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CENTER FOR INTERNATIONAL STRATEGIC ANALYSES

# **OBOR: China's Grand Strategy for the 21<sup>st</sup> century**

**Rafail Voulgarakis  
Vasilis Papageorgiou**

**Research Paper No. 8**

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**Rafail Voulgarakis**  
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**Analysts KEDISA**

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# OBOR: China's Grand Strategy for the 21<sup>st</sup> century

## The initiative

The “New Silk Road”, also known as the “One Belt, One Road” (OBOR) initiative or *Belt and Road Initiative* (BRI), is a development strategy proposed by China, which aims to foster the economic cooperation and connectivity mostly between Eurasian countries.<sup>1</sup> The initiative is named after the “Silk Road”, an ancient route of 6,437 kilometer in length, that dates back to the Western Han Dynasty (206 BC – 220 AD) and used to connect regions of East Asia with the Middle East and Europe, prospering numerous Eurasian civilizations for centuries.<sup>2</sup> Therefore, with the implementation of the “New Silk Road” strategy, China aims to revive the 2,000-year-old network by investing on some serious infrastructure projects throughout the whole route, that largely resembles the legendary “Silk Road”. The promotion of regional economic development, the economic benefits for the countries involved and the tightening of the cultural ties of the participants, are the main goals of the *OBOR* initiative, in other words, *OBOR* is based on a win-win development strategy for the countries that are located throughout the path of the “New Silk Road”.<sup>3</sup>



*Xi'an, where the Terracota army is located, was the beginning of the ancient silk road and is expected to be the beginning of the new one.*

**Source:** National Geographic

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<sup>1</sup> National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China. (2015). Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. Available at: [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html). Last accessed 10<sup>th</sup> June 2017.

<sup>2</sup> Manu Life Asset Management. (2015). China's new Silk Road: A win-win for Asia?. Available at: <https://www.manulifeinvestment.com.my/servlet/servlet.FileDownload?file=00P9000000RJADiEAP>. Last accessed 10<sup>th</sup> June 2017

<sup>3</sup> National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China. (2015). Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. Ibid.

The first signs of *OBOR* were brought to the surface during the Olympics of 2008. However, China's ambitious plan was first stated on 2013, by the Chinese President Xi Jinping, the 5th president of China. The *OBOR* project consist of two different "routes", one land route and a maritime one, that both begin and end in China's territory. The first route (Silk Road Economic Belt) begins from Xi'an in Central China and leads to Northern Europe up to Rotterdam (busiest port in Europe), coming all the way from Central Asia, the Middle East, Eastern Europe and Russia and the center of Europe. On the other hand, the maritime route (the 21<sup>st</sup> Century Maritime Silk Road) connects the Mediterranean Sea with the South China Sea, in a long route that comes through the Suez Canal, the Indian Ocean, the Malacca strait, etc. It is estimated that approximately 65-70 countries and a total of 4,4 billion people (as much as the 60% of global population) will benefit from the participation in the *OBOR* project that will require at least 30-35 years to be completed.<sup>4</sup>



*The land and maritime road of the “One Belt, One Road” initiative*

**Source:** One Belt and One Road, The Wall Street Journal, 2016.

To successfully implement this ambitious plan, China is planning the construction of six economic corridors, in order to link the Silk Road Economic Belt with the Maritime Road.<sup>5</sup> While on some corridors the existing infrastructure will be exploited, in other areas it will be constructed, in line with the *OBOR* project. The corridors seem to have a westward and a southward orientation which means that the regions of Japan, North and South Korea are

