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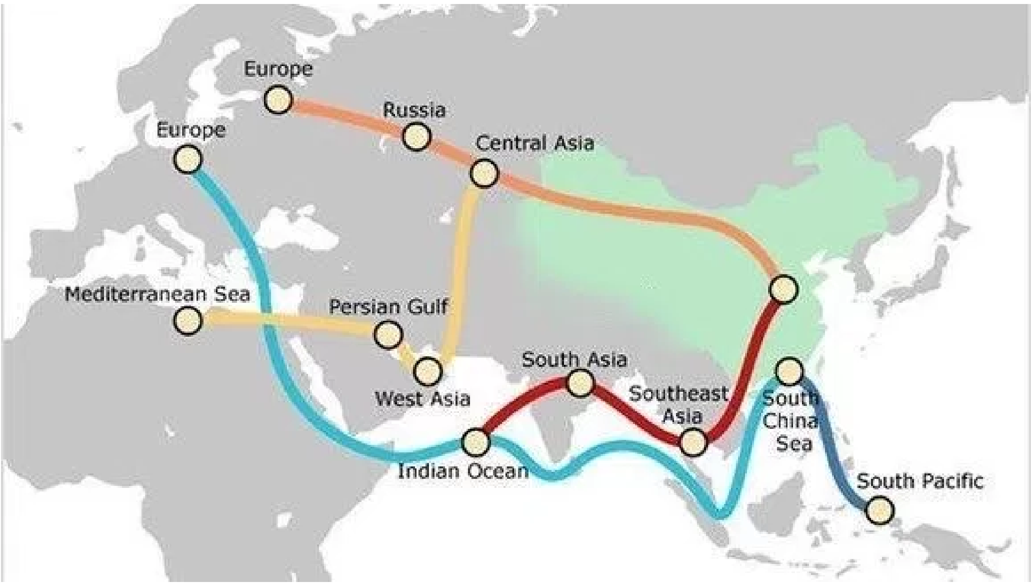
When It Comes to One Belt One Road, Should We Fight or Learn From China?

BY NILANJAN BANIK ON 10/05/2017 • 5 COMMENTS

China's policies have aided its own economic development and also benefitted the Southeast Asian nations it trades with. India should learn from that.



The cartography of One Belt One Road. Credit: globalconnections.hsbc.com

Come May 14-15, China will be hosting the One Belt One Road (https://thewire.in/127579/the-unprecedented-promises-and-threats-of-the-belt-and-road-initiative/) (OBOR) forum meet in which India has decided not to participate (https://thewire.in/42582/one-belt-one-road-to-join-or-not-to-join/). India's decision to not participate is seen as a protest against China building the China-Pakistan economic corridor (https://thewire.in/133544/cpec-obor-china-india-rename/) (CPEC), part of which passes through disputed land in Kashmir. Politics (https://thewire.in/133138/china-pakistan-india-obor/) apart, the decision to not be part of a greater economic partnership like this one does not make much sense. In fact, in this age of paradigm shifts when world trade is growing more slowly than the world's GDP and most developed countries are turning protectionist, it make sense to formulate policies that will help increase international trade. As the Chinese experience has shown, trade can be a powerful instrument for lifting millions out of poverty. Indian policymakers should learn how to make the most of an open economic policy from Chinese policymakers. To understand the why and what of China's OBOR policy, we will have to go back a few years.

China post-2008

China was doing pretty well until the start of the US financial crisis in 2008. Much of China's economy depends upon exports and the 2008 crisis brought bad news for China. The financial crisis seriously affected world trade, with some governments resorting to protectionist measures such as adopting anti-dumping and countervailing measures to protect their domestic industries. Such protectionist measures hurt China. The Global Trade Alert, a database which tracks protectionist measures, shows that as many as 659 measures have been initiated against Chinese exports since the crisis in 2008. During 2008 itself, Chinese exports to the EU and the US fell by 19.4% and 12.5%, respectively.

