

BELT AND ROAD INITIATIVE: Developments, Economic and Strategic Implications

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Abstract: *China's flagship project Belt and Road Initiative (BRI) launched in 2013 is meant to reshape global networks of transport infrastructure further integrating China with Asia, Europe and Africa having significant implications on trade, investment and economic and political ties of China vis-à-vis with other countries. The paper also highlights the economic as well as strategic implications of BRI on India. Overall, there has been significant increase in Chinese outward investment during the post-BRI period and most of the outward investment has been directed towards countries which are participating in BRI. Though the objectives of the projects undertaken in different countries varies, the overall objective is to develop transportation, logistics and communications which would reduce trade and transaction cost for China's trade, give more market access to Chinese markets and ensure stable supply of energy and other resources. There is strong possibility of trade diversion due to BRI affecting competing countries like India.*

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BELT AND ROAD INITIATIVE:

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1. Introduction

The growth of Global trade has slowed down due to rise of nationalism and protectionism in the form of both tariff and non-tariff barriers after GFC 2008, more so since 2014. China is heavily dependent exports-led growth, is the global factory and the largest exporter of merchandise exports having 13 percent share in World's merchandise exports. However, the pace of China's exports and thereby growth has slowed down in recent times owing to slowdown of world trade, rise of anti-globalisation wave, US-China tariff war etc. The major factor affecting China's growth is partly attributed to the overheating in last decade with excess capacity across major industries such as steel, cement, chemicals, construction-related industries etc. amid falling global demand (Chung & Chain, 2009). In order to revive the slowing economy and give a boost to its industrial sector, China had officially announced a grand project called as One Belt One Road (OBOR) rechristened as the Belt Road Initiative (BRI)³ project in November 2014 - to be completed by 2049 to coincide with the 100th anniversary of the people's republic of China with a total estimated investment in the range of US\$ 1 trillion to US\$ 8 trillion⁴- to connect China to countries along the route to Europe and Africa. The grand BRI project will connect China on land-based and sea-based routes to Central Asia and Europe mainly through development of land transport and port infrastructure, respectively. The BRI project has invited considerable interest among policymakers considering its mammoth scale as these groups of participating countries contribute around one third of the global GDP. The move broadly aims to facilitate the cross border transportation of goods, access of energy, creating demand for existing excess capacity in Chinese industries along with generation of employment and income in participant countries. Further, BRI creates opportunities for China to develop China centric international economic integration and production networks dominated by funding from Chinese financial institutions which will pave the way for internationalization of Chinese currency and dominance of China on trade and

³ The Chinese mega project was named One Belt One Road (OBOR) initially. The name has been changed to Belt Road Initiative (BRI) later. We have used BRI instead of OBOR for initial period throughout the paper

⁴ Hillman (2018). How Big Is China's Belt and Road? Centre for Strategic and International Studies.

foreign policy in the BRI member countries. It is a part of a larger objective on the part of China to establish its hegemony in the Asia-Pacific region and eventually the global economy. In this context, we critically examine the BRI initiatives so far in terms of development of projects across countries and their economic and strategic implications on China and other participating countries with special reference to India.

The outward expansion of China has remained a key strategy of China in sourcing resources, expanding its trade and investment opportunities to sustain growth. This approach is well proliferated since the launch of OBOR in 2013. China's outflows to inflows ratio which was around 0.34 during 2001-10 has increased to 1.17 during Triennium Ending (TE) 2016 and remained above one during TE 2019, thereby supplementing the outward oriented strategy. In volume terms, the FDI has moved from annual average US\$ 25 billion during 2001-10 to US\$ 140 billion in TE 2019. There has been a significant increase in China's share of FDI outflows from 2.3 % during 2011-10 to 10.7% in TE 2019 (Table 1).

Table 1: Foreign Direct Investment of China (US\$ Billions)

		1991-00	2001-10	TE 2013	TE 2016	TE 2019
World	Inflows	513.19	1097.12	1521.74	1809.70	1578.52
	Outflows	507.11	1126.31	1451.31	1539.41	1300.37
China	Inflows	32.77	75.95	122.99	132.60	138.62
	Outflows	2.33	25.54	90.10	154.98	139.48
Share in World Flows (%)	Inflows	6.38	6.92	8.08	7.33	8.78
	Outflows	0.46	2.27	6.21	10.07	10.73
Outflows to Inflows Ratio	World	0.99	1.03	0.95	0.85	0.82
	China	0.07	0.34	0.73	1.17	1.01
Growth (%) for World	Inflows	22.91	4.68	1.89	12.99	-7.78
	Outflows	18.69	8.98	1.89	3.83	-0.48
Growth (%) for China	Inflows	37.09	11.56	2.69	2.61	1.84
	Outflows	25.22	104.53	16.31	22.38	-15.69

Source: Compilation from WIR 2020, UNCTAD

With the going outward strategy of China under BRI since 2014, it is imperative to understand the progress of BRI projects and their larger implications, particularly for a country like India which has been on loggerheads with China on many fronts including geo-political and geo-economic issues. In this context, the present study examines the journey travelled by China so far with respect of BRI and possible impact on China's trade and investment. The rest of the paper is divided into four sections. Section 2 discusses the major initiatives of China under BRI projects related to financial, international dialogue, domestic developments, etc. Section 3 highlights the current status of China's investment and construction activities under BRI projects across regions. Section 4 presents the impact assessment of BRI on China's economy

especially on output and trade. Section 5 is devoted to the strategic and economic implications of BRI project especially from Indian perspective. Finally, the study presents the conclusion in section 6.

2. Major Developments and Initiatives Relating to BRI

China has picked up BRI projects actively with a coordinated effort in terms of the institutional mechanism for funding, enhancing the economic relations with participating countries, setting-up the infra projects, strategically handling the energy and security relations; among others. Till today the initiative has travelled the journey from proposal of China-ASEAN community and offering guidance on a "21st Century Maritime Silk Road (October 2013) to strategic planning of the Belt and Road initiative to promote connectivity and build a community of common interests (December 2013); deepening cooperation with Arab states in oil and gas, infrastructure, trade and investment, nuclear power, aerospace and satellite and new energy (June 2014); outlining priorities for the Belt and Road initiative (February 2015); releasing an action plan on the principles, a framework, and cooperation priorities and mechanisms of the Belt and Road in March 2015; and agreement by China and Russia for integration of Silk Road Economic Belt with the trade and infrastructure network across Eurasia in May 2015, among others.

2.1. Financial Developments

The BRI project is estimated to invest around \$1.2–1.3 trillion by 2027 and up to \$ 8 trillion by 2049. Out of the proposed investment till 2027, China has already spent an estimated US\$ 500 billion spanning 65 countries⁵ on different BRI projects. Given the ongoing trend of investment, China would be able to spend US\$ 910 billion by 2030. However, the full realization of project finance of \$ 1.32 trillion and meeting the sustainability goals of BRI projects would require more collaboration (Boo *et al.*, 2020). Therefore, China launched two new financial institutions the Asia Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF) for financing and building collaboration. The state owned SRF with USD \$40 billion was set up in 2014 to finance the early stage projects of BRI. The Asian Infrastructure Investment Bank (AIIB) – was launched in January 2016 aiming to provide USD \$100 billion project funding including BRI projects. Other initiatives include the setting up of the \$100 billion BRICS New Development Bank and the bilateral Russia-China Investment Fund (RCIF) with 50 per cent share each. AIIB is moving ahead smartly while utilising the expertise

⁵ <http://www.obor-invest.com/>

of leading financial institutions especially Asian Development Bank⁶, UK-based Department for International Development, European Bank for Reconstruction and Development and the World Bank for the respective projects. Though the financial collaboration has been successful to a great extent, the challenge for the BRI is the short fall of funds. It is reported that the value of new projects spread across 61 countries involved in the plan fell 13 per cent to US\$126 billion in 2018 compared to the previous year (Zhou, 2019). The fall can be attributed to the cautious move of Chinese state banks in lending and the reluctance of partner countries amid their rising debt burden. In this regard the channelization of funds from top-notch financial institutions such as international pension funds, insurance companies, sovereign wealth funds, and private equity finance is the biggest challenge for the project.