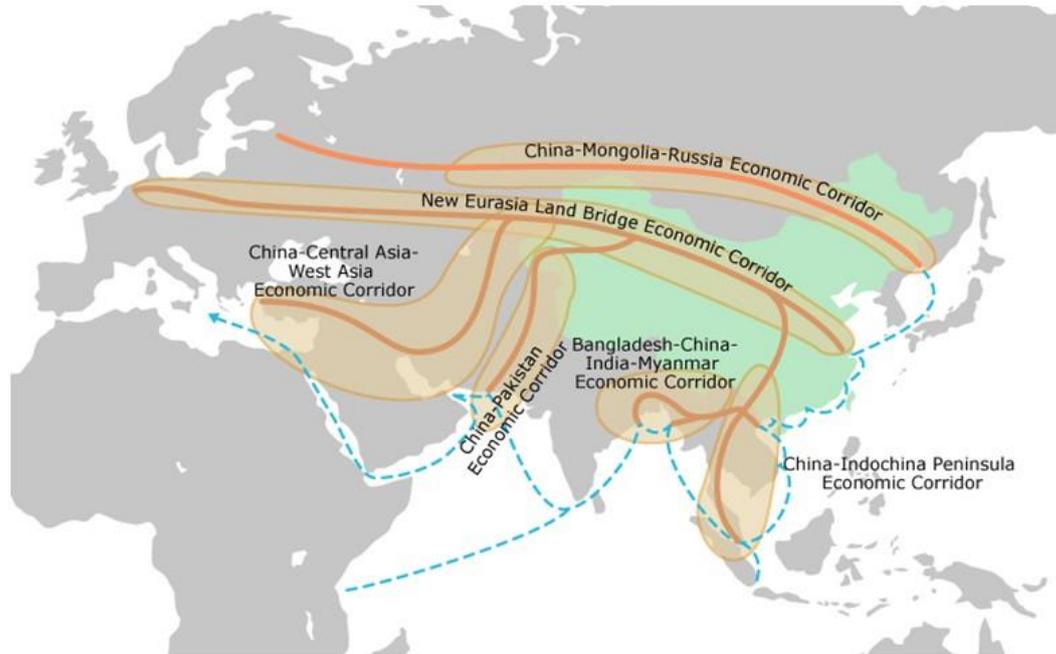
<sup>4</sup> Grieger., Gisela. (2016). One Belt, One Road (OBOR): China's regional integration initiative. European Parliamentary Research Service. Available at: [http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS\\_BRI%282016%29586608\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS_BRI%282016%29586608_EN.pdf). Last accessed: 13<sup>th</sup> June 2017.

<sup>5</sup> Grieger., Gisela. (2016). One Belt, One Road (OBOR): China's regional integration initiative. European Parliamentary Research Service. Ibid.

excluded from the project, at least for the time being.<sup>6</sup> The six economic corridors that differ in size and length, are the following:

1. China-Indochina Peninsula
2. Bangladesh-China-India-Myanmar (BCIMEC)
3. China-Pakistan (CPEC)
4. New Eurasian Land Bridge
5. China-Central Asia-West Asia
6. China-Mongolia-Russia

#### **The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa**



**Source:** Hong Kong Trade Development Council (HKTDC)

It should be pointed out that the planning and the construction of these corridors are currently in various stages regarding their implementation, apparently, due to the bilateral or multilateral nature of the abovementioned agreements.<sup>7</sup>

## **The project**

The first efforts of the Chinese government took place with the signing of deals worth 30 billion US dollars (USD) with Kazakhstan, the upgrading of infrastructure in Sri Lanka, and more specifically, the reconstruction of the port of Colombo, a deal of 1,4 billion USD. Furthermore, China proceeded at a fast pace for the establishment of the *Asian Infrastructure Investment Bank* (AIIB) with an initial capital of 100 billion USD. Apparently, the main purpose of the bank is to finance all the projects that are related to the Silk Road. Many developed countries

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<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

have already acquired a membership status in the AIIB, while most of them are US allies, such as Germany, France, the UK and others. There is much apprehension among western countries that the Silk Road alongside with the AIIB, will try to substitute the current financial system established by the *World Bank*.<sup>8</sup>

China has set the ambitious goal to reach a 1 trillion USD investment on infrastructure projects. The plan will cover a considerable number of countries that accumulate 30% of the World GDP. There are currently 68 countries that participate on the Initiative.<sup>9</sup> More than 900 deals are being prepared (a sum of, approximately, 890 billion USD), while China has declared, that it's going to invest a total of 4 trillion USD on the whole project. It is notable, however, that the AIIB has only provided credit worth of 1,73 billion USD for the project.<sup>10</sup>

The “One Belt, One Road” initiative has four keys-objectives:

1. Improving regional infrastructure
2. Increasing regional economic policy coordination
3. Markets integration
4. Encouraging cultural ties to build support for the broader project

The plan is based on a set of transportation, energy, and telecommunication infrastructure projects, along with plans for increased regional diplomatic cooperation, reduction of financial costs, provision of more credit and cultural integration.<sup>11</sup> It also has 3 basic digital purposes<sup>12</sup>:

- **Telecommunications and satellites**

The establishment of optical cables network in order to improve international connectivity and have a faster data transmission, thus reducing the costs for the participant countries. Chinese *ZTE* and *Huawei* have vigorously signed deals for the construction of networks, such as the construction of a fiber optic cable in Afghanistan. The adoption of the Beidou system, the rival of GPS, will enhance the independence from western systems of telecommunications.

