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CENTER FOR INTERNATIONAL STRATEGIC ANALYSES

One Belt, One Road

Dragan Vitoric

Research Paper No. 25

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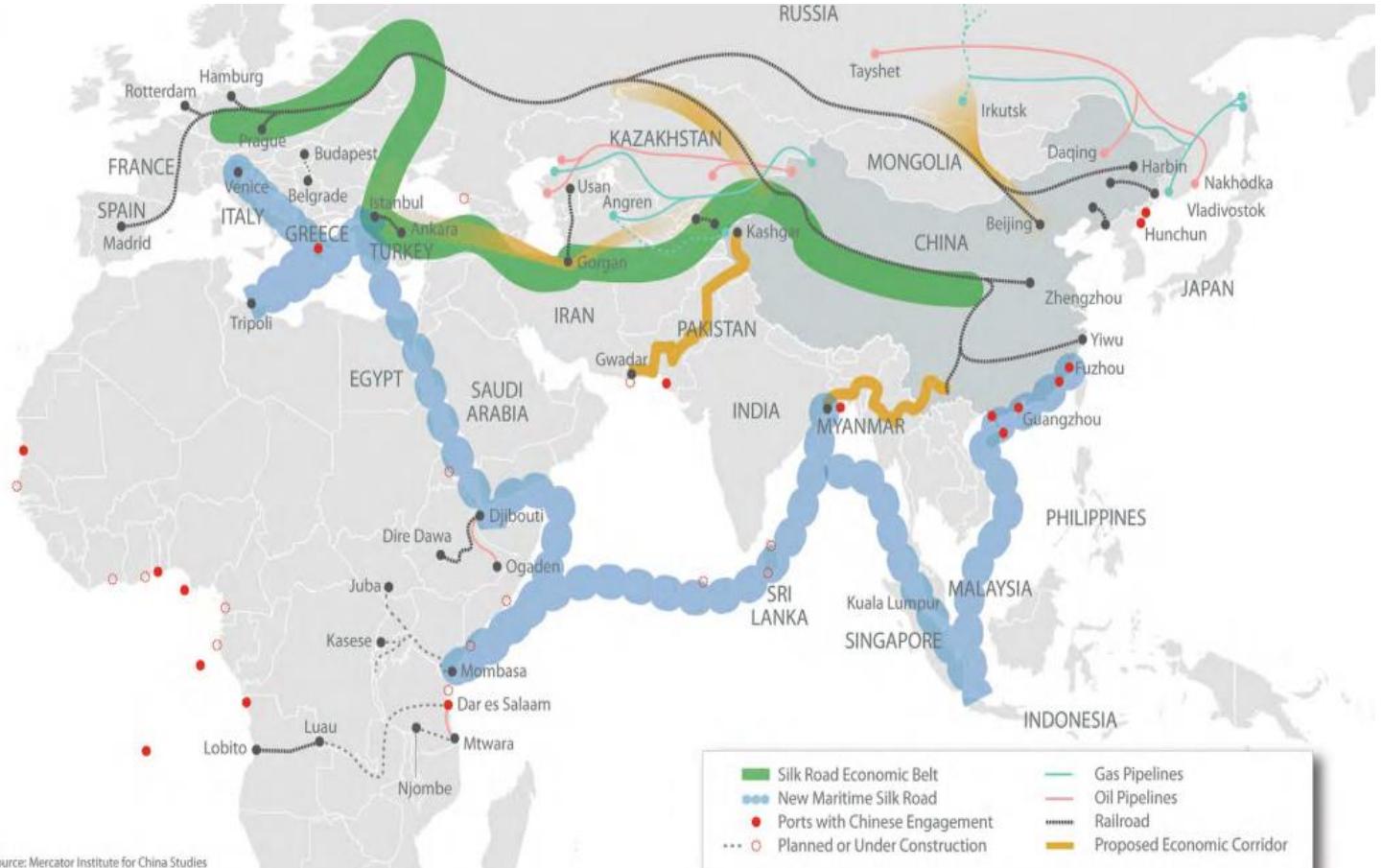
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Introduction

Eurasia Group's report, analyzing top risks for 2018 has been published in January. According to this professional political consultancy organization, risk number one is China - a rising power which prefers to operate in a power vacuum. This standpoint may contradict other authors who explain that China prefers international stability and predictability, especially given its long-term strategies and objectives. However, according to Ian Bremmer, China may take advantage of present international system plasticity and therefore distort the rules to its advantage. This, in turn, may accelerate process of recreating its external environment. [1]

These, not necessarily conflicting positions are well-presented in the debate on Swiss's State Television (SRF), presented how traditionally conservative society in Switzerland sees the rise of China. The mentioned debate is particularly appealing because open and harsh criticism directed towards China may help explaining in what way differences between the "scientific development" and Western liberal values go deep, as they are reflected in the underlying philosophy of the open-market as well as in centrally planned economy. [2]

China today is both developed and developing country. The status of open-market economy is possibly not the most applicable and its currency is globally recognized, despite not being fully considered as the world's reserve currency. The fundamental question is - can China offer a viable alternative to the established system, changing in the meantime the business structures, trade modalities and development patterns? Again, citing the Eurasia Group - China is actively working on proposing its political model globally, at the time when the United States are re-adjusting their strategic positions. Due to China's dual nature in both politics and economics, it would be too challenging to interpret its role in a straightforward manner. Therefore, it might be interesting to

outline its Belt and Road Initiative (B&R) as a blueprint which would allow for the analysis of China's strategic intentions.

The Dragon is in the Details

The XIX Party Congress may have marked the turning point in China's orientation towards the world, setting long-term goals and policy direction for the next 30 years. Moreover, China's political model nowadays may look more appealing than ever, given the retrenchment of the United States and occasionally confusing messages coming from President Trump. After carefully examining the New Year's speech delivered by President Xi, the unified China, including all its disputed territories and regions, which accounted for various religions and origins, is today a country which is ready and able to mobilize all its resources and capabilities, both politically and economically. [3] The President's speech also mentioned significant technological achievements, improvements of social and health care and China's readiness to keep the international order in check, thus presenting China not as a true challenger, but more of an incumbent. This may be interpreted as common Chinese discourse approach which is often vague and has more normative guidelines than clear and precisely defined policy intent¹. Belt and Road Initiative (BRI), officially originating in 2013, for that matter, has enormous political capital, possibly spurring directly from President Xi's authority and leadership, who had solidified his leadership in the Communist Party reaching a consensus between various stakeholders in China, including the Party's officials, policy-makers, top-bankers and regional leaders. [3]

One-Belt-One-Road²: One Strategy to Rule Them All?

According to Chinese scholars, Brexit and the US leadership changes are seen as good chances for China to expand its influence on a global scale. Namely, the "international configuration"³, a term typically used in China for global international order, had changed, providing China with an opportunity to discard its previous philosophy of discreet observer and global power keeping a low profile. However, does China have a single, grand strategy that would present it as a leading superpower, or does it have many strategies that ought to be harmonized?

By adopting the three-dimensional chess board comprising economics, politics and military capability, as a tool of analysis, it can be stated that the Belt and Road initiative cuts across every dimension. Many scholars and practitioners argue that after President Xi has consolidated internal positions, starting in 2013, and created widely adopted concepts within the Communist Party, China was able to adopt a single strategy that would encompass all micro-strategies both within and outside China, structured in the "going-out" position, demanding the, mobilization of resources on a massive scale. Certainly, this would be possible solely in case that philosophical and strategic backgrounds became unified, setting the stage for the expansion. For that reason, many argue that BRI is a reflection of President Xi's personality and represents an investment of enormous political capital, hopefully yielding tangible and long-reaching results. For Xifan Yang, guest-author in SRF series on East Asia, BRI represents a rejuvenation of China's civilization and reestablishment of the ancient world order (here it would be possible to observe

¹ From the perspective of Western democracies.

² OBOR (BRI) is a national, multi-reaching vision originating from 2013 that could cover significant part of the globe (30% of global GDP, 62% of population, 65 countries). Chinese authorities confirmed the vision's name in September 2015, according to PwC analysts.