2.2. International Dialogues

In order to make the BRI a grand success, the expertise of professionals working in the infrastructure industry has been sought by China under its "The Belt and Road Summit" held in Hong Kong on 18 May 2016. From 24-26 May 2016, the Chinese organisation "Boao Forum for Asia" and Kazakhstan's "Astana Economic Forum" jointly held the "Silk Road national forum" wherein the funding requirement for BRI was estimated at USD \$5 trillion during 2016-2020. This apart, a host of various summits/conferences such as China-Central and Eastern Europe (CEE) summit (November 2015), Financial Cooperation Conference (July 5, 2016) jointly organized with the Boao Forum for Asia (BFA), etc have taken place to invite the attention of BRI partner countries. In continuance, China has formed a Belt and Road Forum (BRF) in 2017 which was joined by 68 countries and a "joint declaration" was signed by thirty countries, followed by 270 cooperation agreements (Trung & Salatikoye, 2019). The second BRF was held in 2019 which was attended by 37 foreign leaders and more than US\$64 billion worth of deals were signed. By the end of March 2019, the Chinese government had announced a participation of 125 countries in the BRI Projects (Scissors, 2019)⁷. Overall, there has been active international dialogue between China and participating member countries over last five years indicating higher level of coordination to initiate and achieve BRI project targets.

2.3. Domestic Developments

⁶AIIB and ADB are expected to finance approximately US\$ 300M each following their recently signed memorandum of understanding for the joint financing of projects on 1st May 2016.

⁷ <https://www.aei.org/wp-content/uploads/2019/01/China-Tracker-January-2019.pdf>

China has simultaneously initiated various infrastructure projects at local level across provinces to connect with BRI inter country infrastructure projects. Some of the major projects include Hainan power grid project (\$532 million), Kashgar-Hotan Railway (\$717 million), Tianhuangping hydroelectric project (900 million), Nanhui New City (\$4.5 billion), etc which have been in progress to connect and integrate Chinese provinces with BRI countries. In the 20th Investment and Trade Forum 2016 for cooperation between East & West China, Shaanxi province announced over 200 key projects worth of US \$8 billion. Additionally, numbers of Chinese provinces have published guidance, notes and plans for infrastructure projects, based on the competitiveness, requirement and relevance, to connect with BRI inter country projects. China has also initiated establishment of regional and financial markets for petroleum and natural gas exchanges in northwest China's Xinjiang and southwest China.

3. China's Exposure under BRI

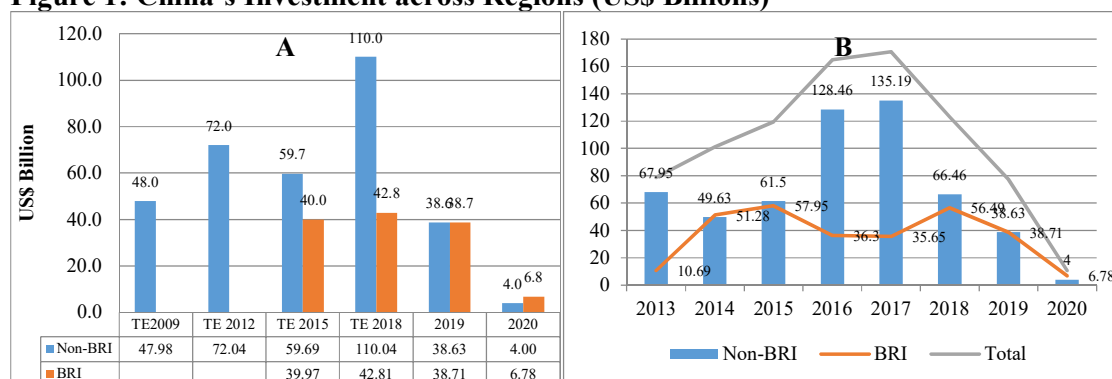
3.1. China's Investment in BRI Countries

The development of BRI project can be well understood through the quantum of investment and construction contracts signed by China post BRI announcement. The overseas investment component of China is largely dominated by the private sector whereas construction projects by state owned enterprises (SOEs). This section presents the behaviour of Chinese outreach activities on these both fronts.

Since the onset of BRI, China had an overall exposure of around US \$750 billion including investment worth of US\$ 293 billion and construction contract worth US\$ 461 billion by mid-2020. Figure 1, A presents the China's investment in pre and post BRI which reports that China made an investment of 48 billion during TE 2009, which increased to all time high of US\$ 110 billion during TE 2018. Though China has continuously increased the investment in non-BRI projects even after the BRI announcement, the Chinese investment has been split and there is sudden investment in BRI countries. However, investment in projects in BRI countries has stagnated around US\$ 40 Billion during 2013-19. After 2018, the Chinese overseas investment witnessed a decline in both BRI and non-BRI participating countries. This clearly shows the difficulty in carrying out projects across countries and also cautious approach of the financial institution funding these projects. The BRI investment started in 2013 with US \$10.1 billion and increased to US\$ 58 billion in 2015 (Fig 1, B). Thereafter the BRI investment has declined for next two years before increasing to US\$ 56.5 billion in 2018. The quick rise in investment in 2018 can be linked to first Belt and Road forum initiated by China in 2017. The BRI

investment has slowed down in 2019 to USD \$ 38 billion and it is only US \$ 6.8 billion in the first half of 2020 mainly due to COVID 19 pandemic. Table 2 reports China's direct investment in BRI projects across regions. Overall, China has investment around US \$300 billion in the BRI projects since 2013, spread over more than US\$ 100 billion in East Asia followed by around US\$ 50 billion each in Europe and West Asia.

Figure 1: China's Investment across Regions (US\$ Billions)



Source: Compilation from China Global Investment Tracker, American Enterprise Institute. Note: This data has similarity in investment figures reported by Ministry of Commerce, China⁸

Table 2: China's Investment in BRI Projects across Regions (US\$ Billion)

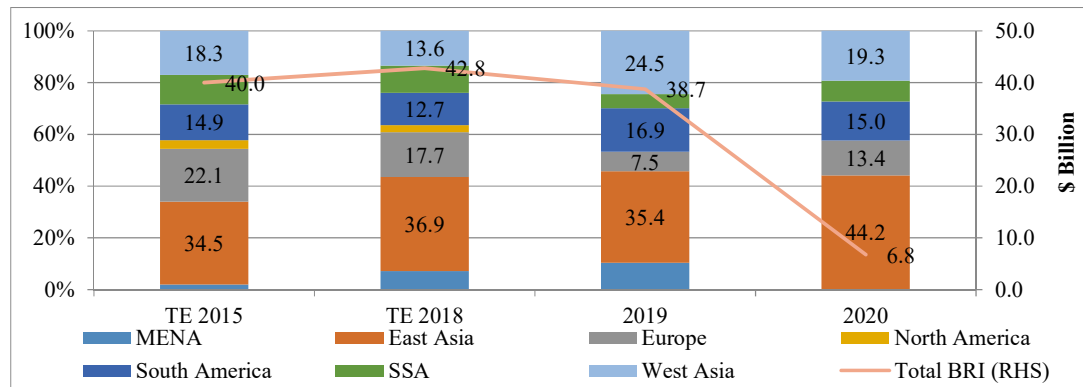
Region	2013	2014	2015	2016	2017	2018	2019	2020	2013-20
MENA	1.25	0.00	0.54	2.55	3.13	3.78	4.00	0.00	15.25
East Asia	3.04	11.04	27.30	11.87	19.25	16.30	13.71	3.00	105.51
Europe	0.22	14.12	12.19	10.65	7.29	4.74	2.89	0.91	53.01
North America	0.00	1.47	0.00	1.20	0.00	0.00	0.00	0.00	2.67
South America	2.89	9.03	0.00	1.81	0.61	13.95	6.56	1.02	35.87
SSA	2.21	6.86	5.76	1.99	0.56	11.29	2.08	0.54	31.29
West Asia	1.08	8.76	12.16	6.23	4.81	6.43	9.47	1.31	50.25
Total	10.69	51.28	57.95	36.30	35.65	56.49	38.71	6.78	293.85

Source: Compilation from China Global Investment Tracker, American Enterprise Institute, note: SSA is Sub-Saharan Africa. Give full form of MENA and SSA

The composition of China's investment in BRI projects across regions are reported in Figure 2. Asia and Europe had remained the lucrative destinations as around one third of BRI investment was channelised towards East Asia during TE 2015, followed by around one fifth in both West Asia as well as Europe. During 2016-19, the dilution of foreign investment is seen from Europe to MENA region countries. Overall Asian region has remained the largest focus of BRI investment.