- **Urban cities**

The maintenance of vast data that could improve every daily aspect of the cities. Currently, there is an integration of information and technological advances. For instance, Yinchuan offers citizens an array of innovative services, including access to city information via QR codes, and the ability to pay bus fares upon boarding through facial recognition software.

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<sup>8</sup> Economist. (2016), The infrastructure of power. Available: <http://www.economist.com/news/finance-and-economics/21701494-reasons-be-enthusiastic-about-chinas-answer-world-bank-infrastructure>. Last accessed 11<sup>th</sup> June 2017.

<sup>9</sup> Pethiyagoda, K (2017). What's driving China's New Silk Road, and how should the West respond?. Available at: <https://www.brookings.edu/blog/order-from-chaos/2017/05/17/whats-driving-chinas-new-silk-road-and-how-should-the-west-respond/>. Last accessed 10<sup>th</sup> June 2017.

<sup>10</sup> Wharton University. (2017). Where Will China's 'One Belt, One Road' Initiative Lead?. Available at: <http://knowledge.wharton.upenn.edu/article/can-chinas-one-belt-one-road-initiative-match-the-hype/>. Last accessed 10<sup>th</sup> June 2017.

<sup>11</sup> Zimmerman, T. (2015). The New Silk Roads: China, the U.S., and the Future of Central Asia. NEW YORK UNIVERSITY. Available at: [http://cic.nyu.edu/sites/default/files/zimmerman\\_new\\_silk\\_road\\_final\\_2.pdf](http://cic.nyu.edu/sites/default/files/zimmerman_new_silk_road_final_2.pdf). Last accessed 12<sup>th</sup> Jun. 2017.

<sup>12</sup> Economy E. (2017). Beijing's Silk Road Goes Digital. Available at: <https://www.cfr.org/blog-post/beijings-silk-road-goes-digital>. Last accessed 9<sup>th</sup> June 2017.

- **E-commerce**

Alibaba and JD. Com will establish warehouses in all regions that the Initiative will take place, so as to improve supply system and logistics. This will bring more beneficial deals for every counterpart-member of the initiative, due to a huge reduction on costs.

## **How the initiative is financed?**

The Chinese Central Bank has transferred 82 billion USD to 3 state-owned banks in order to finance the Initiative. China set up a special fund for the Initiative with a total capital of 40 billion USD. Along with the *AIB*, these are the pillars of the gigantic project in terms of funding. Moreover, *Beijing's Export and Import Bank of China* has already lent \$80 billion in 2015, while on the same period the *Asian Development Bank* has lent \$27 billion, making China the biggest creditor on Central and East Asia.<sup>13</sup> Apart from that, the political institutions of China have addressed key enterprises, which many of them are state-owned (SOE), to start doing business with counterparts from the countries that participate in the project. It seems that there is a political pressure, so as for the project to succeed. To this point, it should be taken into account that major public enterprises with huge assets, accumulated approximately 1 trillion USD over the last few years. They also represent a 25-30% of the industrial production of China.<sup>14</sup> It's crucial that SOEs will take on projects for the Initiative in order to survive.<sup>15</sup>

## **Criticism on the plan**

The *One Belt, One Road* plan seems that it's going to face many challenges in the following years. The unstable balance of power in many areas of the world and the political uncertainty on key countries who will receive the investments of the initiative, has risen to critical levels. For instance, many countries from where the *Silk Road* will go through, face internal political and security challenges. Pakistan, Afghanistan, Syria and Turkey, are among the countries that have to readdress their internal affairs in order to provide the necessary credibility to China for the ongoing investments. The Chinese government should take into consideration the fragile situation in a plethora of Eurasian countries, from the perspective of International Relations.

There are also challenges on an economic level. More specifically, there are questions on whether the Chinese leadership on the Initiative will address the growth of the Chinese economy. For instance, Mr. Zahng has presented data which support that the Chinese economy is on a good path, while circles around Xinzipin believe that the economy should be less dependent from exports and the construction of public infrastructure. It seems that there is not

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<sup>13</sup> Wharton University (2017). Where Will China's 'One Belt, One Road' Initiative Lead?. Available at: <http://knowledge.wharton.upenn.edu/article/can-chinas-one-belt-one-road-initiative-match-the-hype/>. Last accessed 10<sup>th</sup> June 2017.