³ Chinese term "International configuration" differs from the "global order", given the perception and the analysis of events, key figures and situations, presented not only on the macro-scale.

to what extent nostalgia might play the role in the long-term policy design, either as the underlying dynamics behind the project, a tool of communication, or both). [5]

One thing is certain – BRI has enormous funds, enormous scale of operation and enormous risks. It is unclear whether BRI can encapsulate every possible strategic goal and if there are additional (contingent) plans. The strategy can hardly be perfectly executed, especially if it is more of a mosaic design than the simple set of objectives, filled with externalities. Therefore, it is disputable if BRI is that grand strategy that would be able to cover the 3S of contemporary China: *Stability, Security and Survival*. With OBOR marching forth, China's low profile and peaceful rise approaches are likely to be discarded, giving rise to various additional challenges that have been dormant. For example, in its pursuit for the status of a leading power, China would have to establish its supremacy over its surroundings seas. Now, China is searching for the recognition and confirmation in the areas including the Indian Ocean, South China Sea and Eastern China Sea. China's Maritime Strategy is based on copy-pasting and following the strategic model of the USA which will hardly yield desired results, despite its vast resources and increased shipbuilding capabilities. Referring to the 2015 White Paper, which confirms that China's leaders are committed to "the idea of China as a maritime great power", it would be possible to argue that capabilities, actions, and narratives, are all important components of the project and that they are reflected in China's maritime grand strategy.

As for the Maritime Strategy, this component may influence other complementary strategies: It takes time to invest and to create both soft and hard infrastructure, which would slow down Chinese plans. Since BRI has tremendously intertwined the domains of economics, politics and military, it has a condensed Centre of Gravity and this may represent both the strength and weakness. It will be interesting to watch how those systems would unfold if something will not go as planned. [6]

Material and Military Capabilities

At the moment, China possess significant material and military capabilities (Table 1 and Table 2). It is unclear, however, how they are deployed and if they would be enough to project the presence globally. Namely, given the brief consideration of naval strategy and objectives in the region of South China Sea, Eastern China Sea and Indian Ocean⁴, in the Military Balance for 2017, the International Institute for Strategic and International Studies (IISS) in London states that PLA had reinforced its position in the mentioned area, projecting the power and extending territorial claims, while providing the protection of its nuclear submarine assets (SSBN, Type 094). In early 2016 China set the military facilities on the six out of seven occupied locations of Spratly Islands, while deploying two batteries of the HQ-9 surface-to-air missile systems on Woody Islands in the Paracels in February. Many reports confirm active and increasing military presence combined with the infrastructure build-up in the region, and followed by extensive weaponization of the area, including the combat aircrafts and other means of deterrence. Tremendous increase in PLA Marine Corps, accompanied with the development of naval war ships, military vehicles, and multipurpose infrastructure hub in Gwadar (Pakistan) may signal changed attitude in terms of security understanding and the projection of presence and power. [11] This pattern of thinking would likely be applied in the other regions where China can consider its economic and/or political interest jeopardized. Therefore, its military doctrine of defensive and non-aggressive concept can (relatively) swiftly be reframed, if the need arises, especially given the resources at

⁴ Maritime strategy is emphasized due to China's aspiration to become maritime super-power and because of well-established correlation between naval power and nation's political and economic power potential. Additionally, China **was** a maritime power, which plays an important role in its strategic thinking. [7]

its disposal reflected in the military expenditures, military personnel, primary energy consumption, total population and urban population, combined into a single index of Composite Index of National Capabilities. By including the Composite Index of National Capability (CINC), which measures the capabilities of a nation vis-à-vis other states within the global system, aggregating the six individual measured components of national material capabilities into a single value per state-year, it could be assessed if China possessed the resources necessary to direct and implement its objectives. The CINC reflects an average of a state's share of the system total of each element of capabilities in each year, weighting each component equally.

State Abb	Code	Year	MilEx	MilPer	Irst	Pec	Tpop	Upop	Cinc
RUS	366	2012	58765001	957	70210	1356743	143171	53586	.0400790
USA	2	2012	655388000	1569	88695	3159873	317505	183712	.1393526
CHN	710	2012	102643000	2285	731040	5333707	1377065	440254	2181166
JPN	740	2012	59077000	248	107232	737482	127250	86437	.035588

(Table 1: CINC, presentation of Russia, United States, China and Japan)

Military strength indicator

Country	Overall ranking	Active personnel ('000)	Tanks	Aircraft	Attack helicopters	Aircraft carriers	Submarines	Final military strength score
United States	1	0.90	0.86	0.95	0.95	0.95	0.95	0.94
Russia	2	0.81	0.95	0.90	0.90	0.52	0.86	0.80
China	3	0.95	0.90	0.86	0.86	0.52	0.90	0.79
Japan	4	0.38	0.38	0.76	0.81	0.76	0.81	0.72
India	5	0.86	0.81	0.81	0.19	0.76	0.76	0.69
France	6	0.33	0.24	0.67	0.43	0.90	0.57	0.61
South Korea	7	0.76	0.57	0.71	0.71	0.05	0.67	0.52
Italy	8	0.52	0.33	0.38	0.57	0.76	0.43	0.52
UK	9	0.19	0.14	0.52	0.67	0.52	0.57	0.50
Turkey	10	0.57	0.67	0.57	0.57	0.05	0.67	0.47
Pakistan	11	0.71	0.62	0.48	0.48	0.05	0.52	0.41
Egypt	12	0.62	0.76	0.62	0.38	0.05	0.14	0.34
Taiwan	13	0.43	0.52	0.43	0.76	0.05	0.14	0.32
Israel	14	0.24	0.71	0.33	0.48	0.05	0.33	0.32
Australia	15	0.05	0.05	0.10	0.24	0.52	0.43	0.30
Thailand	16	0.48	0.43	0.24	0.14	0.52	0.05	0.28
Poland	17	0.14	0.48	0.19	0.29	0.05	0.33	0.23
Germany	18	0.29	0.19	0.29	0.33	0.05	0.14	0.19
Indonesia	19	0.67	0.29	0.05	0.10	0.05	0.10	0.12
Canada	20	0.10	0.10	0.14	0.05	0.05	0.14	0.10

Source: SIPRI, Global Firepower, Credit Suisse

(Table 2: Military strength indicator, various sources, Credit Suisse Globalization report, 2015)

The Reasoning behind OBOR: Invisible Hands and Central Planning

Besides the increase in relative share of global GDP, reputable military power and significant growth portion of world's economy (Appendix A), and immense material capabilities that may represent strong economic basis for a "going-out" strategy, what other underlying strategic

frameworks can be spotted within China's strategic portfolio? Can Chinese political system, empowered with financial geoengineering, technological infrastructure and relatively favorable⁵ demographic situation successfully respond to the looming risks?

Although Chinese political system may nowadays look appealing, as mentioned in the Eurasia Report for 2018, it could hardly present an alternative to the Western political system any time soon. The political dimension is reflected in the decisions made by the Communist Party of China. This kind of system, according to Bremmer, is arguably less resilient than democracy, prone to corruption and inefficient allocation of resources, without clear separation of power. This means that in a case of undesired events, legitimacy of the Party, state and Army altogether, can be undermined and can lead to questioning the legitimacy. OBOR, while having significant promises, can provoke various questionable decisions and may damage the reputation of President Xi. China is struggling today to bring security and stability in many of its regions, and if closely evaluated, the speech of President Xi shows that there are "many Chinas" than (sometimes) silently accepted in the world's policy circles. [23]

Within the Economics and Finance domain, China is pursuing further monetary integration, mainly through currency swaps with the European banks, renminbi internationalization and redesign of the institutions on a global scale. Regarding the currency swaps and renminbi internationalization, Free Trade Agreement with Switzerland is used as a leverage to create a win-win partnership between this financial center and China, implying various monetary arrangements and the creation of potential renminbi hub in Switzerland. Considering the internal situation, China is a country with the most dynamic illicit financial flows, immense debt levels that may jeopardize the renminbi's further internationalization processes. For sure, it will not happen soon, despite having high debt levels – see Appendix C - CB of China is a systematically important Central Bank and Chinese commercial banks are also considered as systemically important; renminbi is a reserve currency on global scale (IMF basket currency), although China is not open market economy. Stating this, someone may argue that the debt is more political than economic construct (the recent Financial Stability Board report on the size of Shadow Banking in 2017, released three days ago, includes China for the very first time). [13]

However, when analyzing financial foreign policy and the possibility of rearranged global institutional setting, China is trying to create a leverage, through the promotion of Asian Infrastructure Investment Bank, New Development Bank of BRICS and Multilateral Development Banks. By doing so, China is searching for possible "Beijing Consensus" that would bind the efforts in creation of different financial dogma, seen in the similar policy designs (Washington Consensus). [8] However, despite significant efforts, relatively promising governance structure, advanced investing principles and highly educated personnel, the mentioned institutions are still lagging the IMF and the World Bank. Additionally, it is still unclear how newly-formed institutions would act when encountered with the political pressures and micro-interests in various countries and regions. Kenneth Rogoff in his recent interview warns that the next financial crisis may easily break out in China, reaching global measures and creating political problems. The fiscal position of China has also been challenged in medium-term, due to structural imbalances and overdependency on export and investments. This has to be addressed to soon. Additionally, Russian center, Carnegie, having very dissent tones about China's GDP and its accounting principles (metrics on bad debt and inventory) is casting even murkier shadow than the case in Western media reporting on China's economic performance and institutional proposals, arguing that Chinese growth is becoming subdued, both in real and accounting terms, and unless another growth sources are found, new crisis may emerge. [9]

⁵Favorable within short-term consideration: five to ten years.

