

ORIGINAL PAPER

УДК 339.92(045)
 JEL F20
 © Гвасалия К.Д., 2020

Analysis of the Development of the Belt and Road Initiative in the Context of the Global Economy



Кристина Давидовна Гвасалия, аспирантка Департамента мировой экономики и мировых финансов, Финансовый университет, Москва, Россия
Kristina D. Gvasaliya, Postgraduate student Department of World Economy and World Finance, Financial University, Moscow, Russia
 pikareta@mail.ru
 ORCID: <https://orcid.org/0000-0003-2788-3299>

ABSTRACT

In the modern world, there is a tendency to shift economic power from the European and American regions to the Asian one, mainly to China. At present, China is the most dynamically developing state in the field of economy and business. The BRI project was one of the drivers of Chinese economic development. China strives for world leadership in the commodity investment, technological sphere, ideological dominance, providing the world communities with the doctrine of new globalisation, a “fair”, “inclusive” concept of global governance, which is opposite to the generally accepted model of globalisation. This article analyses the impact of the Belt and Road Initiative on the development of Chinese business. Besides, the author identifies the prospects and possible benefits of the BRI implementation for the PRC economy.

Keywords: Chinese business; Chinese economy; the Belt and Road Initiative; Asian Business; New Globalization; Chinese TNC; International business

For citation: Gvasaliya K. D. Analysis of the development of the Belt and Road initiative in the context of the global economy. *Nauchnye zapiski molodykh issledovatelei = Scientific notes of young researchers*. 2020;8(3):5-12.

ОРИГИНАЛЬНАЯ СТАТЬЯ

Анализ развития проекта «Один пояс, один путь» в контексте мировой экономики

АННОТАЦИЯ

В современном мире наблюдается тенденция смещения экономической мощи из европейского и американского регионов в азиатский, в том числе в Китай. В настоящее время Китай является наиболее динамично развивающимся государством в сфере экономики и бизнеса. Одним из основных драйверов развития китайской экономики является проект «Один пояс, один путь». Китай стремится к мировому лидерству в товарно-инвестиционной, технологической сфере, идеологическому доминированию, предлагая мировому сообществу доктрину новой глобализации, «справедливую», «инклюзивную»

концепцию глобального управления, что является полной противоположностью общепринятой западной модели глобализации. В данной статье анализируется влияние инициативы «Один пояс, один путь» на развитие китайского бизнеса. Кроме того, в работе были определены перспективы и возможные преимущества внедрения ОПОП* для экономики КНР.

Ключевые слова: китайский бизнес; китайская экономика; «Один пояс, один путь»; азиатский бизнес; новая глобализация; китайские ТНК; международный бизнес

Для цитирования: Gvasaliya K. D. Analysis of the development of the Belt and Road initiative in the context of the global economy. *Научные записки молодых исследователей*. 2020;8(3):5-12.

* Здесь и далее ОПОП – «Один пояс, один путь».

In the modern world, the role of China as the largest economy is significantly enhanced, having a powerful impact on the global economy, including through the development of the BRI. At the same time, the project is relatively new and not fully understood in Russia, even though China is one of the most important strategic partners of Russia.

The aim of this work is a comprehensive study of the Chinese BRI project in the field of international business and its trends, identification of possible prospects and detection of the degree of influence on the development of Chinese business and the economy. Quantitative and qualitative problems were solved using statistical and graphical methods. The study used inductive and deductive analysis, analysis and synthesis, classification and grouping, economic and statistical methods. The theoretical basis of the study is the work of Russian and foreign scientists, data from Doing Business, Fortune Global 500, The Global Innovation Index, analytical reports from the World Bank, Baker McKenzie, OECD.

Over the past 30 years, the development of the Chinese economy has been recorded by rapid economic growth. This success is directly related to the “special way of development” based on the mixed economy model, “Socialism with Chinese characteristics,” as the Chinese Communist Party officially calls this ideology. This approach implies a significant government share in the economy, which at the same time has all the signs of a market economy.

At this stage, China ranks second place among world economies after the United States. Over the past ten years, China has managed to develop many areas of life and to gain high positions in world business. According to the Fortune Global

500 rating, which annually publishes the ranking of the largest global TNCs in terms of revenue and other economic indicators, the three largest Chinese companies: Sinopec Group, China National Petroleum, State Grid Corporation have been successfully included in the top-10 ratings for several years [1], no less famous China State Construction Engineering showed good results and entered the top-25 ranking in 2019. It is important to note that although Walmart (the USA) still leads the rating, American companies generally show weaker positions: only two American companies managed to get into the top-10 of the rating¹. This situation became possible due to competent Chinese government policy, including enormous annual government spending in the economic field; more detailed information is presented in Fig. 1.