<sup>14</sup> GAO XU. (2010). State-owned enterprises in China: How big are they? Available at: <http://blogs.worldbank.org/eastasiapacific/state-owned-enterprises-in-china-how-big-are-they>. Last accessed 9<sup>th</sup> June 2017.

<sup>15</sup> Schuman, M. (2015). China's New Silk Road Dream. Available at: <https://www.bloomberg.com/news/articles/2015-11-25/china-s-new-silk-road-dream>. Last accessed 9<sup>th</sup> June 2017.

a clear strategy, nor concrete priorities, on which projects will move forward.<sup>16</sup> Regarding corruption, a number of reports came to the conclusion that many funds will might be lost on bribing officials and generally on how to grease the wheels, so as for the project to develop. It is expected that the Chinese will lose 80% of their investments in Pakistan, 50% in Myanmar, and 30% in Central Asia.<sup>17</sup> Moreover, a spillover of terrorism and other security threats is possible to take place. The radical Islamic movement will have more opportunities to move throughout the region and more ways for financing terrorism might occur.

In addition to the above, it is not known how the EU will respond to the Chinese moves in the international economic system. The EU commission has accepted many Chinese investments, but it has declared that will examine strictly every other Chinese investment, which should be implement under the values of business transparency, with respect of the environment and to the labor rights. It is also expected that Russia will try to smoothen the Chinese plan by asking China to respect the abovementioned laws and rights of the countries that is going to cooperate with. On the other hand, USA seems unable to react to the Chinese initiative.

Critiques believe that through the spillover of capital for investments, Beijing may also transmit some internal problems, of militaristic and nationalistic nature, to the neighboring countries. Many states in the area tremble at this idea and therefore their suspicion grows over the motives of the project.<sup>18</sup> Furthermore, interest for the area of Kasmir has risen, especially in Pakistan and India. India grows wary of China's moves and has expressed its contradiction on the project that will take place on Kasmir.<sup>19</sup> On Myanmar, a planned \$20 billion railway between the Myanmar city of Kyaukpyu and the city of Kunming in China, has angered the locals that face the Chinese interest as a memory of the Chinese reign. In the central Asia, there is a general mistrust over the Chinese due to the fact that not many years have passed since the Chinese reign on the region and there is a lack of cultural understanding from the local populations. As a result, there are many frictions among the local and the Chinese enterprises.

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<sup>16</sup> Economist. (2017). China faces resistance to a cherished theme of its foreign policy. Available at: <http://www.economist.com/news/china/21721678-silk-routes-are-not-always-appealing-they-sound-china-faces-resistance-cherished-theme>. Last accessed 9<sup>th</sup> June 2017.

<sup>17</sup> Cooley, A. (2016). The Emerging Political Economy of OBOR. Available at: [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161021\\_Cooley\\_OBOR\\_Web.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161021_Cooley_OBOR_Web.pdf). Last accessed 10<sup>th</sup> June 2017.

<sup>18</sup> James Griffiths, C. (2016). China's new world order: Xi, Putin and others meet for Belt and Road Forum. CNN. Available at: <http://www.cnn.com/2017/05/13/asia/china-belt-and-road-forum-xi-putin-erdogan/index.html>. Last accessed 11<sup>th</sup> Jun. 2017.

<sup>19</sup> Schuman, M. (2017). Xi's Big Road Is Going to Be Bumpy. Available at: <https://www.bloomberg.com/view/articles/2017-05-09/china-s-new-silk-road-is-going-to-be-bumpy>. Last accessed 12<sup>th</sup> June 2017.

## The Role of Greece



*The strategic location of the port of Piraeus, and its distance from major European and neighboring ports.*

**Source:** Piraeus Port Authority (OLP)

Regarding Greece, the country has a great potential for exploiting the benefits of the Initiative. Due to its unique geographical (and thus geopolitical) position, Greece seems like the main gateway to Europe for China, through the *Maritime Silk Road*.<sup>20</sup> The ideal location of the port of Piraeus, at the crossroads of Africa, Asia and Europe, and an accommodation capacity large enough, even for sizeable, modern container ships, makes the port of Piraeus a valuable asset of the Initiative.<sup>21</sup> Therefore, it seems that many opportunities will arise in the following years, with a focus in the signing of investment deals on transportation, the energy sector, telecommunications and on the area of tourism. The following chart, retrieved by the Piraeus Port Authority (OLP), estimates the distance of Piraeus from other significant coastal cities and busy ports, highlighting the strategic importance of the port of Piraeus for saving time and money if exploited by the *Maritime Silk Road*.