As for the social component, El-Arian, famous economist who argues that we live in the era of New Normal and secular stagnation in the West, insists that the thinking of China is based on a vision and it is adopted to very long-time horizon, and not the short – term projects (probably that is the reason why infrastructure is the essence of OBOR). This may be the characteristic of a centrally planned economy, unlikely in Western democracies operating in short to medium time span. However, that does not mean that China does not suffer from social issues internally. On the contrary. It is often overlooked that China is extremely diverse country with diverse languages and ethnicities, which is important security and social component (Appendix C). Again, turning back on President Xi's speech, China nowadays has questionable social and health system, despite its enormous success in pulling many people out of poverty. That is another reason why China is desperately looking to develop a going-out strategy, in being able to provide more for the underdeveloped regions. [10]

The technological component of China's situation is, arguably, the most dynamic and undisputed out of the four. China has wide adoption of Internet technologies and effective use of payment systems and mobile platforms online (WeChat, AliPay). Supposedly, OBOR should enhance the development of scientific cooperation in Artificial Intelligence (AI) and encourage the development of research centers in countries along the project, which would have joint objectives and work towards the adoption of international standards. This would extend the technological reach of China outside its borders. In his article for Finanz und Wirtschaft titled "China, the Innovation Dragon", Johnson mentions China's long-term official set of objectives, stressing that China would become an «innovative nation» by 2020, an «international innovation leader» by 2030, and a «world powerhouse of scientific and technological innovation» by 2050. This would be followed with increased R&D expenditures, reaching 2.5% and significantly increasing the number of patents submitted per 10000 citizens, until 2020. China is also committed to increasing its expenditure on research and development to 2.5% of GDP and almost doubling the number of patents filed per 10,000 people by 2020. [11] An ambitious set of objectives, even without the AI considerations. On this specific domain, AI, China has ambitious goal of becoming a global leader in its adoption and development until 2025. Thanks to the very meticulous researchers who outlined nuances, during President's speech there were two books on the shelves, dealing with the AI. The first is "The Master Algorithm"⁶ and the second is "Augmented: Life in the Smart Lane". Besides, there is official Chinese strategy concerning the AI adoption and development, which was recently published and although may look underspecified and vague when translated in English (the translation was undertaken by various professionals and experts and can be accessed online), this is a highly important starting point for a well-directed and structured AI strategy. It is beyond dispute that AI has enormous potential in military and civil application and that China attempts to make significant strategic influence by AI development. As widely discussed, international community is increasingly aware of Chinese cyberspace development efforts. [12] [13]

Geoeconomics and Multidirectional Maneuvers

The previous parts have shown the types of challenges and the internal situation in China, establishing the possibility to spot the interplay of the inner dimensions with the external risks and global projections. Obviously, China's further development cannot be pursued without skillful diversification in every possible sense, through coalitions, coordination of efforts and synergies.

⁶ Highly recommended book.

Everything can pose a significant risk for China at this stage: geography, limitation of resources, security dimension, regional philosophies and cultural differences. Potentially, China has enough means to expand, but the modalities of expansion are not infinite and would require effective decision making. Perhaps the overriding challenge would be the possibility to manage internal risks through morphing into the other types of risk, and possible risk transfers to other parties or domains. This risk transformation strategy may easily backfire in the environments riddled with extremism, terrorism or separatism.

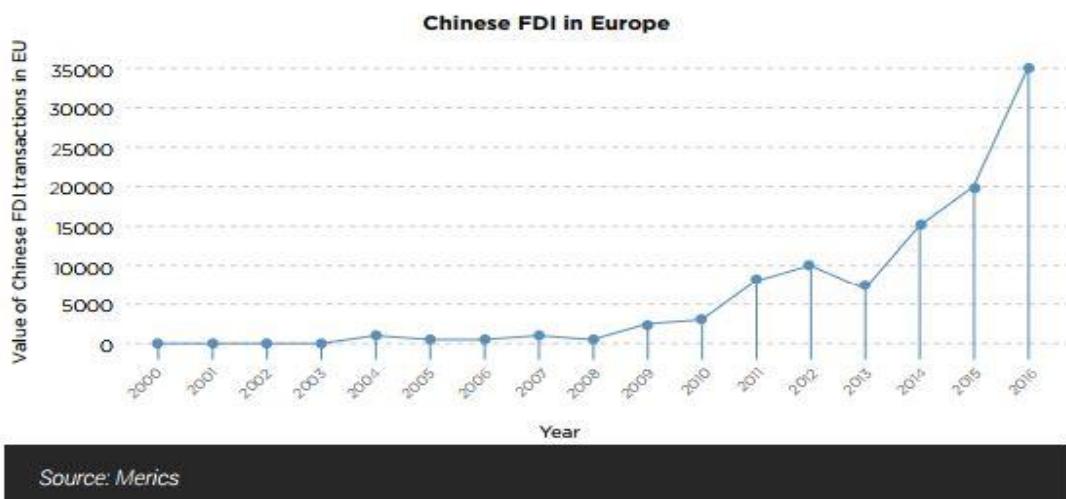
Additionally, China uses trade to spread its influence, yet this is a bit deceptive strategy, combined with the narrative of peaceful development and non-involvement in internal politics or conflicts of other states or entities. This current discourse is especially misleading in the situation when China is developing its military base and is diversifying projections of power. As already stated, the dual nature, in both economics and politics, is a doubled-edged sword. While being a developed economy, in terms of Purchasing Power Parity, it is simultaneously in the state of developing economy, considering the principles of equality, standards of living and access to the healthcare and social services - yes, the mentioned components have been significantly improved, but they are still relatively far from the Western world standards.

Therefore, geo-economics is a prevalent approach of China's policy design, starting point and a backbone within every scenario planning. By mentioning some of the regions or combination of regions, depending on historical and political underpinnings (Middle East and North Africa, European Union – Europe, Russia – Central Asian Region, United States and ASEAN) where China has directed its activities, it would be possible to create a relatively broad understanding of OBOR's multidirectional and multidimensional purposes. [14]

Middle East and North Africa: If politics is about multiple sensitivities, then this is the region where multiple sensitivities are omnipresent. China has recently developed Arab Policy Paper, in order to build its regional profile, while trying to balance relationships between various interested parties. This is of the utmost importance, attempting to secure the stable flow of energy resources. Perhaps the most prominent strategy spurring from this policy paper is the 1+2+3 concept, having cooperation in energy fields at its core (1st pillar), infrastructure and finance (2nd pillar, double-winged) and nuclear energy, space satellites and renewable energy (as the pillar three: triple-winged). Supposedly, this may lead to decreasing tensions between Saudi Arabia and Iran. However, regarding the trade, the EU position is well developed and relatively stable in the Mediterranean, so China could look for chance in rebuilding Yemen, Libya and Syria. Besides this opportunity, it can be argued that Pakistan is China's traditional ally, being the first Muslim country to recognize the People's Republic of China, which is obviously highly valued nowadays (this, however, complicates the relationship with India). Another relatively favorable dimension in the region is based on China's steady demand for long-term supply of raw resources, which is firmly anchored in the contracts Iran and Saudi Arabia, which would be able to balance and to amortize tensions between two main players in the region.

