore the

China's motivations. They also highlighted its interaction with security dynamics in central Asia and south Asia. The authors consider it as an opportunity for the cooperation between China and the European Union.

What OBOR actually is?

China's 'One Belt, One Road' project is comprised of two components viz. the Maritime Silk Road (MSR) and the Silk Road Economic Belt (SREB) that were announced separately in 2013. It was initially called One Belt, One Road but in mid-2016, the name was changed to the Belt and Road Initiative (BRI) due to the misinterpretations of the term one. Each component has the potential to transform the global geopolitical landscape through the construction of interrelated infrastructure projects including ports, highways, railways, pipelines, construction materials, automobile, real estate, power grid and iron and steel.² Billed as a network of regional infrastructure projects, OBOR is actually much more. Through collective and collaborative efforts, it aims to build a network of road and high-speed rail connectivity, fiber optic cables and telecom which will link China to the rest of the world. Apart from leading to a network of infrastructure projects, this will promote cooperation in trade and investment and will also include cultural as well as people-to-people contacts. Both in scope and scale, OBOR goes well beyond the earlier routes or roads. OBOR, in reality is likely to be a flexible alignment and may be adjusted, curtailed or expanded as required based on agreements and understandings with partner countries.³ According to an important OBOR vision document released by the Chinese government in March 2015, the initiative is intended to facilitate regional trade and investment and foster greater exchanges between Chinese citizens and the peoples of OBOR countries.⁴

Why China introduced OBOR?

There are so many reasons which urges China to introduce such a mega project. Some main reasons are highlighted as under:

1. It may enable China to open close economic and political alliances with countries strategically important to China and expands China's sphere of influence. For example, the pipeline through Myanmar gives China direct access to the Indian Ocean and reduces China's over reliance on the Strait of Malacca for oil supply security.
2. It helps China to export, especially in sectors with overcapacity, e.g. railway equipment, construction, and building materials.
3. It may help Chinese economy to upgrade. OBOR may open doors in destination countries for China to establish a foothold in important service sectors including banking, power and telecom.
4. It may help China to rebalance between the coastal and some of the inland regions. The main force behind regional rebalancing has been to relocate manufacturing capacity from coastal regions to inland areas because of the latter's cheaper land, labor and environment related costs.⁵

Funding and Investment Options

The funding of the OBOR projects taken individually and in their interlocking connections is largely to be Chinese. On present evidence Beijing has a Silk Road Fund that runs to over US\$100 billion. Possible exceptions are the funds that may come from the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (run by BRICS) and also perhaps from other multilateral institutions be it the ADB, World Bank or others. Banking prudence will ensure that such institutions, including AIIB headquartered in Beijing will strictly inspect such project allocations, besides India which is the second biggest investor in AIIB, the other 70-odd members will ensure this. We may estimate that over 90 percent of the BRI funding is likely to be Chinese, though this is only a guesstimate for now. China has earlier shown limited regard to the suggestion voiced among others by India, Japan and the EU that wider consultation in the framing of the grand BRI scheme should be undertaken. China has spoken of consulting all the countries involved in BRI, but this has taken shape only of country-by-country or bilateral dialogue which is natural for projects that involve a single foreign partner. But there has been nothing like a collective consultation, much less open regional discussion on the full parameters of what BRI entails. China might believe that it does not need wide regional or continental consultation on the conception, ambit and content of OBOR.⁶

China's Interests from OBOR

1. OBOR aims to address regional disparities between China's developed coastal areas and poorer inland provinces.
2. OBOR is perceived as a solution to China's overcapacity problems.
3. Not only does this involve selling surplus product to OBOR countries, but also moving equipment to the countries themselves.
4. OBOR is intended to assist the Chinese economy's broader transition away from a low-cost manufacturing industry.
5. OBOR countries are perceived to be ideal customers for high-end Chinese technological products.
6. OBOR is tied with the advent of a more pro-active Chinese foreign policy.
7. Greater interdependence with neighbors gives China strong regional influence.
8. OBOR also attempts to address some of China's most pressing domestic security issues.⁷