⁸ <https://www.aei.org/wp-content/uploads/2019/01/China-Tracker-January-2019.pdf>

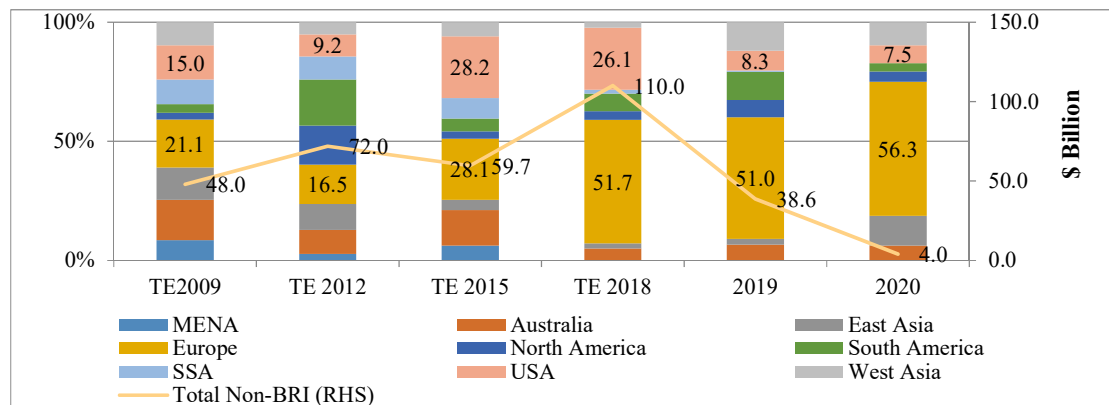
Figure 2: China's Investment of BRI Projects as Percentage of total BRI Investment



Source: Compilation from China Global Investment Tracker, American Enterprise Institute

The regional investment for non-BRI project is largely skewed towards Europe and USA. China used to invest one fifth of overseas investment in Europe till TE 2009 which increased to fifty percent in a decade in TE 2018. In the same period, the investment towards USA has increased from 15 % to 26 % (Fig 3). After 2018, the investment in USA has declined massively as US has passed legislation limiting China's access. The overall investment has come down from the level of US\$ 110 billion during TE 2018 to around US \$4 billion in 2020. The pattern and composition of Chinese investment both in BRI and Non-BRI projects across countries during Post-BRI period shows complementarity and thereby China's increased investment in Europe, Asia and Africa.

Figure 3: China's Investment of Non-BRI Projects as % of total non-BRI Investment



Source: Compilation from China Global Investment Tracker, American Enterprise Institute

3.2. China's Construction Projects alongside BRI Countries

The outreach of BRI projects can be understood thoroughly with the participation of China in signing offshore construction contracts. The reason being investment involves ownership

whereas in construction the country signs contracts to build rail, roads, etc which are finally owned locally. Table 3 presents the China's exposure with BRI countries through construction contracts. Since the onset of BRI, China has signed diverse projects of worth US \$548.4 billion including four-fifths in the BRI participating countries (US\$ 461 billion). The BRI contracts are spread over for more than 100 billion in Sub-Saharan African (SSA) (US\$ 123 billion) and West Asia (US\$ 110 billion). The inter-temporal analysis reveals that the country had highest annual overseas contracts worth 81 billion in 2016 and then onwards moderated to 67.4 billion in 2019. Post BRI (since 2013), there is a sudden and significant rise in construction contracts in BRI projects vs non-BRI projects. For example, the construction contracts in Non-BRI reduced to US\$ 3.27 billion in 2014 from US\$ 41.6 in 2013 where it has gone up from US\$ 19.25 in 2013 to US\$ 64.92 in 2014 in BRI projects. The similar trends continue indicating China's aggressive construction contracts in BRI projects starting 2014. Unlike overseas investment which focused more in Europe, east Asia, constructions contracts have mainly been in the Sub-Saharan African, West Asia and MENA regions⁹. Though China has moved aggressively in BRI projects, the momentum has slowed down since 2016. BRI investment projects are estimated to add over USD 1 trillion of outward funding for foreign infrastructure over the 10-year period from 2017 (OECD, 2018)¹⁰. Considering the slowdown in investment in BRI projects since 2018 and with the ongoing pandemic, the realization of this target seems difficult.

Table 3: China's Construction Contracts in BRI Projects across Regions (US\$ Billion)

	2013	2014	2015	2016	2017	2018	2019	2020	2013-20
MENA	4.71	11.55	10.7	16.87	13.23	22.84	13.34	2.36	95.6
East Asia	4.08	8.73	10.74	18.24	13.68	11.39	17.52	6.18	90.56
Europe	1.1	2.93	1.16	3.08	4.29	4.28	4.25	1.9	22.99
North America	0	0.46	0.54	0.54	1.18	1.75	0.16	0.11	4.74
South America	0.4	4.13	3.97	2.76	0.69	1.27	0.42	0	13.64
SSA	7.31	15.84	24.42	19.9	19.99	13.66	18.03	3.7	122.85
West Asia	1.65	21.28	17.99	19.74	19.46	14.68	13.72	2.42	110.94
Total Non-BRI	41.6	3.27	9.57	4.65	12.17	7.8	7.65	0.41	87.12
Total BRI	19.25	64.92	69.52	81.13	72.52	69.87	67.44	16.67	461.32
Total All	60.85	68.19	79.09	85.78	84.69	77.67	75.09	17.08	548.44

⁹ The major difference between construction contracts and investment goes to the participating entity as investment by private sector and construction mainly dominated by SOEs (Scissors, 2019). <https://www.aei.org/wp-content/uploads/2019/01/China-Tracker-January-2019.pdf>

¹⁰ OECD (2018). China's Belt and Road Initiative in the global trade, investment and finance landscape. Accessed from <https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf>

Source: Compilation from China Global Investment Tracker, American Enterprise Institute

3.3. China's Construction Projects under BRI across Regions

3.3.1. BRI in Sub-Saharan Africa

Since 2013 to mid-2020, China has an exposure of vast contracts worth of around US\$ 123 billion in SSA and mainly with Nigeria, Zambia, Ethiopia Angola, Tanzania and Kenya (Table 4). China's major BRI projects in SSA are focused on hydro and oil energy, shipping and rail transport. The promising project is Kenya's Standard Gauge Railway (SGR) at an estimated total cost of US \$14 billion (The Economist, 2016). In fact China has nominated Kenya as the African hub for BRI as it has a large coastal economy with the major port of Mombasa. China plans to connect Kenya with other land locked countries in the region including Uganda, South Sudan, Rwanda, etc. connecting them through major infrastructure projects and increasing intra-regional trade and also international trade across the borders. In July 2016, neighbouring and coastal Tanzania also signed a US \$7.6 billion loan agreement with the Export-Import Bank of China to create the better connectivity of Tanzania with regional neighbours Uganda, Rwanda, Burundi, and Congo (Lauren, 2016).