Adjacent to states and players positioned in this shaky region is the frequently mentioned Chinese base in Djibouti, at the strategically important Horn of Africa. From here, besides logistical support, China can facilitate its trade and cooperation with the countries in Sub-Saharan Africa, especially in the technological field. Namely, promising future of very young, tech savvy, population, with the increasing number of unbanked phone users, in long-term horizon can create resource-rich market segment. [14]

EU - Europe is changing at fast pace. Despite being a relatively stable region, there are always points on a map that can become the source of crisis. Today, when 30% of Europeans are voting for far right and far left, compared with the situation merely one decade ago, when extreme poles combined had 7%, the crisis is not merely a possibility. This sharp swing may signal erosion of European institutional frameworks, decreased trust levels and incapability of Europe to have one unified response to OBOR, in broad strategic terms, whereas China is in position to establish the “divide and conquer” approach. McKinsey’s new report on Europe, however, explains that the inclusive growth, sustainability and excellent development dynamics would be able to sustain social differences, influx of refugees and would repair the image of institutions in public. CPRF, in the paper auditing European and Chinese relationship with the harsh criticism scrutinizes standards of procurements, environmental decisions and ethical investing by China in Europe. It also emphasizes that Chinese investments in Europe should be kept away from the high-tech infrastructure and sensitive industries. [23] The paper states that Europe needs greenfield investments, when ECB rates are low while the financial mechanisms of China should undergo in-depth screening, having one synchronized framework in the whole Europe. [15] Additionally, Chinese export of overcapacity should not be accepted, or, at least, should be subjected to reciprocity, while FDI of dubious quality should be audited more strictly⁷. In the environment of unequal living standards in Western and Central Europe, hollow promises of further integration given to countries of the Western Balkans and repetitive discourse with Russia as the potential threat, combined with the disorienting messages from another side of Atlantic, European strategy towards OBOR should be a masterpiece in both design and execution. [16]



(Chinese FDI in Europe, obtained from Merics)

Russia, Central Asia and Eurasian Union: After the turbulences in Crimea and Ukraine, Russia has attempted to reposition itself and to make a “pivot to the East”, mainly due to the multilayered sanctions and pressures coming from the West. Pivot to the East was to some extent successful, however, Russia’s elite sees itself as part of the Western Europe, having a long tradition of

⁷ This would require highly dynamic and sophisticated framework, given the increasing level of Chinese FDI in Europe, as presented in the FDI Diagram.

coopetition and diplomatic ties, and this perception does not benefit the reorientation of Russia. In its relationship with China, two powers have different philosophies: Russia uses geopolitics as a policy tool, attempting to overstretch its influence, while China, as stated, extends its power through the geoconomics. Critics have stressed that Russia can only be a junior partner, seeking acknowledgement and exercising various forms of cooperation through the energy politics⁸ and Eurasian Economic Union, which includes countries from Central Asia⁹. Supposedly, OBOR can be compatible with this project and Russia could negotiate better positions for itself, given the security issues and historical ties with central Asian countries, knowing that Chinese allies are yet to be found (or created, to be more precise). For that matter, Russia and China are not allies in military and political terms: while China provided Russia with technology for the undersea energy cables in order to connect to Crimea, it has silently accepted financial sanctions and prescriptions of the Western economies against Russian financial system. In the best-case scenario, China and Russia can combine their powers against the West, while, ironically, reaching for the status of the world's power recognition from the Western democracies. Therefore, in the long run, Russian "pivot to the East" is not a feasible strategy, and although Russia has calmer and more respectful diplomatic tones when speaking with China, than with the West, that are combined with the public endorsement of cointegration of OBOR with the Eurasian Economic Union (but without very tangible results so far), Russia certainly has contingency plans. Most likely the plans are equally detrimental both for the West and China in the worst-case scenario on a global scale. It will be interesting to see how Russian newly discovered alliance with Turkey will be shaped and it if will have any influence on OBOR. Succinctly put, Russian and Chinese relationship is highly sensitive, asymmetrical and with the questionable level of trust. [17]

ASEAN

A very vibrant and prosperous region, known as the Association of Southeast Asian Nations has a significant part in the in the White Paper from 2017, titled "China's Policies on Asia-Pacific Security Cooperation", outlining the China's strategy of actively promoting peace, friendship, partnership and prosperity in, mainly, the US sphere of influence. However, despite the possibility to form different alliances, due to combination of active US retrenchment and China's "deep pockets" approach, as reported in the paper of World Economic Forum, this area with high growth rates may have a differing vision of security and this probably excludes the creation of artificial islands in the South China Sea and narrative which brings the possibility of the old order. There is also a geographic challenge, presented in Appendix B, Diagram 10, which focuses on the choking points, for the already limited, Chinese maritime strategy. The result of China's Belt and Road Initiative, led by President Xi Jinping, and the US President Trump's abandonment behavior towards the Trans-Pacific Partnership (TPP), is that many Asian states are accommodating their long-term policy towards the two giants and ASEAN can be influenced by this, especially since this region has security and monetary spheres interwoven. [18]

USA: many things are influenced by the USA and depend on what they will do next. In simple words, the USA can cooperate or try to contain China in its attempt to "contest" the superpower. After careful evaluation of the United States' option, it would be the best to choose from the constructive cooperation modalities, according to the Atlantic Council Strategy Paper 11. As nowadays powers are intertwined and their relationships are non-linear, thus carrying various

⁸ The energy politics has certain maneuvering space filled with risks: security, political and energy landscapes do not match and require synchronization. It is common symptom in any region where projection of OBOR stretches [11].

⁹ Eurasian Economic Union: Belarus, Armenia, Kyrgyzstan, Kazakhstan and Russia.

types of risk, the USA can construct the strategy that would include both the containment, though to a certain extent, and cooperation. There are many means to do so, starting with the naval presence, institutional involvement or multilateral agreements. It may however seem that China and Chinese OBOR are too big to fail, supposing that the weak China is a liability and not an asset for the United States supremacy, especially in financial terms. Simply put, if Chinese credit rating decreases further (May 2017: from Aa3 to A1), who would be able to raise capital sufficient to finance the US debt and under what conditions? This implies a macroeconomic and credit spiral that would endanger global GDP, in a world that is already overindebted. Although it would be exaggerating to speculate on Chinese financial coercion against the United States, this scenario is not excluded, given the announcement of Chinese officials, referring to debt as the possible politico-economic tool against the US. [19]

It would be possible to argue that every big infrastructure project represents some kind of Micro-Thucydides Trap, mentioning the Russo-Japanese War of 1905 (Trans-Siberian Railroad completion, setting the conditions for Russian hold on Eastern Asia), Berlin-Baghdad project, which would lead to establishing a leverage for Imperial Germany, was interrupted by World War I and most likely was one of the reasons for the war breakout. [25]

Certainly, any project that alters both global and local landscape can trigger crisis, therefore OBOR may set trajectories, even greater than itself, which can be long-reaching and distorting. As for the alternative perspective, BRI can act as bonding material between China and the USA. The USA should participate in OBOR, since containment may be very costly and can damage its interests as well, therefore BRI can be a chance for Trump's administration. China would hardly be able to finance OBOR, even with substantial resources at its disposal, so the USA has a role to play even if OBOR potentially entails the creation of new markets that could divert Chinese funds, morphing China from the US banker to global infrastructure shaper. Therefore, in this play on multiple fronts, the US may help in risk management, by providing assistance in various terms and tools. Obviously, both possible success and possible failure of OBOR would change the global landscape, as stated in the Atlantic Council Strategy Paper. [27] OBOR will not provoke a direct military clash between China and the USA, however there are many different political tactics substituting for an armed conflict. It is important to state one more argument in favor of cooperation: the cost of the initiative's failure for the United States could outweigh the risks associated with its successful execution. China would hardly be able to finance or to materially secure its investments without the involvement of other players, either regional or global, and fragile Chinese economy *is indeed a liability and not an asset for the USA*. [20] [25]

Conclusions

OBOR is exposed to multilayered and contingent risks.

Besides not having an exact map for this project, but speculative vision of the final project, OBOR is enjoying the media-created hype as if it has already been completed. While this report is mainly structured around China's perspective, it does not provide in-depth analysis of other powers, or the precise dynamics of the powers' relationships.