The Chinese government does not only promote the development of its TNCs on the world stage but also creates the prerequisites for the development of foreign business and the attraction of foreign capital to the country. Over the past few years, China has implemented the largest number of reforms in East Asia and the Pacific, aimed at developing and improving the business climate for small and medium-sized businesses, according to the World Bank Doing Business Group. In the ranking, the PRC rose from the 78th position last year to the 46th one this year².

Despite such favourable prospects, there is an opinion that China will no longer be able to maintain the status of one of the largest dynamically developing countries and the economic growth rate will drop below 6%, which will provoke a

¹ Rating Fortune Global 500. URL: <http://fortune.com/global500/> (accessed on 09.10.2019).

² Rating Doing Business. URL: <https://www.doingbusiness.org> (accessed on 09.10.2019).

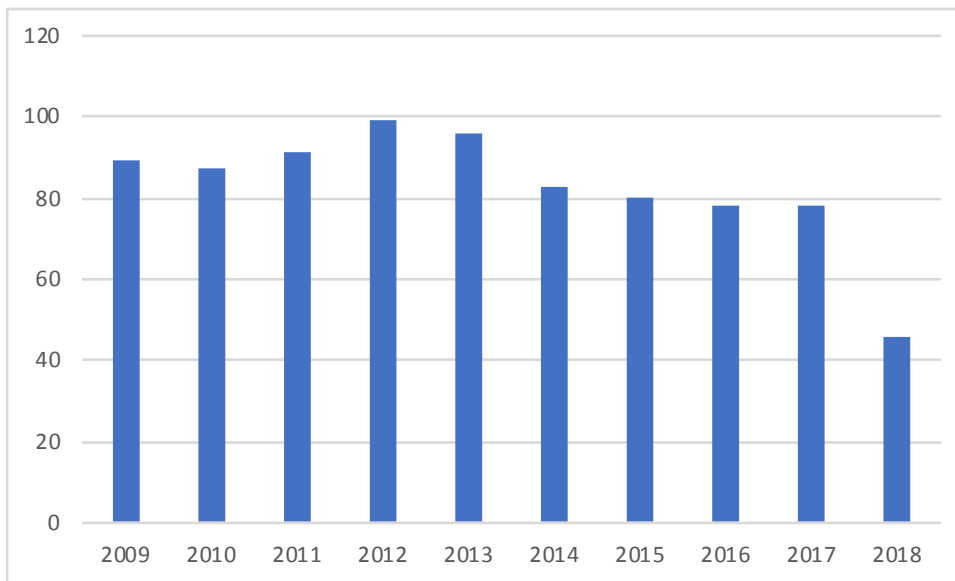


Fig. 1. China in the Doing Business ranking

Source: compiled by the author based on the Rating Doing Business. URL: <https://www.doingbusiness.org> (accessed on 09.20.2019).

slowdown in the country's economic development³. At the moment, the Chinese government is not taking large-scale measures to solve this situation, which may increase the fears of foreign investors and predict a small outflow of capital from the Chinese region. Also, the situation is aggravated by trade disputes between the United States and China: the introduction of US sanctions against Chinese products, China's retaliatory measures, and a decrease in trade between these countries. The problems described above also include raising the price of pork which almost doubled as a result of pigs' diseases. This kind of meat is the main one in China and rising prices harm household budgets throughout the country. Moreover, despite the presence of these difficulties, China is one of the most promising world regions in the sphere of economy and business.

At present, the Chinese economy is continually growing, which makes it possible that soon it will be ahead of the US in the race for the world championship.

In the context of the development of the Chinese economy and business, it is necessary to consider that the Belt and Road Initiative is the largest project in the entire history of China, aimed at

developing the formation and promotion of a new model of international cooperation and development by strengthening the existing bilateral and multilateral mechanisms of interaction between the PRC and other countries. Initially, this proposal was put forward in the 2010s and implied the combination of the Silk Road Economic Belt and the 21st Century Sea Silk Road as part of the "go outside" strategy, which implies a course towards openness to the outside world. The BRI began to develop actively in 2015; nowadays, China has concluded several key agreements with Russia, the CIS countries and the EU as a part of this project. The main goal is to create the doctrine of a new "fair" globalisation and to abandon the selfish Western model of globalisation. The BRI aims to expand and stimulate external openness, i.e. commodity, investment, financial, technological and ideological expansion.