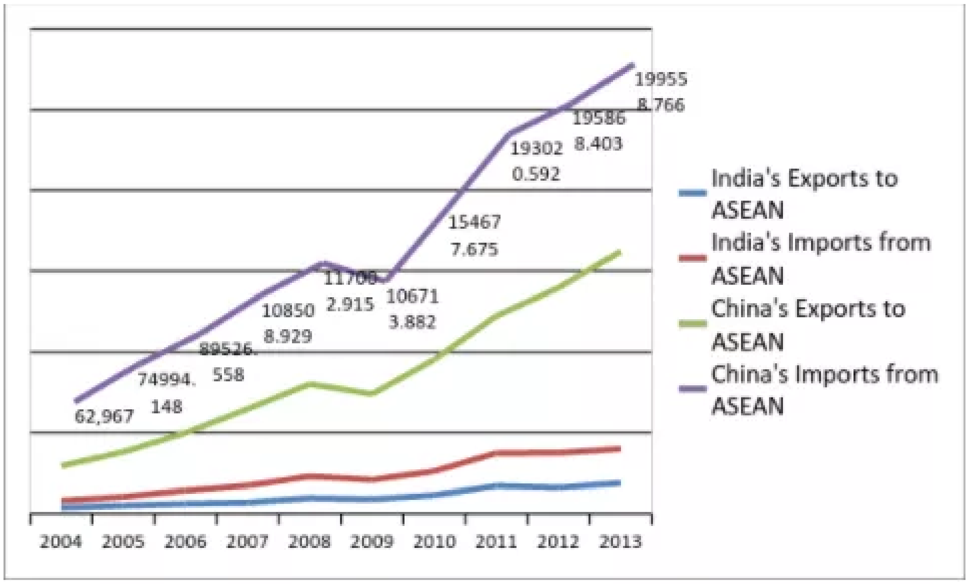
Falling exports contributed to a rise in China's current account deficit. To make things worse, China also had to fight domestic inflation. During 2008, the Chinese economy was overheating. Property prices were rising, and so were wages, land prices, property rents and power prices. Chinese policymakers realised they needed to do things differently. They started investing heavily in Southeast Asia and Africa. This meant four things. First, as the cost of production was lower in Southeast Asia, it meant Chinese firms could gain by shifting their production bases outside China. Second, investing in these regions meant access to bigger markets for Chinese firms and more uniform regional development. For instance, the relatively underdeveloped Kunming region in Yunnan province became a commercial hub. Third, Chinese firms could evade protectionist measures targeted at their exports if they started exporting from Southeast Asian countries instead. Fourth, investing in Africa and Asia also reduced some of China's energy requirements, enabling the Chinese to access cheaper foreign energy (oil and power) and minerals. Chinese firms have constructed six hydropower plants and one thermal power station in Myanmar. China has also invested in power transmission and copper processing activities in Vietnam.

There are other incentives as well. China's excess capacities in steel, cement and infrastructural engineering fit well with the infrastructure deficient economies of the Southeast Asian region. It is a win-win situation for both China and these economies. Chinese investment for developing world-class roads, railways and ports in the countries it does business in has reduced the cost of doing business in the Southeast Asian region. Kunming has emerged as a major rail terminal with direct lines to Singapore as well as connections to Yangon, Phnom Penh, Ho Chi Minh City and Hanoi.

When it comes to roads, China has been instrumental in building portions of the North-South economic corridor, connecting Kunming with Bangkok. The Greater Mekong sub-region has an extensive system of highways that includes the East-West Economic corridor, North-South Economic corridor and Southern Economic corridor, mostly built with Chinese funding. These development investments also mean Chinese bankers are able to make better use of their excess liquid funds (which otherwise command a lower return when invested within China). All these activities have led to increased trade between China and the ASEAN economies.

This is also evident on a micro-level. For example, the two-way formal trade between Muse in Myanmar and Jingao in China is worth over $2 billion. In contrast, the formal border trade between Rhi, Myanmar and Mizoram, India is worth around $35 million. China has 22 wheeled tractor trucks parked on its side of the border for transporting rice from Myanmar, in comparison to informal trade with India where women carry headloads of goods across small rivers.

This increase in trade has been facilitated through China's zero-tariffs policy with many ASEAN countries. Since October 2003, China and Thailand have taken the lead in implementing zero tariffs on agricultural products, covering 200 types of fruit and vegetables. China has also granted zero tariff treatment to Cambodia (83 products), Laos (91 products) and Myanmar (87 products).