There are too many constraints and challenges in China's going-out grand scheme, one of them being naval strategy bonded with the trade and commerce routes, and it would be very difficult to predict the movements of other powers, especially the type of solutions the USA would adopt in this domain. Even Chinese productivity can hardly provide quantity for OBOR, therefore it will have to direct tremendous efforts on too many plains. [22] [23]

There is also the question of alliances and the depth of domestic market. Chinese alliances are undefined, its middle class is still not fully developed and while Europeans are tolerating Chinese political decisions (human rights, cyber theft and cyber espionage) due to trade and development interests, this may change. The feasibility of global infrastructure rearrangement is also under the question mark. Therefore, big promises for (mainly) developing countries would be too difficult to deliver soon, and there are already dissent tones in Europe on many grounds. Therefore, if there are too many variables and difficulties in cointegrating smaller strategies, as can be seen - is OBOR really a grand strategy or a contingent platform for versatile adoption? OBOR overlaps too many strategic goals and aspects, thus may pose a high-magnitude cointegrated risk, with the possibility of spill-over into various sectors and regions. As for scenario planning, what if OBOR fails, morphing the promised win-win situation into coercion and political pressures of weaker parties? In this case, BRI can be used as negotiating and leveraging tool, within the international agreements, either in security or economic domain, depending on the situation. Although every part of the world wants an improved infrastructure, it is questionable what kind of trade-off in political and social sense would be cost-acceptable, especially in the long run. [28]

OBOR encompasses too many security and military involvements concerned with infrastructure and trade only. It can, and most likely will, be used as a both political and economic tool, packed in the win-win vision for prosperous, globally integrated future, resulting in the question of the political model globally adopted, as argued in the beginning of the report. [26]

Although being quoted as a vision with a long timeline, this is typical for the centrally planned economy and not for the Western governments that target short to medium developments. As for the incumbent powers, perhaps Kennedy's book and predicament on American supremacy, although less decisive than the case had been 20 years ago, is valid – the US still have leadership in hands. However, given the independence of world's economy, it would be both unwise to watch the events from sidelines and to intervene on too many grounds, confirming that global control is becoming increasingly and unevenly spread. [29]

Regarding the possibilities for further studies, this report lacks the investigation on other strategically important regions (South America, Australia, Arctic) and certainly may be enriched with in-depth investigation in various directions.

Appendices

Appendices had been created in order to supplement the research effort and to visualize certain aspects of the work. Sources used: China Internet Watch, The New York Times, Washington Post, and the Hague Center for Strategic Studies.

Appendix A represents Economic and Financial Overview. Diagram 1 has provided the movement of global GDP in the last 300 years, signaling that China, historically speaking, is back on its path, showing that the economic supremacy of Western world had been stable through the relatively short period of time. Additionally, only China had more than 30% of global output at one point in time. On Diagram 2 is possible to see that the most dynamic predictions regarding the GDP growth are attributed to developing countries, including China. This may signal that the developing countries are still having a lot of catch-up to do before being on par with the developed world, despite the data in Diagram 3, which explains that the more than half of the real GDP growth in the global system comes from the developing countries. Appendix A is concluded with the graphical presentation of China's resource consumption, suggesting implications on global scale if China's growth is subdued (or, if OBOR fails).

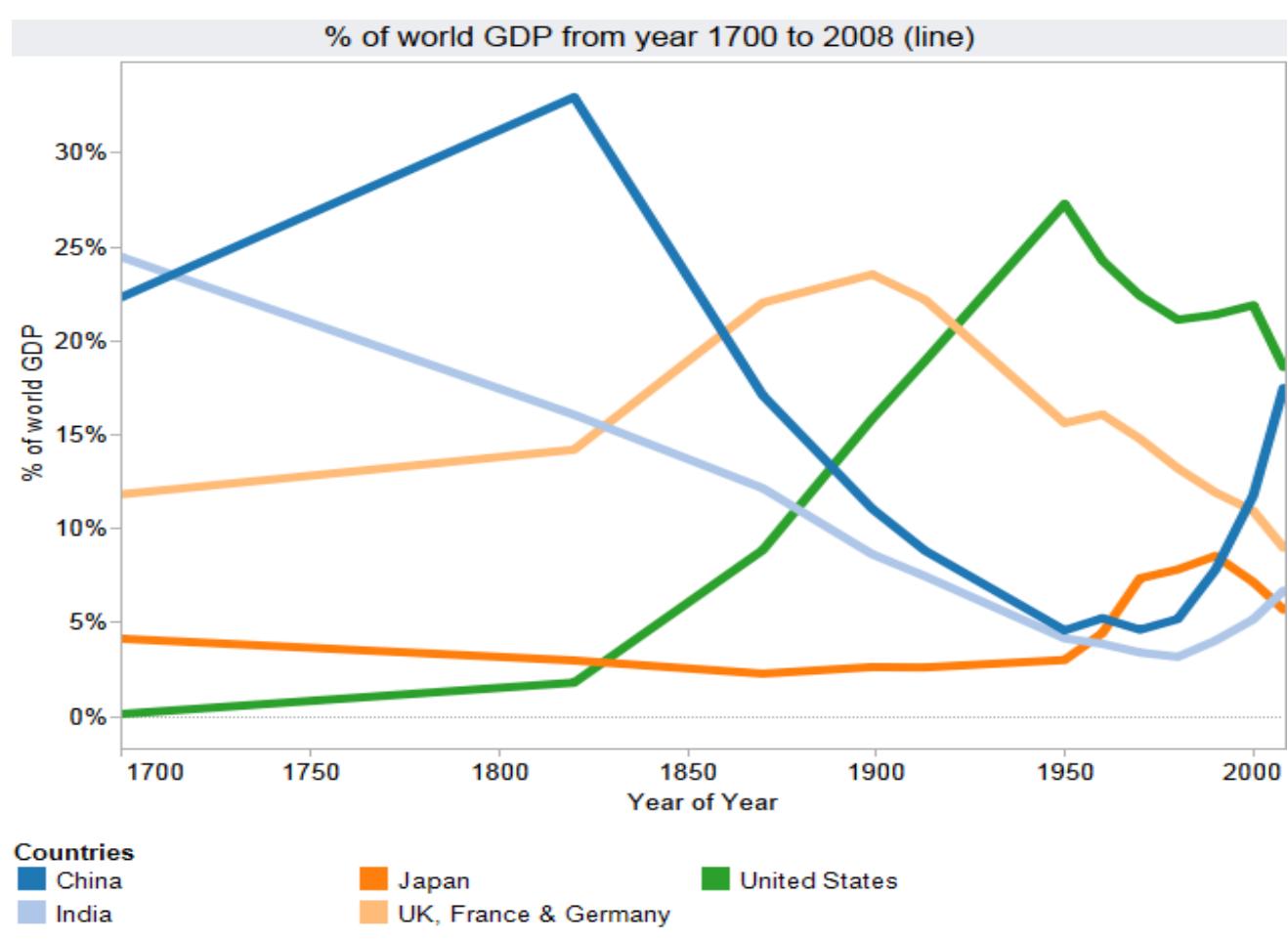
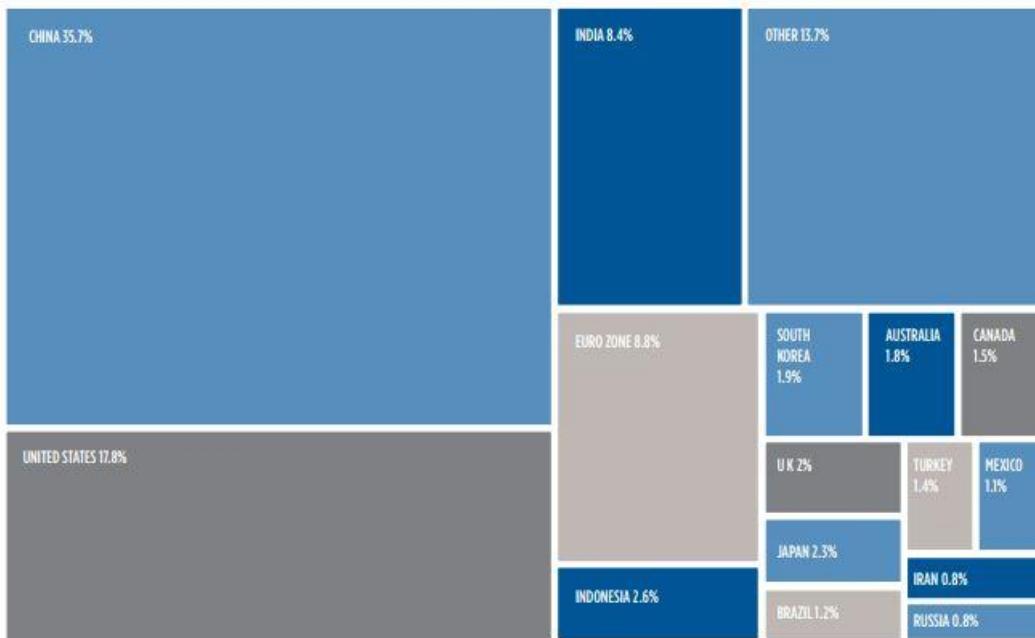


Diagram 1: GDP development and distribution through history

Percentage of Estimated Global Economic Growth (2017-2019) in Real GDP



Over the next two years, nations such as China, India, Indonesia, and developing nations will account for larger proportions of global GDP growth. *Source: IMF and World Bank.*