<sup>20</sup> Davarinou, P., Mylona, A., Skoura, N.. (2016). The New Silk Road and Greece. Benefits, Opportunities, Challenges. Institute of International Economic Relations (IDOS). Available at: <http://idos.gr/wp-content/uploads/2016/12/%CE%9D%CF%84%CE%B1%CE%B2%CE%B1%CF%81%CE%AF%CE%BD%CE%BF%CF%85-The-New-Silk-Road-and-Greece-Benefits-and-Opportunities-28-12-2016.pdf>. Last accessed 14th June 2017.

<sup>21</sup> Davarinou, P., Mylona, A., Skoura, N.. (2016). The New Silk Road and Greece. Benefits, Opportunities, Challenges. Ibid.

	Distance (Nautical miles)	Distance (Hours)
Thessaloniki	252	11
Istanbul	352	15
Port Said	593	25
Ashdod	657	27
Constanza	548	23
Koper	835	35
Genoa	972	41
Marsaxlokk	517	22
Novorossiysk	808	34
Gibraltar	1.481	65

**Source:** OLP

The first step towards the Chinese presence on the country, took place in 2009, when COSCO, a state-owned company from China, started to operate part of the port's container terminal for a 35-year period. In terms of the deal, an initial sum of €50 million would be paid to the Greek state, and over the whole period of 35 years, a total of €4.3 billion is estimated to be paid to by COSCO.<sup>22</sup> The privatization of the (OLP), on April 2016, was another important milestone for the Chinese involvement in the port of Piraeus. The next steps included the signing of a formal agreement between the Chinese telecommunication company, *ZTE*, and *Forthnet*, and the acquirement of the Greek *ADMIE* (the company that operates the Greek electricity network) from the Chinese company, *China's State Grid*, for a sum of €320 million.<sup>23</sup> It should be noted that every take over from Chinese companies is under the microscope of the European Commission, who, apparently, takes into account the geopolitical interests of the European Union. Moreover, the OBOR initiative is expected to increase the Chinese commercial influence in the region, and to change the economic model of the country from a model based on exports and infrastructure to a more consuming one.

To conclude, the OBOR Initiative may face some serious difficulties regarding its planning and implementation due to the highly-ambitious nature of the initiative. The involvement of numerous countries in the project may as well decelerate the decision-making process and thus, it may increase the time needed for the construction of infrastructure and generally development projects who are vital for the sustainability of the initiative. The more countries that participate in the project, the more likely is to have confronting national interests, and an increased economic and political risk to be handled by the main investor of the whole project; China. All these factors should be taken into account by the Chinese government during the implementation of the OBOR initiative.

Last but not least, the Chinese presidency should decide over the dilemma on how will it proceed with the initiative; by supporting the Chinese state-owned enterprises, or by underperforming regions? SOEs play a major role on the Chinese economy and problems on these companies could drag down the Chinese economy and consequently could cause drawbacks as well on the development of the whole project. An early sign, of no immediate impact though, was the fact that the Chinese economy was downgraded from Aa3 to A1, due to falling currency reserves. China's downgrade questions whether the institutions have the

<sup>22</sup> Ibid.

<sup>23</sup> Wall Street Journal. (2016). Greece's PPC Sells Stake in Electricity Operator ADMIE to China's State Grid. Available at: <https://www.wsj.com/articles/greeces-ppc-sells-stake-in-electricity-operator-admie-to-chinas-state-grid-1477935773>. Last accessed 10<sup>th</sup> June 2017.

ability to proceed with reforms (especially in the area of SOEs).<sup>24</sup> Therefore, the real question about the sustainability of the initiative, according to some experts, is the following: Will China support its SOEs, or will it manage to change its economic model and respect its neighbors?

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<sup>24</sup> Bloomberg. (2017). China Hit by First Moody's Downgrade Since 1989 on Debt Risk. Available at: <https://www.bloomberg.com/news/articles/2017-05-24/china-downgraded-to-a1-by-moody-s-on-worsening-debt-outlook>. Last accessed 10<sup>th</sup> June 2017.