Table 4: China's Construction Contracts in Sub-Saharan Africa (US\$ Million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	Grand Total
Nigeria	2110	1890	1570	4060	4170	2180	1810	990	18780
Zambia		210	2920	700	2240	3140	450	680	10340
Ethiopia	2460	1050	1150	2580	1100	480	590		9410
Angola		1770	610	3500	3360		140		9380
Tanzania	1430	1740	1400		460	540	2920		8490
Kenya	290		420	1740	2560	1430	1120		7560
Ghana	240	610	900	1260	390	850	2810	460	7520
Zimbabwe		530	3310	600	150	1750	440	630	7410
Guinea			1620	770		410	2230	730	5760
Congo		2590		2600					5190
SSA Total	7310	15840	24420	19900	19990	13660	18030	3700	122850

Source: Compilation from China Global Investment Tracker, American Enterprise Institute

3.3.2. BRI in West Asia

West Asia is the second preferred region by China under the BRI as the contract agreements of worth US\$ 110 billion are under way. Out of the total contracts, around 80 percent are concentrated in Pakistan, Bangladesh, Russia, Iran and Kazakhstan (Table 5). China-Pakistan Economic Corridor (CPEC) worth US\$ 46 billion linking Kashgar to Gwadar covering the

distance of about 3,000 km; Bangladesh-China, India, Myanmar Economic Corridor (BCIM) and the Colombo Port City Project in Sri Lanka, amongst others are the most active engagements of China under BRI framework. China has already invested more than \$40 billion into the CPEC, and energy infrastructure has been a continuing priority (BCLP, 2016). Recently an express highway targeting a 392-km-long section worth US\$ 2.9 billion linking the Pakistani cities of Peshawar and Karachi was announced. China has invested \$1.95 billion for the development of Pakistan's Thar Block II coal mine and coal-fired power plant. The mine is expected to produce 3.8 million tons of coal per year.¹¹ The freight train from China's eastern Zhejiang province to Tehran through Kazakhstan and Turkmenistan earlier planned could be made functional. Kazakhstan is kept important for the purpose of production and transportation of oil and natural gas (Sanjar *et al.*, 2019). The first container cargo train from China's eastern port city of Lianyungang en-route to Turkey's Istanbul arrived in Georgia's capital of Tbilisi. According to the Georgian Economy Ministry, the total journey from China's port city of Lianyungang toward Kazakhstan, via Caspian Sea to Azerbaijan and then to Georgia will take just 15 days, 25 days shorter compared to the regular sea route (Xinhua, 2014). China has proposed to complete of 4,000 kms of railways and 10,000 kms of highways within the Central Asian region as part of BRI with estimated cost of US\$ 16 billion for Central Asia.

China provided US\$ 5.2 billion for the construction of a high-speed railway connection from Moscow to Kazan in Russia's Tatarstan region covering the distance of 770 KMs and making the journey of 3.5 hours compared to previous 12 hours. There are two significant energy projects linking Russia and China. One is "Power of Siberia" pipeline with expected cost of \$400 million, and the other is the Altai gas pipeline connecting west Siberia to China (Saran, 2015). Other major projects in the region include Khorgos-Aktau railway (cost of US\$ 2.7 bn), Central Asia-China gas pipeline of 3,666 km connecting Turkmenistan and China from Uzbekistan (cost US\$ 7.3bn); Dushanbe-2 thermal power station¹², the Vahdat-Yavan railway tunnel, the Khatlon Agricultural Scientific Centre, among others. Overall, the projects in central Asia are intended to strengthen the transportation and energy supply logistics between China and Central Asia.

¹¹<https://www.blplaw.com/obor-insights-march-2016>.

¹² SECTOR ASSESSMENT (SUMMARY): ENERGY, Wholesale Metering and Transmission Reinforcement Project (RRP TAJ 47017-003), <http://www.adb.org/sites/default/files/linked-documents/47017-003-ssa.pdf>

Table 5: China's Construction Contracts in West Asia (US\$ Million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	Grand Total
Pakistan	100	9960	7580	8410	3690	540	3090	1930	35300
Bangladesh	180		3060	5630	740	4390	3850	390	18240
Russian Federation	-	2680	2830	880	6140	870	3070	-	16470
Iran	-	660	500	2760	3390	2080	1540	-	10930
Kazakhstan	-	1600	2020	340	3100	2620	610	-	10290
West Asia	1650	21280	17990	19740	19460	14680	13720	2420	110940

Source: Compilation from China Global Investment Tracker, American Enterprise Institute

3.3.3. BRI in Arab Middle East and North Africa (MENA)

Given the scope of the OBOR project in terms of economic, cultural, and regional development, China and Middle East are going to strengthen the trade and investment ties (Noureldin *et al.*, 2020). Arab MENA region has remained the top destination for BRI project after SSA and East Asia. The country has carried out the construction contract worth around US\$ 96 billion since the launch of BRI with largely focusing into Saudi Arabia, UAE and Egypt with allocation 70 % of the total regional contract agreements (Table 6). China is helping Africa to lay the foundations for a comprehensive transportation network. In this direction, China has been seeking resources and markets in Africa and there are multiple projects being funded by China to improve transportation network for trade and investment.

Table 6: China's Construction Contracts in Arab Middle East and North Africa (US\$ Million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	Grand Total
Saudi Arabia	1910	2970	3310	1250	1910	4710	4540	430	21030
UAE		640	760	2790	4660	5780	3710	230	18570
Egypt		370	1590	1970	3630	8640	1690	290	18180
Algeria	1690	2130	410	3350		130	560	120	8390
Iraq	330	1590	670	1800	450	1610	1200	200	7850
MENA	4710	11550	10700	16870	13230	22840	13340	2360	95600

Source: Compilation from China Global Investment Tracker, American Enterprise Institute

3.3.4. BRI in East Asia

Since the launch of BRI, China has signed various contacts of worth US\$ 90 billion with East Asian region. The highest contracts have been with Indonesia, Malaysia and Laos worth of US\$ 18.5 billion, US\$ 17.1 billion and \$ 11.2 billion, respectively (Table 7). Under BRI China

has given new shape to the Singapore-Kunming Rail Link of more than 3000 KMs by converting it to a high-speed railway (HSR) corridor linking China's Yunnan Province and Singapore via Laos, Thailand, and Malaysia (Wu, 2016). A high-speed rail project covering 150 km worth US\$ 51 billion, connecting the capital of Jakarta to Bandung, is carried out by China Railway International in January 2016 with a finance of 75% from China Development Bank (Rahadiana, 2015). China also pledged to offer US\$ 1.5 billion in preferential loans and US\$ 10 billion in credit to five Mekong River countries which includes Laos, Cambodia, Vietnam, Myanmar and Thailand to support infrastructure, improve connectivity and propel production capacity cooperation with Mekong River countries (Xinhua, March 2016). Overall, all projects in ASEAN are directed towards transportation, railways, roadways, waterways, etc for better integration between China and ASEAN countries.