India's Options with the New Silk Road

There are conflicting views in India on whether China's OBOR strategy represents a threat or an opportunity. Some view it as a strategy which China will use to encircle India. Some consider it as a great opportunity to attract the much needed infrastructure finance into India to fill its infrastructure growth and boost its growth and employment. What is emerging is a competitive yet cooperative approach from both China and India in the Indian Ocean and in the South China Sea and parts of East Asia. India has not signed onto the OBOR strategy and has concerns

especially with the MSR, whereas China has expressed opposition to Indian interference in the South China Sea. India was upset about the Chinese President's recent commitment to invest \$47 billion in rail, road infrastructure and a virtual trade corridor connecting West China to the strategic Gwadar port in Pakistan. India's objection is that the trade corridor and rail-road link goes through Pakistan occupied Kashmir. Nevertheless, India has signed onto becoming a founding member of the AIIB and the NDB. At the same time India has begun its own long overdue initiatives in the Indian Ocean to counter the China and ensure that China does not start to dominate the Indian Ocean through its String of Pearls. India's maritime initiative on the Indian Ocean has been variously presented as Project Mausam, Spice Route, Cotton Route, Sagar Mala and the Blue Revolution. China has tried hard to get India to find ways to bring the MSR and India's Mausam projects together. On the surface, the two projects do have much in common, both seeks to expand regional integration especially when it comes to trade and commerce. But on a deeper level, both the MSR and Project Mausam are about expanding influence culturally, economically and even strategically.⁸

India's Gains and Losses

Gains

Rejecting the String of Pearls

India has disregarded organizers of China's OBOR for trying to encircle India with ports, surveillance posts and naval bases. This is known as the string of pearls. China engages in hostile activity and India is safeguarding its interests by not aligning with OBOR.

A Question of Sovereignty

Challenging Beijing on OBOR and its continued support to CPEC passing through PoK is in line with India and safeguarding its sovereignty. Honour of the nation and sovereignty are equally important through boycotting OBOR.

Opposing Illegal Corridor Gives India Credibility

India views the China-Pakistan Economic Corridor (CPEC), is obviously illegal. It passes through Pakistan-occupied Kashmir (PoK) on its way to Xinjiang in northwest China. India has benefit of credibility in opposing OBOR.

War on Terror

China is selling OBOR as a \$500 billion global project that will transform the economies of the countries in Asia, Europe and Africa. The growing threat of terrorism from ISIS in Balochistan and PoK will be worsened by OBOR.

No Transparency

OBOR is not designed as per the India's requests for consultations on the objectives, nature and financing. The project connects all countries to China, but no countries to each other beyond a certain point.

Losses

Mega Infrastructure Project

OBOR is a mega infrastructure project offering benefits like instant connectivity, fast movement and skilled workers. Economic growth will

expand as a result for those countries which align with OBOR. India is not one of them.

Record Unemployment

India needs more investment to create more jobs so that young working class individuals have the ability to be gainfully employed and not drift into antisocial or counterproductive activities.

Industrial Production Loses Out

Boycotting OBOR has also ensured that India's industrial production does not get the fillip it needs to encourage savings, improve connectivity and enhance the basics of the welfare state.

Losing out on Optimized Linkages

The notion of linking Silk Road Economic Belt and Oceanic Maritime Silk Road to optimize connections between Europe, Asia, Oceania and East Africa bridge the infrastructure gap and accelerate economic growth through Asia Pacific and Eastern Europe is visionary. India will lose out on the infrastructure boost that would have come from joining OBOR.

Manufacturing Sector Could have Benefited

Manufacturing capacity with other countries as a result of OBOR will improve their communication, foster P2P exchanges, G2G contacts, enhanced investment and greater trade and technology.⁹

China and Pakistan in the context of CPEC and India's Concerns

The China Pakistan Economic Corridor (CPEC) is the part of China's "One Belt, One Road" initiative which include energy projects, infrastructure development, industrialization, and the expansion and improvement of the Gwadar Port. It is a bilateral project between China and Pakistan to develop roads, railways, and ports, mostly aimed at enhancing business prospects for Pakistan. The investment constitutes a total sum of \$46 billion directed at upgrading Pakistan's existing transportation infrastructure as well as boosting Pakistan's energy generation capacity. CPEC links the strategically significant city of Kashgar in China's Xinjiang province to the port of Gwadar in Pakistan's Balochistan province. The proposed route allows the passage of goods and services between China and Pakistan. It also gives China access to the Middle East as Gwadar's closeness to the Arabian Sea. According to the Pakistan-China Institute, 'The Corridor is granting enhanced connectivity and power to the otherwise diffracted and energy hungry economic centers of Pakistan.' The entire corridor covers 3,000 kilometer approximately and slated to be completed in 2030, the CPEC will provide access for China to the Indian Ocean and offer an alternative route for energy imports in case the Malacca Strait suffers from rising tensions between the United States and China.