China-India-ASEAN Trade Figures in USD. Credit: ITC Trade Map, Geneva

A network of economic interdependence

The Chinese strategy of weaving together a network of economic interdependence has panned out well. China is able to engage better with countries such as Malaysia, Cambodia and Laos. Politically, India is aligning with the US and Japan, and has been blamed by China for dragging its feet on the Regional Comprehensive Economic Partnership (RCEP). Chinese officials blame India's unwillingness to bring down her average tariff level from the existing 15% to less than 3%. When it comes to foreign diplomacy, India lacks the capability to match up to China. India has around 500 class one officers in its foreign services (Indian Foreign Services), and China has almost ten times more with around 5500 officers.

Foreign diplomacy is an essential component for building government to government tie-ups. An example in hand is that of Chinese-Malaysian trade. Malaysia has earned notoriety for using its government procurement clause as one of the Non-Tariffs Barriers. In spite of having a harder government procurement rule since 2008, China has remained Malaysia's largest trading partner. This economic cooperation has also expanded into the financial sector. In 2013, the central banks of these two countries agreed to establish a Yuan-clearing bank in Kuala Lumpur, part of China's effort to internationalise the Renminbi. Having succeeded in developing deeper economic tie-ups with ASEAN, China now wants to expand this strategy to rest of the world.

This OBOR initiative seeks to bring together a large part of the Indian Ocean littoral and Eurasia through high speed rail lines, pipelines and maritime linkages. The idea of connecting to rest of the world stems from China's aspiration to get out of manufacturing, and go up the global value chains and start focusing on product designing and innovation. According to the government of China, the development of OBOR would impact 4.4 billion people and would generate trade worth $2.5 trillion within a decade.

Given the strategic and security concerns of China's maritime initiative, India has envisaged an initiative called Mausam, which aims to re-establish its ancient maritime routes and visualises the India-centred link connecting with historic sea routes in Asia, Europe and Africa. It would be a mistake if India does not link this initiative with the Chinese initiative in a balanced manner so as to secure its strategic and security interests in the ASEAN region. In this context, it is important to note that the International North-South Trade Corridor, linking Mumbai in India via Bandar Abbas in Iran with Moscow in Russia, is also linked with the Silk Road Economic Belt initiative (https://thewire.in/105092/chinas-silk-road-plans-stir-protests-in-sri-lanka/) undertaken by China. India can link her internal connectivity plans such as Delhi-Mumbai or Delhi-Kolkata transportation corridors with that of China's OBOR initiative. Likewise, without this linkage it will be difficult for China to extend the OBOR network to Nepal, Bangladesh, Sri Lanka and Myanmar. All these initiatives can be linked with each other so as to generate more collective benefits. As Indians, we are all for national sovereignty but looking through the lens of economics is also important.

Nilanjan Banik is a professor at Bennett University.

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Porus Porthos → jyoti chakravarti • 7 days ago

I agree with Jyoti. CPEC makes no economic sense but is of huge strategic and military importance to China. Further, India has to learn how to make long term economic and strategic decisions. We are already paying for our short sighted decisions such as letting Pakistan take over part of Jammu and Kashmir.

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Anshul Sharma ➜ Porus Porthos • 7 days ago

couldn't agree more....we literally wasted 4 decades..1947-1991....with our stupid financial policies and short sightedness

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Anirudh • 6 days ago

Looking through the lens of economics is important but what if this economics make India dependent on China so much that it cannot even take its strategic decisions independently. OBOR in all its grand avatar seems more like China's colonialism and dominance initiative. China gets an alternative route for importing oil from middle east through CPEC. It then exports its cheap manufactured products to Europe through rail link. If India becomes a part of OBOR, it will serve to provide agricultural and mine minerals to aid China's manufacturing. It will never become able to compete with China's manufacturing and will be forced to become an agricultural and service sector logistics provider only. Private companies will benefit in the short run, only to realise that they are losing market to competing Chinese investment in India. Political decisions will not be in India's best interests as India will become so dependent on China for its