Table 7: China's Construction Contracts in East Asia (US\$ Million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	Grand Total
Indonesia	1080	2450	2300	3200	1040	1090	4700	2670	18530
Malaysia	1190	2870	1260	6210	4860	490	220		17100
Laos	300	290	3580	4210	310	2050	350	140	11230
Singapore	270	1050	110	1270	950	670	4140	530	8990
Philippines		1210		870	1780	1200	1160	190	6410
Vietnam	870		260		1150	490	920	2460	6150
Cambodia			750	220	1170	2600	1160	190	6090
Thailand		120	570	1140	360	470	3160		5820
Mongolia			990	110	220	320	1220		2860
Papua New Guinea	170	250	100	310	1710	200			2740
East Asia	4080	8730	10740	18240	13680	11390	17520	6180	90560

Source: Compilation from China Global Investment Tracker, American Enterprise Institute

3.3.5. BRI in Europe

Among the 20 non-regional founding members of AIIB, 17 come from Europe. Since the onset of BRI project, the total exposure of China with Europe stood at around US\$ 23 billion by mid-2020. Around 50 percent of the contracts in value terms were carried out with Serbia, Ukraine, Israel, Hungary and Belarus (Table 8). In the list of top projects, China carried out freight train project from Ukraine to Kazakhstan through Georgia, Azerbaijan, Kazakhstan and eventually China covering a distance of 5475 KM taking 15 days almost reducing delivery time by nine to ten days (Mykal, 2016). Chinese state-owned shipping company (COSCO) has successfully controlled 67 percent interest in Greek port Pireaus to provide better trade connectivity between China and Europe and to boost China's access to global markets. The connectivity through this

port will reduce the transit time between Shanghai and Piraeus -approximately by 22 days, 10 days less in comparison to the transit time between Shanghai and the North European ports of Rotterdam and Hamburg (Levitin *et al.*, 2016). Other promising projects include: China-Belarus Industrial Park, a special economic zone in the Republic of Belarus; Green Ecological Silk Road Investment Fund, a private equity fund for improving the ecological environment in the region; among others (Kamal & Gallgher, 2016). This initiative would help the trade facilitation for China and better delivery of goods and services.

Table 8: China's Construction Contracts in Europe (US\$ Million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	Grand Total
Serbia				850	2340	1090		180	4460
Ukraine					100	1350	1410	240	3100
Israel		950	400	260	170	710	520		3010
Hungary							1040	1040	2080
Belarus		340	300	850		100			1590
Europe	1100	2930	1160	3080	4290	4280	4250	1900	22990

Source: Compilation from China Global Investment Tracker, American Enterprise Institute

4. OBOR: Economic and Strategic Implications

BRI projects are expected to bring collective economic growth in BRI member economies while keeping China at the heart of such development (Rahman, 2020). As infrastructure within the Belt and the Road develops, industrial corridors are likely to be established along the same. The major thrust of the grand project is to build and improve the quality of infrastructure, thereby reducing trade and transaction costs, facilitating Chinese firms for trade and investment, generating more market and profitability for Chinese firms and also more employment opportunities. China aims at better negotiations for market access and the trade and investment agreements for Chinese firms as Chinese firms invest and get involved in BRI projects. Therefore, it is most likely that trade diversion will take place from such countries. As most of the funding for BRI projects is in the form of loans and guarantees by Chinese government and government supported financial institutions, China will have a voice in influencing trade and foreign policies of these countries.

China is looking at BRI as an effective utilization of her great expertise in building of infrastructure projects abroad. Implementation of the BRI initiative, mostly funded by China and Chinese backed institutions, will throw open opportunities worth trillions of dollars to Chinese infra and high-tech companies. As per the American Enterprise Data, the leading contractors are SOEs including power construction corp., China Communication Construction,

China Railway Construction, China Energy Engineering, State Construction Engineering, China National Machinery Industry Corporation (Sonimach), among others. Another sector where China is likely to gain significantly is renewable energy, especially solar energy. China is home to about 90% of the world's rare earth deposits - the most critical raw material for solar panels. By promoting the usage of solar power, China would seek to create additional opportunity for its businesses. The BRI scheme is likely to boost the Chinese service sector, which so far has thrived in the shadows of the ever-expanding manufacturing sector, which would be a major breakthrough.

4.1. Impact on Real Economic Activities of China

The most viable implication of the project seems in terms of absorption of the Chinese excess capacity across industries through added demand from the participating countries particularly when these countries are striving for massive investment in infrastructure projects and integrating their markets for Chinese goods. The key beneficiaries are expected to be sectors such as steel, cement, construction machinery, petrochemical and materials, high speed railways and wagons, telecommunication equipment, pipelines, among others. Most of the industries are having excess capacity in recent years due to slow down of the World and Chinese economy. Higher demand will thus drive higher production which in turn is likely to generate millions of jobs across entire value chains and likely to further augment China's growth, exports and forex reserves. In the long-run the project will boost the weightage of its currency in the international reserve and payment order. In-fact the Chinese currency RMB has been used more and more for international trade and investment. Most of the BRI projects have been funded in RMB currency strengthening its international acceptability and the power of Chinese economy and currency. In the course of China's industrial development in last 37 years, much of the prosperity has been realized only in eastern coastal regions. Now with multiple projects under BRI connecting southern and western regions of the China, country would be able to integrate underdeveloped regions with growth process.

China's steel, iron and aluminium production had increased substantially between 2007 and 2012 mainly led by stimulatory policies of China to counter the GFC. But sluggish overseas demand has exaggerated the problem especially in the traditional manufacturing sector that is both energy-intensive and highly polluting. In year 2012, China's production-to-capacity ratios in iron and steel, cement, aluminium, sheet glass and shipbuilding were 72 per cent, 73.7 per

cent, 71.9 per cent, 73.1 per cent and 75 per cent, respectively.¹³ The average capacity utilization in China has fallen to 60% at the end of 2011, from 80% at the end of-2007 (IMF, 2012)¹⁴. That is one of the reasons why China has been aggressive in pursuing projects under BRI so that it can use the existing excess capacity across industries. However, the post BRI period since 2014 the production growth has declined. Few sectors such as coal, railway passenger coaches and freight wagons have reported negative growth in recent couple of years. The figures clearly state China's overcapacity in steel, iron and construction sector (Table 9). It is worth mentioning that the production of cement, iron, steel and other core industrial output growth had come down significantly as compared to their levels during pre BRI announcement. Most of the sectors, other than steel, iron, cement, have also slowed down in recent years, particularly during TE 2018. The fall in core industries output is in tandem to the falling construction contracts alongside the BRI project evidenced in the above section.

Table 9: Output of Core Industrial Products in China (10000 Units)

Indicators	Values				Growth Rates (%)			
	TE 2009	TE 2012	TE 2015	TE 2018	TE 2009	TE 2012	TE 2015	TE 2018
Coal (100 million tons)	29.3	37.1	38.7	35.4	6.63	8.20	-1.69	-0.38
Crude Petroleum Oil	18874.9	20445.6	21196.8	19342.9	0.85	3.10	1.12	-4.09
Natural Gas*	782.7	1039.1	1285.4	1483.7	13.47	9.09	6.79	6.03
Cement	147623.6	206367.0	242349.9	231628.0	10.04	10.44	2.38	-2.14
Pig Iron	50253.2	63379.5	70555.3	72897.7	10.50	6.27	1.47	3.74
Crude Steel	52150.9	68213.2	81309.0	86878.0	11.10	8.19	3.74	4.95
Rolled Steel	62142.2	88158.0	111021.1	106668.7	14.10	11.31	5.68	-0.41
Heavy Rail	308.1	348.8	397.8	365.0	34.59	-8.12	5.53	1.66
Rolled-steel, Large	949.8	1055.3	1355.9	1541.8	1.51	6.35	8.23	4.28
Aluminum Oxide	2201.4	3360.0	5304.3	4735.9	22.77	16.68	16.32	-5.91
Railway Freight Wagons(unit)	47.43	58.07	37.87	41.40	5.95	13.33	-22.23	30.99
Construction Output [#]	29.3	37.1	38.7	35.4	6.63	8.20	-1.69	-0.38

Source: National Bureau of Statistics, China, Note: * (100000000 cu.m), #100 Million Yuan

4.3. Impact on China's Trade

Trade with BRI partner countries totalled about \$1.34 trillion in 2019, outpacing the country's aggregate trade growth by 7.4 percentage points. Table 10 presents the trade performance of China across regions. It is observed that China's exports are largely dominated by Asian region

¹³Yafei, H. (2014). China's overcapacity crisis can spur growth through overseas expansion, South China Monitoring Post

¹⁴ IMF (2012). People's Republic of China 2012 Article IV Consultation.

accounting for half of Chinese exports, and surprisingly the growth rate of exports has come down to 1.5 percent during 2015-18 compared to 11.5 percent of the period 2010-12. In all the regions there is substantial fall in the exports growth during TE 2015 (2013-2015). The slowdown of exports also coincided with significant fall in Chinese imports. The Chinese growth story is mainly characterized as export driven or investment driven. Therefore, the China's BRI initiative is basically meant to give a boost to exports and thereby creating demand for the domestic firms. Overall, projects under BRI connecting China with Europe and Asian regions are intended to create more market for China's exports and at the same time ensuring stable supply of resources to become part of the larger supply chain. It is worth to highlight that China's exports and imports have not picked up from the regions where it has higher contracts exposure under BRI such as Sub-Saharan Africa, East Asia, MENA and West Asia. Therefore, it is too early to build the argument that BRI is aimed for resource and market seeking.