India's Concerns

India has opposed the CPEC as it runs through PoK and Gilgit-Baltistan. When asked about India's opposition, Chinese scholar Zhao Gancheng stated that China cannot wait for a resolution of the India-Pakistan dispute to realize its OBOR dreams. He went on to reassure that China's focus is on economic development and interconnectivity and is

not designed to contain or encircle India. However, the CPEC has seen submarine transfers, joint exercises, upgrade of the naval base, as well as the future Chinese naval presence in the Indian Ocean, all this have a direct security concerns for India. Thereby, the twin concerns of Chinese willingness to sign deals with Pakistan involving disputed territories and Chinese military presence close to India's western border are perceived as a tactical vulnerability by India. On the strategic level, what does the CPEC signify? For India, it does not offer any strategic advantage. China is increasing its presence through its capability of building good infrastructure at a fast pace-roads, railways and economic hubs with countries of South Asian region. The AIIB has been established specially for this purpose to fund projects under the OBOR. In the long term, it offers China the strategic advantage of operating a port like Gwadar with direct access to the Indian Ocean, a short clear path to the Middle East and to Africa. It strategically equips its military to keep watch on India from the East and the West. Growing Chinese military presence in Tibet and Pakistan implies that India has to account for two nuclear armed nations with joint conventional capacities. Pakistan has set up Task Force 88 (TF88) by its Navy to guard Gwadar port, reasonably against a perceived Indian military challenge. This development suggests escalated military deployments, an articulated security concern for India. For India, it is pertinent to remain cautious about economic interconnectivity fast tracked by China in Pakistan and other parts of South Asia as well as keep well-informed about security implications given India's territorial disputes with both China and Pakistan.¹⁰

China and Sri Lanka in view of Maritime Silk Road and India's Response

China and Sri Lanka are also negotiating an FTA to further boost trade and provide better access for Sri Lankan goods in Chinese markets, the current trade balance tremendously favors China. The increase in Chinese development assistance to Sri Lanka mostly in the form of concessional loans began in 2009 after the Sri Lankan civil war and then spiked dramatically in 2011. Chinese support for a port, airport, and cricket stadium in Hambantota revealed an increasingly close relationship between the two countries. The upgrade of the China-Sri Lanka relationship to a "strategic cooperative partnership" in 2013 demonstrated the geopolitical influence of China's generous support to Sri Lanka. Detailed loan payments available for the Sri Lankan government show a dramatic gap between Indian and Chinese contributions. Sri Lanka also features prominently in China's Maritime Silk Road project. China's focus on deep seaport development played on India's fears of Chinese "string of pearls" encircling India. The Colombo port of call of two Chinese submarines in late 2014 reports that Sri Lanka granted Chinese state-owned enterprises operating rights at the Hambantota port provoked Indian concerns.

India's Response

India opposed the port deal and stepping up its political pressure on Sri Lanka. Asked about the joint venture on December 14, Indian foreign ministry spokesman Raveesh Kumar declared, "We continue to take up with Sri Lanka issues related to security concerns in the region and expect that our Sri Lankan friends will keep in mind our security concerns and sensitivities." In other words, New Delhi regards Colombo's move as a threat to Indian security and will respond accordingly. After coming to power in January 2015, President Maithripala Sirisena suspended various Chinese-funded ventures including the multi-million dollar Port City of Colombo project. The real reason for the suspensions, however, was fierce opposition from the US and India to former President Mahinda Rajapakse's close economic and political relations with China. Increasing government debt and falling national export earnings, however, have forced the Sirisena-Wickremesinghe government to turn back to China for financial help. The government revived talks with Beijing and after modifications to the terms of the China-funded ventures, the projects resumed. This included the Hambantota Port deal which has been used to reduce Colombo's debts to Beijing, recently estimated at more than \$US8 billion. Colombo also attempted to calm down Indian concerns during the Hambantota port negotiations by offering India a 70% stake in Mattala Mahinda Rajapakse International Airport which is located close to Hambantota and a share in the development work at Trincomalee's deep sea port. Wickremesinghe recently visited India and met with Prime Minister Narendra Modi to discuss these deals.¹¹

Conclusion

China's BRI is a bold and new strategy, which is still evolving and being developed as new issues arise. It is not a finite strategy in terms of time and geographic space. While it is built on the idea of revival of the old Silk Road which connected China through the Eurasian landmass to Europe, it has evolved beyond that to a broader way of engagement with regional and other groups of countries. It signals a more outward oriented approach from China which is intending to use its vast surpluses in new ways and which could be mutually beneficial to China and the countries which come into the ambit of OBOR. China is always keen to attract the South Asian countries first because it is from the South Asian region through which China can reach to other destination regions. China is strategically more focused on India, Pakistan and Sri Lanka in the region. The closeness to Pakistan and the CPEC could open the doors for China to export its technological and infrastructural products to Arabian and Middle East countries and to

import oil products from there. This could also be beneficial for China to enter into Africa to boost its trade and economy further. The growing relations with Sri Lanka through the Hambantota port and the String of Pearls more helped China to spread its influence in the Indian Ocean. But China was never able to motivate India to sign on to this mega project because of the latter's security concerns. India observes BRI as China's geopolitical strategy to encircle India and Indian Ocean through CPEC and String of Pearls respectively.

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