The BRI acts as a combination of the 21st Century Maritime Silk Road and the Silk Road Economic Belt. The main objectives of the project are policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds.

63% of the world population and 44% of GDP, excluding China, fall under the maritime "Road" which makes the project one of the largest in the world. The purpose of the landlocked "Belt" is to unite Europe and China, as the two largest

³ World Bank analytical report. URL: <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative> (accessed on 09.10.2019).

Table 1

Basic principles of the BRI reforms

Principle	General characteristics	Benefits for participants
Transparency	It implies the provision of comprehensive information about projects, transparency in the areas of financing, budgeting, and investment	Strengthening confidence in the BRI from member countries and the international community
Trade liberalisation in selected countries	At this stage, a clear protectionist policy has been established in some of the member countries of the BRI, which impedes the benefits of the investment of the BRI	With trade liberalisation, the use of BRI investments is possible, which will favourably affect the development of science, infrastructure, ensuring social security, etc.
Multilateral agreements	It implies the simplification of trade procedures, the unification of standards for creating infrastructure, the creation of a common regulatory framework for the protection of investors and environmental risk management	Under multilateral agreements, participating countries will have the opportunity to open new trade corridors, which will simplify their interaction with each other

Source: compiled by the author.

economies in the world. The project is aimed at creating new trade corridors, developing transport infrastructure, mining. It provides excellent opportunities for consumer and industrial companies around the world.

The strategic priorities of the project: support for the Chinese policy of “Go Global”, increase in exports to participating countries, industrial restructuring, China’s geopolitical reinforcement, strengthening the value of the yuan as a world currency, reduction of excess supply in China.

One of the main objectives of the BRI is to create a single market using international and domestic markets through cultural exchange and integration, which in turn will lead to the creation of an innovative model with an inflow of capital and personnel reserve. The project focuses on investments in infrastructure, education, transportation, and electricity. Overall, the BRI focused on real assets and interested in infrastructure-based economic growth. This project is beneficial not only for China but also for participating countries in the Asia-Pacific region, Africa, Central and Eastern Europe.

Within the framework of the BRI, China aims to create an environment in which the participating countries will be able to realize their potential fully and maximise the benefits of interaction, both

with China and with other participating countries of the project. The basic principles underlying the “One Belt One Way” reforms are given in *Table 1*.

Even though the BRI is functioning successfully, some scholars consider it to be too ambitious, since it primarily means establishing a new world order, weakening the role of the United States and strengthening the economic significance of small developing Asian countries participating in the Belt and Road Initiative. The implementation of these measures requires serious material investments (about \$ 4 trillion) in infrastructure projects throughout the Silk Road⁴. Besides, the Belt and Road Initiative implies the strengthening of China’s relations with other Asian countries. Although for these purposes, in mid-2015, Xi’an Jiaotong University created the University of the New Silk Road Alliance (UASR), which includes 132 universities from 32 project’s member countries, this is a long-term project and will take several decades to complete.

To date, the number of countries that have signed the Belt and Road Initiative’s agreements has reached 126, making it one of the

⁴ World Bank analytical report. URL: <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative> (accessed on 09.10.2019).

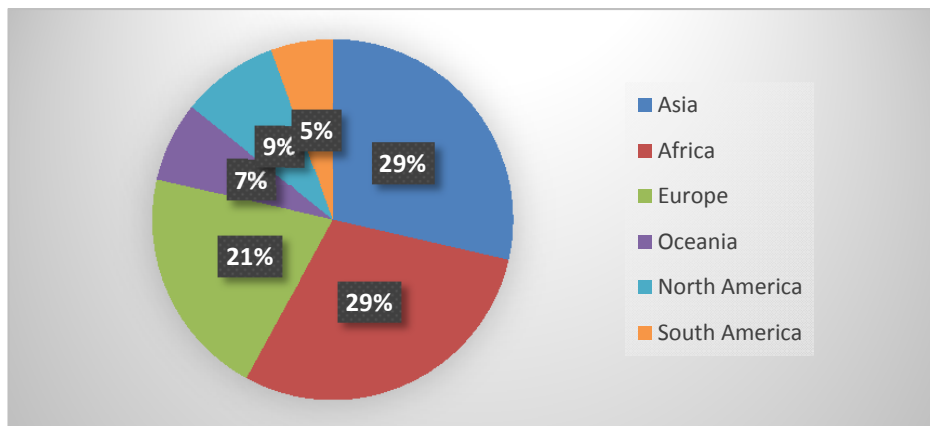


Fig. 2. Members of the Belt and Road Initiative by regions

Source: compiled by the author based on the official database of The World bank Data. URL: www.data.worldbank.org (accessed on 09.10.2019).