Diagram 2: GDP growth projections until 2019

2017 GDP forecast

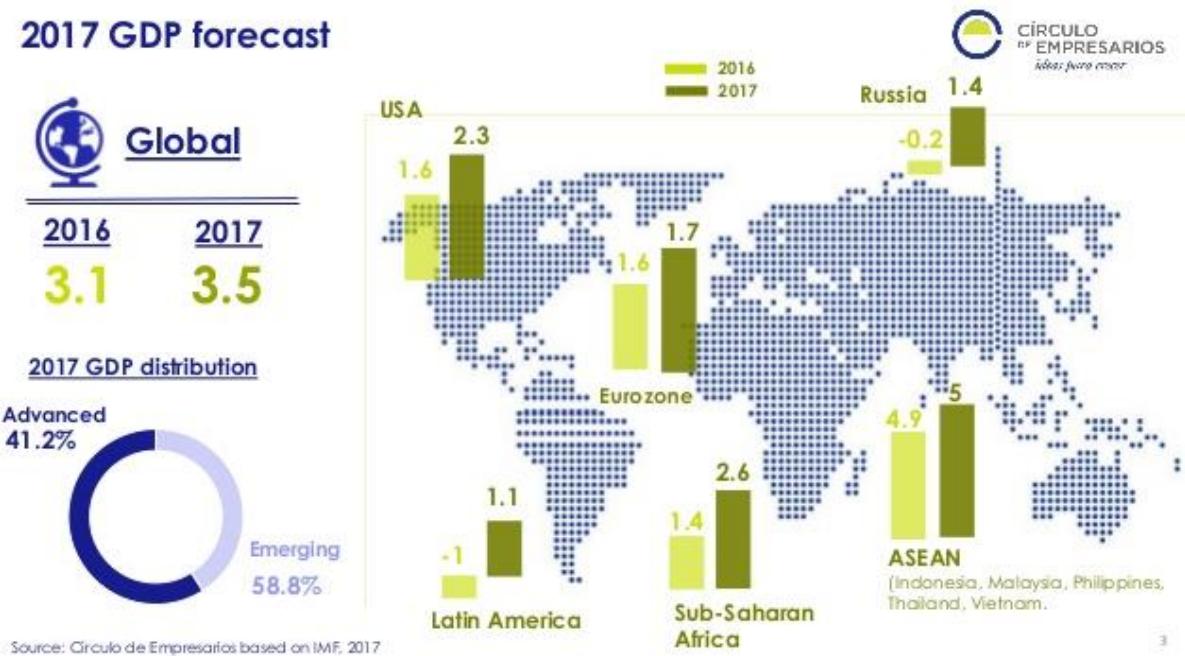
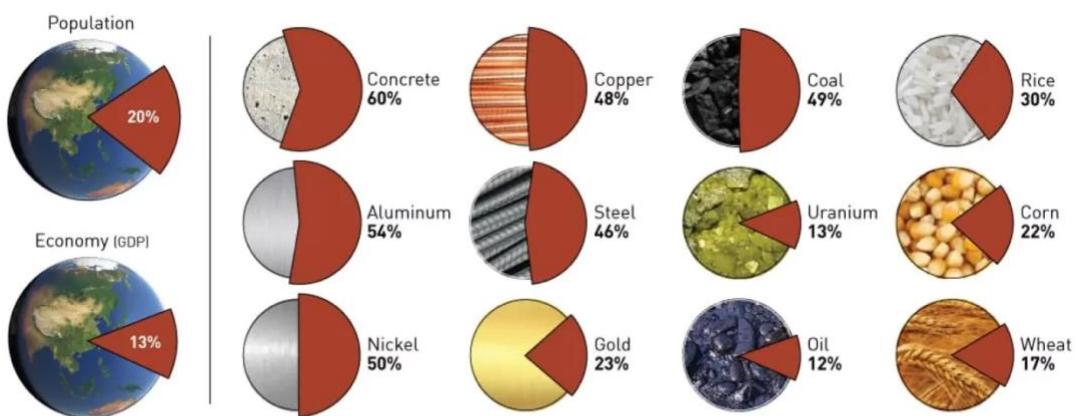


Diagram 4: GDP in 2017, developed and developing economies

Chart of the Week

CHINA CONSUMES MIND-BOGGLING AMOUNTS OF RAW MATERIALS

...and that's why slowing growth may continue to cause headaches for commodity producers



visualcapitalist.com



Diagram 5: Raw materials and consumption of China

Appendix B: Security Arrangements

This Appendix assesses China's assertiveness, both in rhetoric, economic and military domain. It would be possible to stress the aggressive assertiveness manifestation in China's case, analyzed and presented using three various datasets (for more details on datasets and methodology see the original HCSS research paper), confirming that China extensively uses military capability and military channels to project its power. Regarding the Central Asia and Indian Ocean security challenges, the projections of Hague Center for Strategic Studies are adopted, outlining various threats (ranging from piracy to pressures exercised by foreign militaries) and set of tools used by China in the containment of threats. Additionally, from the Geopolitical Futures the map is presenting China's chocking points in South and East China Seas, thus emphasizing the obstacles for the China's maritime strategy developments. Finally, the visual capture of Chinese base in Djibouti, including other forces in this small African country, is included. However, military and material capabilities of China only, would not be enough for the extension of this magnitude, as can be seen in the security projections.

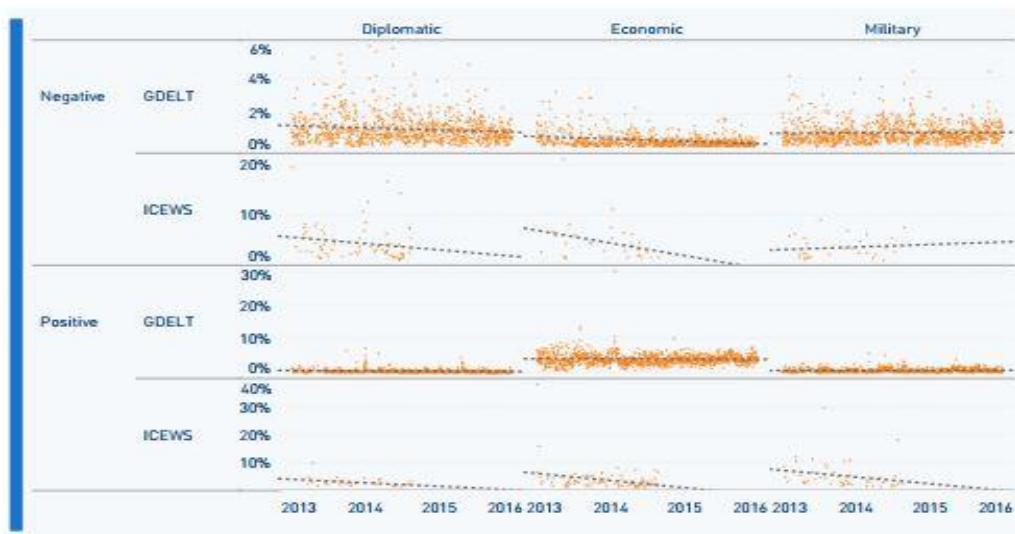


FIGURE 9: CHINESE FACTUAL ASSERTIVENESS BY CATEGORIES IN % OF REPORTED TOTAL, 2013-2015

Diagram 6: China Assertiveness Levels. HCSS. Notice negative military assertiveness, signaling active and aggressive policy steps.