Table 10: China's Trade across Regions (Triennium Ending Average Values)

Region	Export Share (% in China's Total Exports)			Import Share (% in China's Total Exports)			Exports Growth (%)			Imports Growth (%)		
	TE 2012	TE 2015	TE 2018	TE 2012	TE 2015	TE 2018	TE 2012	TE 2015	TE 2018	TE 2012	TE 2015	TE 2018
East Asia & Pacific	41.7	40.6	38.3	45.4	43.5	42.4	11.7	3.5	1.8	10.6	-1.7	10.0
Europe & Central Asia	20.5	20.0	20.5	17.3	18.4	18.9	43.8	0.7	5.9	16.9	0.3	9.3
Latin America & Caribbean	6.5	5.8	5.7	6.7	6.3	6.9	21.8	-0.9	5.1	17.8	-5.9	15.9
Middle East & North Africa	5.8	6.0	5.5	7.8	7.7	6.5	7.6	9.1	-3.2	30.3	-10.3	19.0
North America	15.2	18.5	20.3	8.5	9.7	9.3	103.3	4.9	5.8	15.8	4.0	2.4
South Asia	2.9	3.7	4.7	1.5	1.0	1.0	104.7	10.2	7.9	0.2	-9.0	11.2
Sub-Saharan Africa	3.4	3.3	3.0	4.9	5.0	3.8	1.7	8.6	-0.8	30.7	-10.3	13.1
World	100	100	100	100	100	100	22.0	3.6	3.5	14.6	-2.2	8.8

Source: National Bureau of Statistics, China Note: 38 countries are in Sub-Saharan Africa 34 BRI countries are in Europe & Central Asia (including 18 countries of the European Union (EU) that are part of the BRI), 25 BRI countries are in East Asia & Pacific, 17 BRI countries in Middle East & North Africa, 18 BRI countries are in Latin America & Caribbean, 6 countries are in South East Asia

4.4. OBOR: Implications for Strategic Issues

China has placed herself on strategic front based on various dimensions. These include the positioning of BRI land and maritime projects strategically. The trade statistics suggests that China is largely exposed to Middle East for its energy requirements. An estimated 85% of China's total imports and between 70-85% of its energy supplies, mainly from the Middle East, are sea-borne and pass through several maritime chokepoints such as the Strait of Malacca in the South China Sea where USA has larger dominance (Grieger, 2016). BRI project offers advantages in terms of lesser transport cost and an alternate to the oil resources in case of war event.¹⁵

Under BRI China has carefully selected nodal points along the land corridor and terminal points along the maritime corridor. For example, Hungary has been chosen as a key logistics hub on the trans-Siberian link to serve as a distribution point for Chinese exports to Europe and an aggregating point for imports from Europe. Further, the connectivity through Piraeus port of Greece aims to exploit the shipping tonnage of Greek, one of the largest in world through Piraeus port (Saran, 2015). Overall, China's move to Europe may be aimed to give a stiff competition to the USA amid the weak economic fundamentals of the region post sovereign debt crisis. Moreover, the CPEC can provide China access to the Indian Ocean by reducing both time and distance. This route is not only shorter in distance but avoids the Malacca Strait and the vast Indian Ocean dominated by rival Indian and US navies (Ali, 2016). China has also considered Afghanistan as an important strategic location. Strategically Afghanistan is important in two ways viz., first, Afghanistan is a like a lock that can cut off central, south and west Asia from each other and second, it is the key that can open the door to collaboration between these areas (Huasheng, 2016).

A potential strategy for geopolitics and geo-economics is deepened amidst the two mega regional trade agreements- The Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) trade agreement also known as CPTPP 11¹⁶ and the prospective Transatlantic Trade and Investment Partnership (TTIP). The allies of two mega agreements mainly Japan, Australia, New Zealand, Malaysia and Vietnam have already expressed the

¹⁵ Shipping oil from the Middle East to the China-controlled deep-water Port of Gwadar in Pakistan and then carrying it by road, railway or pipelines to Kashgar in China's western province Xinjiang instead of across the South China Sea will significantly cut transport costs and diminish the distance from 12 000 km at present, to 2395 km

¹⁶ Member states are- Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam

concern of regional hegemony of China (Pollack, 2016). In this background, the BRI project seems strategic to provide a competitive edge to these two mega projects and to maintain the power balance in the region in terms of boosting China's trade network and setting up of financial institutions like Asia Infrastructure Investment Bank (AIIB) and New development Bank (NDB).

BRI project is likely to strengthen the strategic cooperation between Russia and China as both the countries along with key Central Asian countries have come forward for strategic group called the Shanghai Cooperation Organisation (SCO). Russia always views Central Asia as its Southern backyard. Now the extension of BRI in Central Asia has raised the concern for Russia, but the increased sanctions by NATO against the country wherein the entry of foreign investment has been restricted which in turn can affect supply chain of the overly dependent oil and gas resources. In this context, BRI project is bringing Russia and China closer to offer a strategic balance of power in Asian region.

China's going to Arab and MENA countries is strategic in terms of exploring the diversified sources and supply routes of energy. As per 2014 statistics, China had an exposure of around half of oil imports from Middle East mainly extracting from Saudi Arabia (16%), Oman (10%), Iran (9%), Iraq (9%), UAE (4%), and Kuwait (3%) (Coastilla, 2016). China is also promoting its recently certified indigenous nuclear reactor design in the region. China's contract for Standard Gauge Railway (SGR) in Kenya is going to connect major African port city to inland areas. This will offer resources and markets for Chinese producers along with unleashing the capabilities of Chinese funding and technology (The Economist, 2016). China has shown greater economic partnership with Ukraine driven by several key factors such as Ukraine's geographic location and its potential to become a major transit hub within BRI¹⁷. The region being Ukraine has entered into Deep and Comprehensive Free Trade agreement with EU (Mykal, 2016). On strategic front, the signing of China's largest bank, Industrial and Commercial Bank of China (ICBC) with Antwerp Port Authority is going to provide the shipping gateway to China for Europe (Freimanet *al.*, 2016). The container cargo train connectivity from China's eastern port city of Lianyungang to Georgia will make it possible to deliver cargo from China to Europe faster and cheaper making Georgia a hub linking Europe and Asia, which will attract for investments and China's say on infrastructure

¹⁷ The EU is Ukraine's largest trading partner: Over the first 9 months of 2015, 32.9 percent of all Ukrainian exports of goods went to the EU, which in turn provided 39.1 percent of Ukraine's imports.

connectivity.¹⁸The strategic maritime dimension of OBOR is to develop a string of logistics bases in the Indian Ocean region, with likely conversion in future, of a few of them into naval bases (Virmani, 2016). With the growing strategic military cooperation between USA, India, Japan and Australia, the BRI project seems to provide an alternate to meet the energy and raw material demand of the economy in case of contingent conditions. All in all, the BRI project is expected to as strategic in terms of greater participation of China on the front of policy, finance, trade and infrastructure.