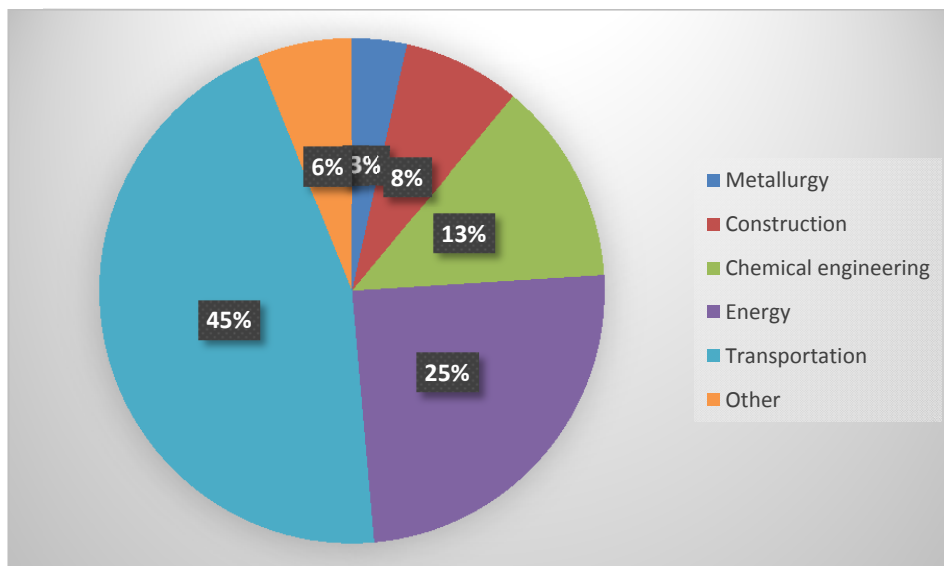


Fig. 3. The BRI investments by industry

Source: compiled by the author based on the official database of The World bank Data. URL: www.data.worldbank.org (accessed on 09.10.2019).

largest projects in the world⁵. The data for the participating countries are presented in Fig. 2. Thanks to this project, China will not only succeed in securing world leadership but also contribute to the development of neighbouring countries, such as Russia, Kazakhstan, India, which is undoubtedly very beneficial for the Russian Federation. Russia is one of the most prominent supporters and one of the first major partners of the BRI. Currently, a lot of agreements have been concluded between the countries,

including within the project of the Polar Silk Road plan. Also, neighbouring Asian countries, the Arab and African regions are active parties. Some countries of Eastern Europe have all the opportunities for cooperation with China, while the West European area is still wary of promising data. Only Italy from large European countries joined the Chinese initiative in 2019. In addition to European countries and the United States, the BRI does not currently support Japan, India and Australia. The Chinese initiative is considered one of the most significant projects in the world by the number of participants and investments.

The BRI investments are aimed at the development of transport infrastructure and energy in the

⁵ World Economic Situation and Prospects 2018. United Nations Department of Economic and Social Affairs, Development Policy and Analysis Division. 77 p.

Table 2

SWOP analysis of the Belt and Road Initiative

<p>Strengths Strengthening China’s Position on the World Stage Development of mutually beneficial agreements between China and the participating countries Avoiding Conflicts with other major powers National currency appreciation for China</p>	<p>Weaknesses Weak infrastructure, inaccessibility of information among the countries participating in the agreement The unstable global economic and political situation Contradictory attitude towards a project in China</p>
<p>Opportunities Opportunity for China to become a world leader Changing the balance of policy towards Asia New markets for Chinese products</p>	<p>Difficulties China’s historical disagreement with some participating countries Some project agreements are contrary to environmental and environmental standards. Distrust of China, uncertainty in the fulfilment of obligations by China in some countries The possibility of further deterioration in Sino-US relations</p>

Source: compiled by the author.

partner countries. The costs of these industries account for about 70% of the total project costs. More detailed data on investments in the project are presented in Fig. 3.