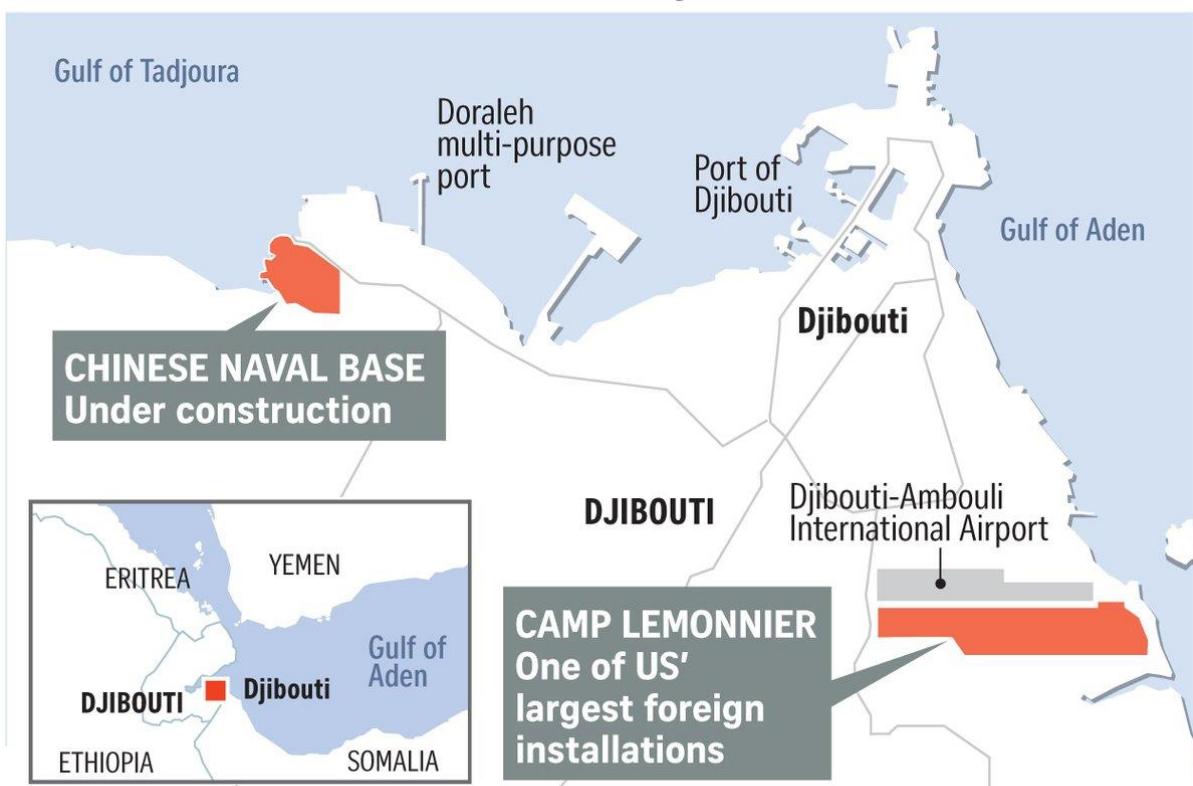


Diagram 7: China's Security Projection. HCSS. The scope and depth of coordinated effort would require extensive use of finances.



Diagram 8: Choking points. GPF. USA obviously has significant advantages in this region, which may explain why China is pursuing built-up of artificial islands.

Chinese and US bases in Djibouti



Source: THE NEW YORK TIMES STRAITS TIMES GRAPHICS

Diagram 9: Naval base in Djibouti. Note the proximity of Camp Lemonnier and the possible issues of operational security for both parties interested. "Politico's" article from 16th of January, in its recognizable style, argues that Djibouti is the place for starting WW III, given the presence of foreign military powers (France, China, Japan, US, possibly India in close future)

Appendix C: Social and Technology Overview

From 2007 China is piling the debt levels, representing significant debt portion of emerging economics. In 2014, 282 percent of GDP was its debt (257 for year 2017), including financial sector, making higher debt ratio than the case in Germany or Canada. From 2007 to 2014 non-financial companies of China amassed additional 9 USD trillion to debt. 45% of debt is in property market and 55% of GDP is government debt. Even in a case of serious financial distress, government could step in and stabilize the situation. However, this would have tremendous impact on security and stability, on the overall health of economy and on the perception of investors. Due to reasons mentioned, debt is mentioned here, and not in the part of economics, given the potential for the social ticking bomb. Findings presented here are from McKinsey's report on debt in 2015. Besides debt, inequality and repressive stances on religion are components worth mentioning.

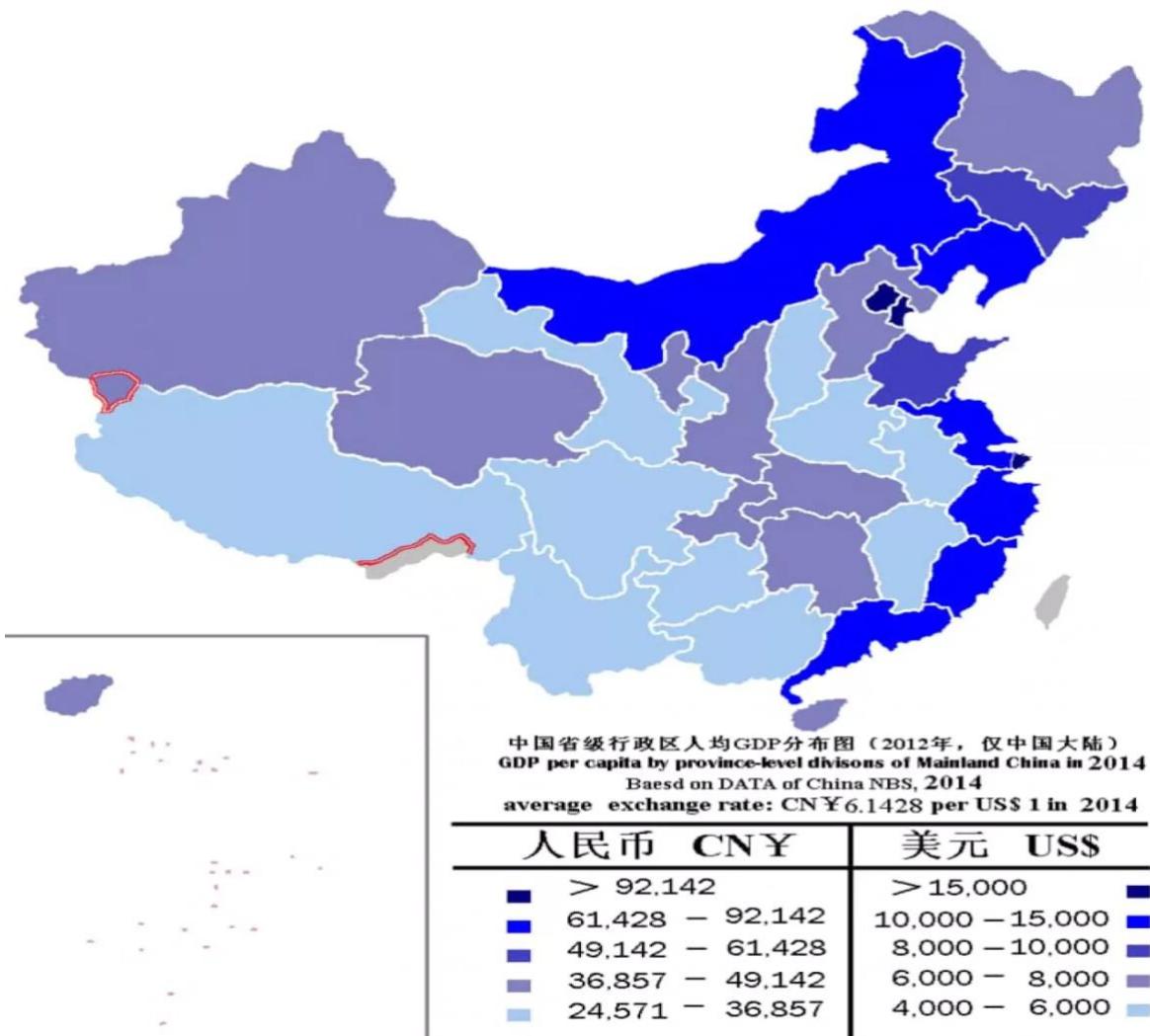
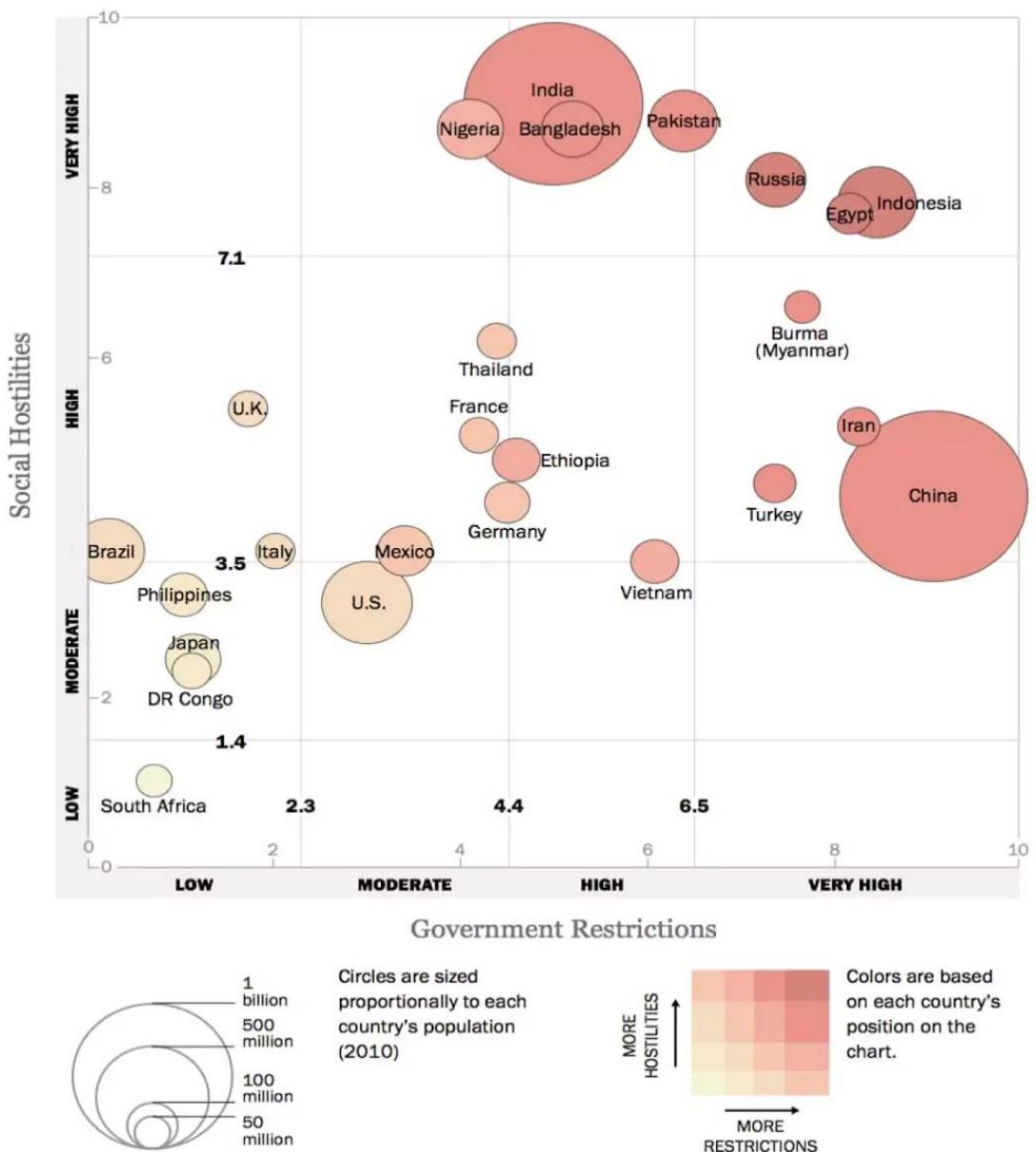