5. Implications for India

This section highlights the possible implications of BRI on India. For the purpose, we rely on the exposure of India and China in the BRI participating regions. It is observed that developed countries have remained the key source of greenfield investment. The share was 73.2 % during TE 2010 and reached to 66.1% during TE 2019. In the same period, the figures for developing economies have increased from 24.8 % to 30.8 %. It is interesting that the share of China has increased from 2.73 % in TE 2010 to 7.4 % in TE 2019 - almost seven times the green field investment made by India in 2019. India's share has declined from 1.9% to 1.1 % in the same period (Table 11).

Table 11: Greenfield Investment by Sources (% Share in total investment value)

Region/economy	TE 2010	TE 2013	TE 2016	TE 2019
Developed economies	73.21	68.11	63.75	66.11
Europe	43.58	37.90	34.38	38.89
North America	20.75	20.05	20.09	18.95
Other developed economies	8.88	10.16	9.29	8.26
Australia	1.66	1.47	1.43	1.25
Bermuda	0.35	0.14	0.38	0.11
Israel	0.65	0.40	0.28	0.32
Japan	6.09	7.88	6.95	6.43
New Zealand	0.13	0.26	0.23	0.15
Developing economies	24.82	29.65	34.87	30.79
Africa	1.31	2.27	1.54	1.04
North Africa	0.25	0.22	0.63	0.36
Asia	21.71	25.36	32.28	28.03
East and South-East Asia	12.94	17.26	25.13	20.80
East Asia	8.81	12.55	18.23	15.30
China	2.73	4.31	10.50	7.35
South-East Asia	4.13	4.71	6.90	5.50
South Asia	2.26	3.05	1.98	1.28
India	1.96	2.82	1.82	1.10

Source: Authors' Compilation from World Investment Report, 2020

¹⁸See <http://chinarecentdevelopments.wordpress.com/2016/02/05/silk-road/>

However, to better understand the exposure of India and China, we have relied on the scale of investment measured as per-project Greenfield investment. It is observed that at global level the scale of investment in Greenfield projects by destination had remained around US\$ 50 million during TE 2016¹⁹, skewed towards developing economies (US\$73 million) as compared to developed economies (US\$30 million) (Table 12). The scale across regions indicates that Africa and CIS regions have remained very attractive. In terms of source of the investment, developing countries have remained the key players in project financing. The volume of investment per project has remained US\$ 96 million by developing countries compared to US\$ 40 million for developed countries, thereby reflecting the utilization of big ticket projects by developing countries. Here it is worth noting how China and India have placed themselves to meet the investment potential of these regions. The same is evident from the measurement of scale of Greenfield investment (by source). The scale of investment is much higher for China (US\$ 139 million during TE 2016) than India (about US\$ 50 million). Over a period of time China's scale of investment has increased from US\$ 96 million during TE 2007 to US\$ 138 million during TE 2016 whereas India has experienced a downfall from US\$ 66 million to US\$ 49 million in the same period. The growth in Greenfield investment has remained well above the 40 percent in case of China as compared to less than 2 percent in India during TE 2016 (Table 12). These statistics clearly indicate that China is utilizing the green field investment projects effectively under BRI, whereas India is lacking in utilizing the untapped potential. The scale and growth of Greenfield by China is much bigger compared to India, reflecting the aggressive investment by China in large scale projects such as infrastructure, transportation sectors, etc. In this context the BRI project is going to place China in an advantageous position in terms of market access, sourcing raw materials, trade and investment.

Table 12: Announced Greenfield FDI projects

Source region/economy	By Destination				By Source			
	Greenfield Investment per project (US\$ Millions)		Investment Growth (%)		Greenfield Investment per project (US\$ Millions)		Investment Growth (%)	
	TE 2013	TE 2016	TE 2013	TE 2016	TE 2013	TE 2016	TE 2013	TE 2016
World	47.5	50.4	2.8	0.5	47.5	50.4	2.8	0.5
Developed Countries	33.5	30.5	-2.5	-1.5	39.8	39.9	-0.6	-2.9
Europe	28.8	27.0	-3.3	1.8	37.1	36.4	-4.0	-4.3
European Union	29.1	27.1	-3.0	1.9	37.2	37.0	-4.8	-3.3
United Kingdom	38.6	38.1	13.1	6.0	29.5	31.5	-9.9	1.2
United States	39.9	35.3	7.5	-6.7	38.6	41.8	2.9	5.1

¹⁹The selection of period TE 2016 is grounded on the post announcement of OBOR.

Japan	37.6	41.1	45.7	-7.6	57.6	53.4	12.8	-8.4
Developing Economies	61.8	73.0	7.6	-0.3	81.3	96.3	8.9	9.7
Africa	67.4	112.4	2.9	15.4	72.4	58.0	85.7	-13.6
Asia	56.6	69.9	3.0	5.1	85.3	105.0	8.5	13.0
East Asia	61.5	65.1	-0.4	-8.8	103.2	121.6	17.6	14.6
China	69.2	73.4	-1.7	-9.7	82.0	138.8	39.0	45.9
South-East Asia	57.6	75.3	11.1	10.6	105.5	125.1	-5.3	31.3
Singapore	30.2	26.5	-12.4	15.6	114.4	117.9	20.2	19.4
South Asia	47.7	82.1	-12.9	48.6	62.9	48.7	3.2	6.0
India	42.7	65.3	-13.7	49.7	64.3	49.2	2.4	1.8
West Asia	54.5	51.8	17.1	0.2	63.5	89.6	14.8	7.4

Source: Authors' Compilation from World Investment Report, 2018

The below graphs present the export and import behaviour of China as well as India with the BRI attached countries forming different regions. China's exports to the South Asia, MENA and Europe regions is in the range of 4-5 percent of its total exports and 12 percent to ASEAN region where as it is miniscule share of less than 1 percent to Central Asia. China is importing substantially from the MENA region. Similarly, India is massively exporting from its share of world exports to MENA (about one fifth of total exports) and about one fourth of its imports come from MENA region (Figure 4). These figures clearly indicate that India has substantial exposure with these countries, particularly MENA region, alongside the BRI. Therefore, China's business with these economies in terms of trade and investment cooperation due to better improved transportation, communication and bilateral relations would surely put the India into competitive pressure and may affect the trade flows of India with these countries in the years to come.

China is mainly sourcing the Petroleum oils, oils from bitumen materials, crude and polymers of ethylene, in primary forms, alcohols, liquefied propane, among others from MENA region. China's major exports to the region are viz. telecommunications equipment, furniture, and data processing machine, Footwear, among others. India's largest exported commodity is among the top 10 imports for China from the region. Also China and India have much common items in their top import list. In this case the BRI, which facilitates trade between China and MENA region, would have great implications for India's trade as China can put Indian trade into competitive zone.