The total investment in the transport sector is about \$ 144 billion, which China invests in more than 70 countries, mainly in East Asia and the Pacific, Europe and Central Asia [2]. About 50% of the total investment the BRI invests in Indonesia, Malaysia, Pakistan and the Russian Federation⁶.

Other participating regions, South Asia, the Middle East, North Africa, etc., receive a small percentage of the total investment.

The main BRI financiers are:

1. Asian Infrastructure Development Bank (established in 2015).
2. New Development Bank (created in 2014 by the BRICS countries).

Besides, there are some institutions responsible for the financial support of Chinese companies under the BRI:

1. Political banks of China (China Development Bank and the Export-Import Bank of China).
2. Silk Road Fund (created in 2014).

Besides, the other project sponsors are The Industrial and Commercial Bank of China (ICBC), The Bank of China, The China Construction Bank.

It is important to note that the share of investments of Asian Infrastructure Development Bank and The New Development Bank is significantly inferior to Chinese banks, which are the main sponsors at the moment [2].

For a detailed assessment of the prospects and difficulties of the BRI, we will construct a SWOP analysis (table 2).

Thus, the SWOP analysis showed that despite the possible difficulties and limitations, the Belt and Road Initiative is a great benefit to China and its further implementation can develop the Chinese business and contribute to investing in the Chinese economy.

Also, viewing the benefits of the BRI project for the world community, it is necessary to consider in detail the possibilities for each specific region⁷.

1. Asia:

1.1. The potential of the region lies in the field of electronic, Internet and real estate.

1.2. Participation in the project will benefit the development of the middle class in the region, the growth of trade infrastructure and the creation of retail chains.

2. Africa:

2.1. The region has the potential to provide major investment opportunities.

⁶ Baker McKenzie analytic report: Belt & Road: Opportunity & Risk. The prospects and perils of building China’s New Silk Road. URL: www.bakermckenzie.com (accessed on 09.10.2019).

⁷ Baker McKenzie analytic report: Belt & Road: Opportunity & Risk. The prospects and perils of building China’s New Silk Road. URL: www.bakermckenzie.com (accessed on 09.11.2019).

2.2. Participation in the project will lead to the development of infrastructure, provide new jobs for the less developed countries and give opportunities for young professionals in China.

3. Europe:

3.1. Europe is one of the most attractive regions for cooperation with China with massive potential in the field of industrial and technological development.

3.2. China is interested in acquiring European industrial technologies and companies, which will strengthen trade relations between Europe and China. At the moment, only a few European countries support the project.

4. USA and Canada:

4.1. Initially, the United States was one of the largest BRI participants, but at the moment, there are tense economic relations between China and the United States, as well as trade conflicts with the use of mutual sanctions, which negatively affects the cooperation of the two countries and exacerbates the struggle for the world championship. Canada is also not actively involved in the BRI [2].

Speaking about the impact of the BRI on the development of international business in China, the project is beneficial for both Chinese state-owned companies and private firms⁸. It is planned that the greatest benefits will be received by companies working in the fields of:

1. Technology, media, telecommunications:

The growth of Chinese investment in infrastructure in less developed countries will lead to an increase in household incomes, which will provoke growth in smartphones and Internet services. This prospect is beneficial for Chinese companies, leaders in this field.

2. Industry, production, transport:

Chinese companies are interested in buying European and American industrial technologies on favourable terms as part of the project, for subsequent implementation in less developed countries.

3. Consumer goods and retail:

Increased investment in the automotive, rail and energy industries in South Asia and Africa

contributes to increased demand for consumer goods produced by Chinese companies.

4. Financial institutions:

At present, the main costs of the project are covered by Chinese political banks. For the full development of the BRI, it is interested in raising funds from other financial institutions on favourable terms.

5. Energy, mining, infrastructure:

As part of the BRI, it is planned to carry out large-scale, long-term projects in given areas, which offers many opportunities and prospects for the implementation of companies operating in these industries.

According to Chinese ideologists, the BRI is a new step in the theoretical development and practical implementation of the policy of openness, implemented in China for about forty years⁹. This concept can create open relationships, recreate an atmosphere of global transparency, and open up new opportunities for participating countries through inclusiveness and shared consumption¹⁰. In general, the benefits of the project can be divided into several sub-items:

1. The "new normality" (Xin Chantai), as the future of China is called in the Chinese media, will lead the country to the forefront in the service sector, domestic consumer demand, strengthen the innovation sector, which will lead China to sustainable development with high growth rates.