Diagram 10: China's income distribution and standard of living. Data is from 2014. Tremendous inequality can be easily spotted, outlining undesired internal situation and security challenges.

Restrictions on Religion Among 25 Most Populous Countries

Among the world's 25 most populous countries, Burma (Myanmar), Egypt, Indonesia, Pakistan and Russia stand out as having the most restrictions on religion (as of the end of 2013) when both government restrictions and religious hostilities are taken into account. (Countries in the upper right of the chart have the most restrictions and hostilities.) Brazil, the Democratic Republic of the Congo, Japan, the Philippines and South Africa have the least restrictions and hostilities. (Countries in the lower left have the least restrictions and hostilities.) Scores are for calendar year 2013.



"Latest Trends in Religious Restrictions and Hostilities," February 2015

PEW RESEARCH CENTER

Diagram 11: China's restrictions on religion: very high government restrictions and social hostility make explosive combination which should be curbed using living and social standards, therefore responding to population demands.

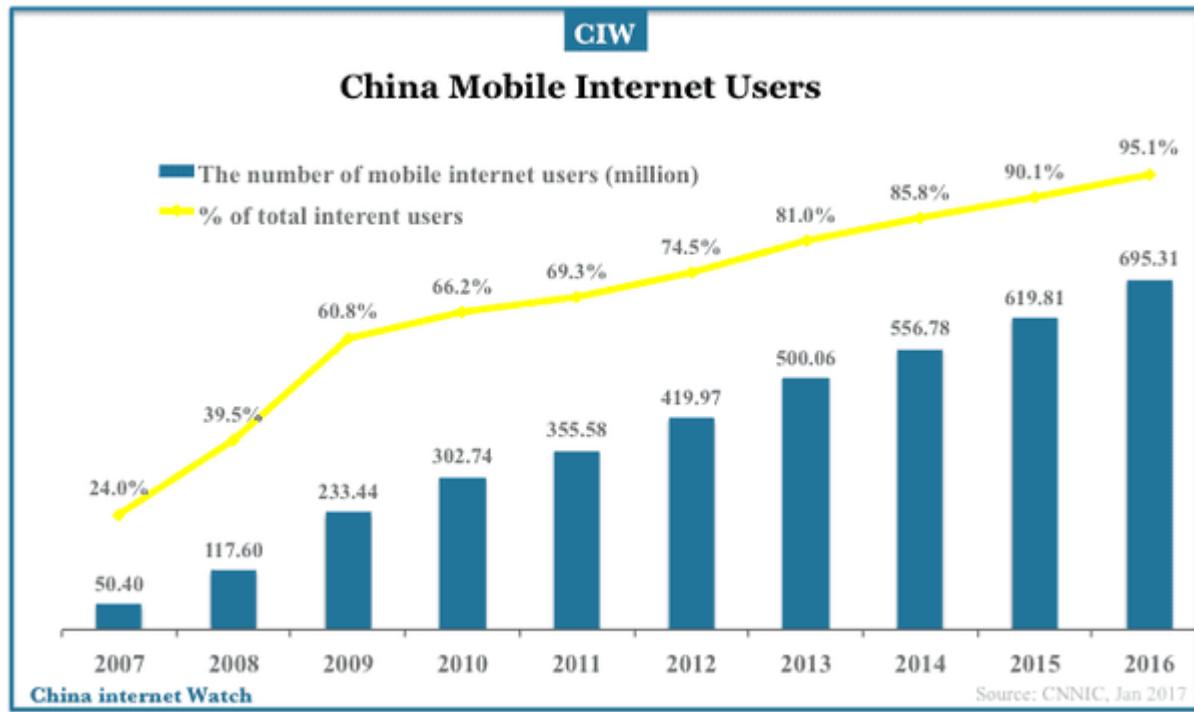


Diagram 12: Mobile Internet Users in China. Rising number of mobile users, both in absolute numbers and in percentages, may signal increased mobility and wide mobile payment adoption.

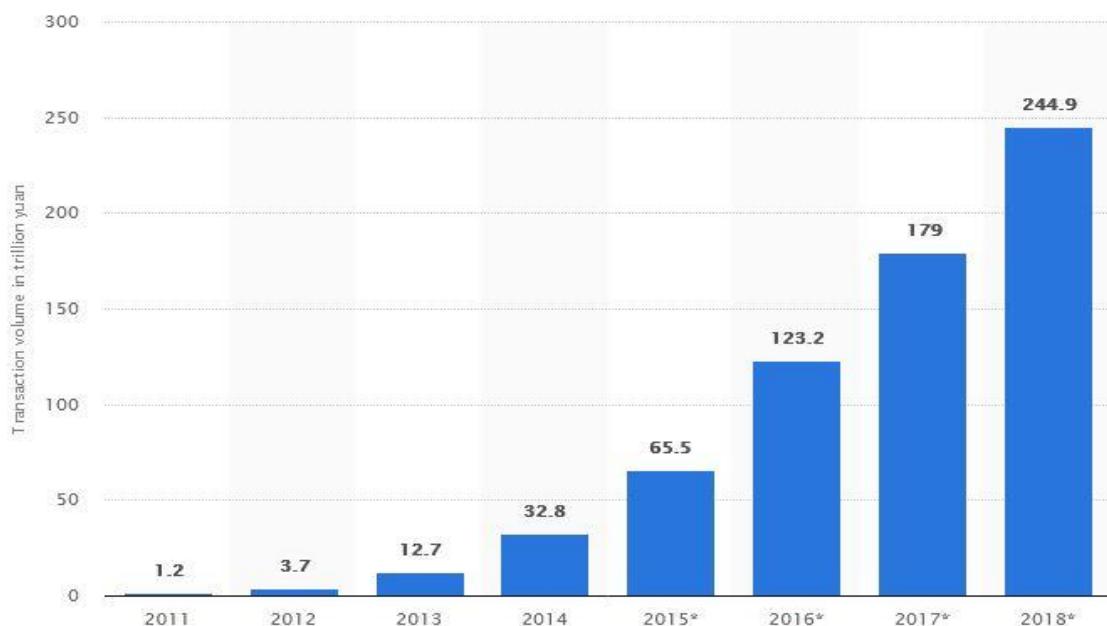


Diagram 13: Mobile banking in China: gross transaction volume, in trillion yuan

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