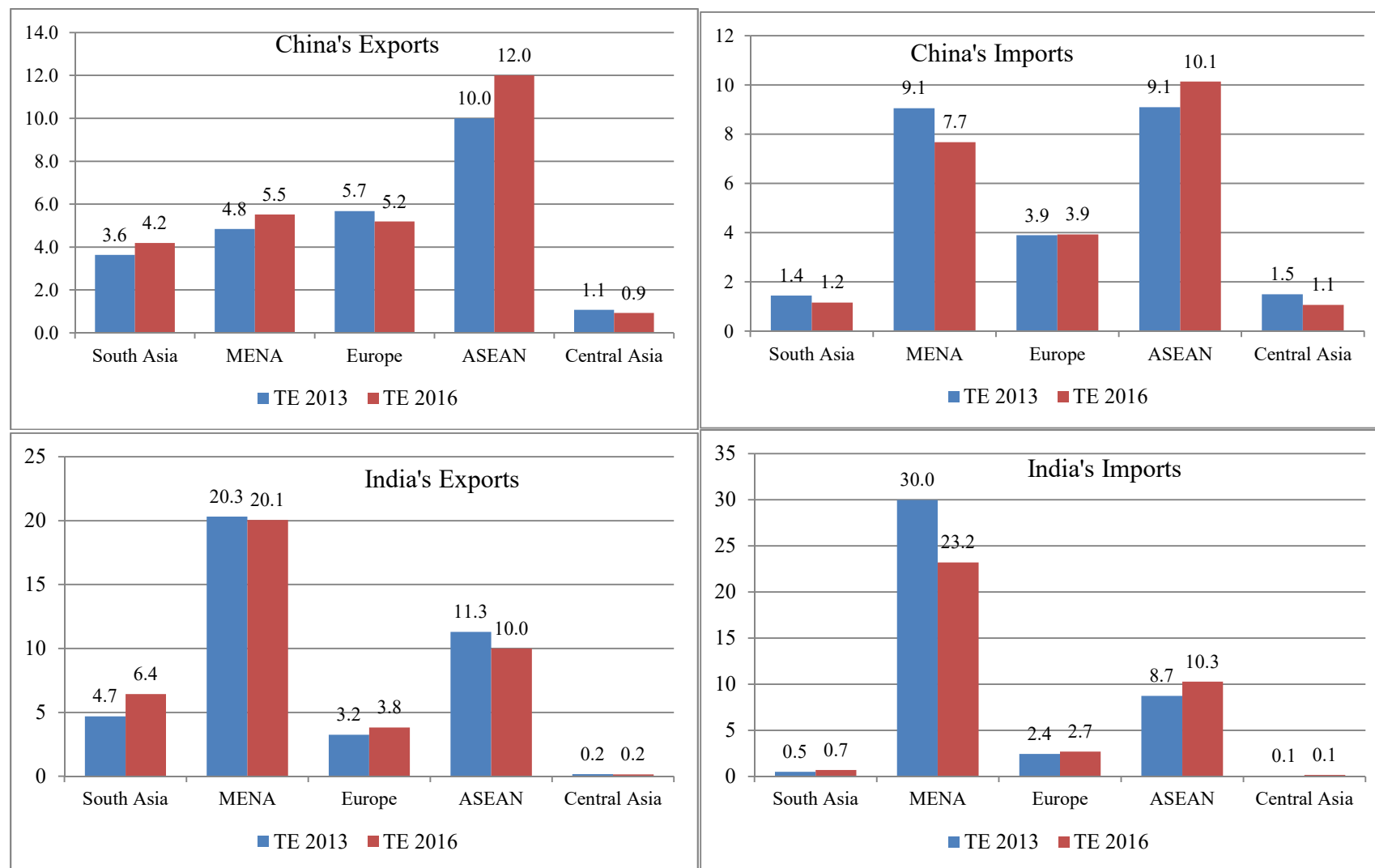
China mainly sends footwear, clothing, Made-up articles, of textile materials, etc to the Central Asia, and imports natural gas, Petroleum oils, radioactive materials, silver, platinum and other platinum group metals, among others. India mainly exports the medicaments, meat, tea and mate, clothing articles of apparel; and mainly imports Petroleum oils, oils from bitumin materials, crude, crude minerals, Ores and concentrates of uranium or thorium, among others.

The imports, crude oil and related products, of both the countries from central Asia is quite similar and BRI would make China's imports much smoother and cheaper compared to India's imports. From the European region, China largely imports petroleum oils and oils from bituminous minerals, crude transport motor vehicles, worked wood products of railway, among others. China's exports to the region mainly comprises of telecommunication equipment, automatic data processing machines, optical instruments, etc. India mainly imports vegetable fats and oils, pearls and precious stones, fertilizers, petroleum oils, etc from the European countries along the BRI belt. India sends Petroleum oils or bituminous minerals oil, medicaments, vehicle parts and accessories, among others. From ASEAN region, China mainly extracts cathode valves & tubes and data processing machines. It largely sends telecommunication equipment, cathode valves & tubes, Petroleum oils or bituminous minerals oil, etc. India imports from ASEAN region commodities such as fixed vegetable fats & oils, coal, Petroleum oils, etc. India looks for ASEAN region in terms of exports for sectors such as Petroleum oils or bituminous minerals oil. However the share of this commodity in India's total exports to ASEAN countries has come down from 30 % in TE 2013 to 18 % in TE 2016. Other leading exports are meat of bovine animals, ships and boats, etc.²⁰

A careful look at the trading partners of both the countries and composition of imports, we find lot of similarities except in few regions. Therefore, BRI which would reduce trade and transaction cost for China and improve its relations across these participating countries and is likely to have great impact on India's products' competitiveness, market access, resource extraction etc. The apprehension of trade diversion amid mass level production by China alongside the BRI countries is looming large, eventually affecting the trade composition of India towards Europe and African regions. BRI will not only affect India through trade and investment but it will also have impact on strategic and geo-political issues. For example, Chinese investment at the Gawadar port in Pakistan is being used by China to dock Chinese warships and submarines. Security concerns have also been expressed regarding China's investment in Pakistan occupied Kashmir which lies en-route the Silk Road economic belt, as the same is known to be a hub for anti-India activities. BRI has furthered strengthened the dominance of China and South and Central Asia vis-à-vis India. Infact, given the paucity of resources, India's dominance in the region is only set to decrease having an adverse impact on India's Trade with the region.

²⁰ The statistics for sectoral trade across regions is available with Authors upon request.

Figure 4: Regional Exports and Imports of China and India (% Shares in Total Exports/Imports)



Source: Authors' compilation from UNCOMTRADE

6. Conclusion

The global financial crisis and slowdown of world trade moderated China's exports-led growth. In-fact there has been excess capacity across industries and there are signs of overheating in few sectors in Chinese economy. Some of the heavy industries such as cement, iron, steel and other core industrial output growth had come down significantly in recent years. Therefore the announcement of BRI and the developments thereafter augurs well for China's trade, investment and market access for Chinese firms. The projects under BRI are well spread out and ambitious and at different stages of development. Overall, there has been significant increase in Chinese outward investment during the post-BRI period and most of the outward investment has been directed towards countries which are participating in BRI. Though the objectives of the projects undertaken in different countries varies, the overall focus is on developing transportation, logistics and communications which would reduce trade and transaction cost for China's trade, give more market access to Chinese markets and ensure stable supply of energy and other resources. The major investment in Middle East, Africa and Europe is for resource extraction and to facilitate stable supply chain for China's energy needs. Though there is no such evidence of increase in exports of China to the countries falling around BRI corridor so far, and same for imports also from the resource seeking perspective. With respect to outreach of BRI projects, it is found that the investment as well as construction contracts have been on downward trend since 2016. This trend has gone to its lowest level in the post Covid19 pandemic. There are troubled BRI projects worth of US\$ 42 billion as reported by American Enterprise. The optimistic view is that there is every possibility of increase in trade, investment and market access for China creating trade diversion once major projects under BRI are completed. The possible implications for India is that the BRI project is going to put the Indian economy into a very challenging environment on two grounds- one India lacks in scale of green field projects as compared to China and second both China and India have mainly common trading items with the BRI participating countries. Therefore, it is apprehended that India would experience adverse trade impact on its products' competitiveness, market access, resource extraction etc due to Chinese competition. India is weary of its diminishing influence in the region and at the same time sceptical of joining the BRI as most of the projects under the BRI lack transparency and the fact that BRI passes through the POK through the construction of CPEC is a matter of great concern for India. Despite, the slower growth in trade and investment in the recent periods, the BRI now includes participation of 125 countries and is huge, much bigger than any of the mega FTAs such as

TTIP or RCEP. Its implications on India and the world economy are huge and India needs to be pro-active and ensure cooperation with China on all fronts to be able to ward off the ill effects of the BRI.

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