2. The implementation of the BRI implies a gradual transition to a new development model, thereby not limiting China's export, capital expansion and other projects, which will undoubtedly have a positive effect on China's global reputation as a reliable business partner¹¹.

3. The project involves the reduction of domestic excess capacity by placing them abroad,

⁹ OECD (2018a), OECD Business and Finance Outlook 2018, OECD Publishing, Paris. URL: <https://doi.org/10.1787/9789264298828-en> (accessed on 09.10.2019).

¹⁰ OECD (2018), "The Belt and Road Initiative in the global trade, investment and finance landscape", in OECD Business and Finance Outlook 2018, OECD Publishing, Paris. URL: https://doi.org/10.1787/bus_fin_out-2018-6-en (accessed on 09.10.2019).

¹¹ Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce and United Nations Development Program China (2017), Supporting the Belt and Road Regions to Achieve the 2030 Agenda for Sustainable Development, May.

⁸ Baker McKenzie analytic report: Belt & Road: Opportunity & Risk. The prospects and perils of building China's New Silk Road. URL: www.bakermckenzie.com (accessed on 09.11.2019).

the internationalisation of the renminbi. These measures will improve the environmental situation in the country and reach a new post-industrial level, ceasing to be a “world factory”.

4. The implementation of the Belt and Road Initiative can reduce imbalances in the development of western and eastern regions of China, which significantly inhibits the overall development of the region

5. The project significantly contributes to China reaching the level of developed countries and overcoming the “middle-income trap”, i.e. situations when the growth of the country’s economy slows after reaching an average income level.

Summarising the above, it can be noted that the BRI project has a significant impact on business in China and around the world. Its development brings benefits (new markets for Chinese products, strengthening the national currency,

strengthening the global arena with a shift in the centre of economic power to China), and threats to the world community (strengthening the trade conflict between the United States and China, vast and risky financing to the infrastructure of the participating countries, environmental degradation). The project promotes the development of a new form of globalisation, where the PRC will occupy a leading position.

Currently, China is one of the most dynamically developing states, able to overtake the United States and become a world leader in the field of economy and business. The active implementation of the BRI in every way contributes to development, turning the PRC into a prosperous, strong innovative country, a global driver and a supporter of free trade. This situation is beneficial for Russia, which is actively cooperating with China in the framework of the BRI.

References

1. Orlova N.L., Gvasaliya K.D. The role of Asian transnational corporations in international business: the effects of globalization. *Economics and Management: Problems, Solutions*. 2017;2(4):50–55.
2. Gvasaliya K.D. Trade relations between China and the USA: situational analysis. *Finance, money, investments*. 2019;2(70):28–32.
3. Ansar A., Flyvbjerg B., Budzier A. and D. Lunn Does infrastructure investment lead to economic growth or economic fragility? Evidence from China, *Oxford Review of Economic Policy*. 2016;32(3).
4. Buckley T., Nicholas S., and Brown M. China 2017 Review: World’s Second-Biggest Economy Continues to Drive Global Trends in Energy Investment, Institute for Energy Economics and Financial Analysis. 2017.
5. Miroshina E.A., Gvasaliya K.D. Evaluation of foreign trade relations between Russia and China. *Self-government*. 2019;2(1):202–204.
6. Rosier, K. China’s Great Legal Firewall: Extraterritoriality of Chinese Firms in the United States, U.S.-China Economic and Security Review Commission. 2015. May.
7. Zhaou S. The China Model: Can it Replace the Western Model of Modernisation, *Journal of Contemporary China*. 2010;19(65).
8. Zhang Wong. Annual Report on Competitiveness in Asia for 2019: Prospects for Economic Development in Asia. *Financial Times*. 2019. URL: https://mp.weixin.qq.com/s?__biz=MzI5MjE1ODM5Mw==&mid=2650044146&idx=2&sn=e62a5f1da43e198ad3be7aa80d65b40f&chksm=f4057824c372f13248a706d9671e619a0945acc12cec4442bc2ae801e43991eec2ff38334392&mpshare=1&scene=1&srcid=0404B3uiGEvBXTiP6orKVVkq#rd (accessed on 09.09.2019).