



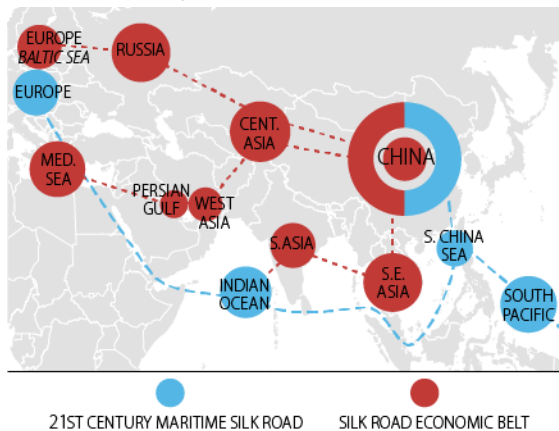
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## China's "One Belt, One Road"

### A Plan for Economic Connectivity

In March 2015, Chinese Foreign Minister Wang Yi stated that his ministry's single "key focus" in 2015 would be "making all-around progress in the 'Belt and Road' Initiative," highlighting the central place that effort has come to occupy in Chinese foreign policy. China envisions boosting economic connectivity among dozens of countries along a land route it is calling the Silk Road Economic Belt and a sea route it is calling the 21<sup>st</sup> Century Maritime Silk Road. The initiative calls for building transportation and energy infrastructure and industrial parks on three continents: Asia, Europe, and Africa. It also involves efforts to reduce investment and trade barriers, such as customs procedures and the lack of a regional credit information system. First proposed publicly by China's President Xi Jinping in 2013, the plans could, by some estimates, take 35 years to complete.

Figure 1. One Belt, One Road



**Source:** Xinhua News Agency, March 29, 2015, adapted by CRS.  
**Notes:** Other Chinese OBOR maps depict the maritime route as also including Gwadar, Pakistan, and Nairobi, Kenya.

Many details of the "One Belt, One Road" (OBOR) initiative remain unclear. China has signed a number of OBOR cooperation agreements with countries along the Belt and Road. The chairman of the China Development Bank (CDB), a state policy bank, told the media in March that CDB had compiled a database of approximately 900 potential OBOR projects in 64 countries, including China. China has not released a full list of involved countries or planned projects, however, or details about financing arrangements. Also uncertain is how OBOR will be coordinated with other countries' development initiatives, including the U.S.-backed New Silk Road initiative in Central Asia. The Obama Administration has cautiously welcomed the initiative, while urging use of "global standards and best practices" in OBOR projects.

### OBOR's Objectives

OBOR could serve multiple interests for China, not least of which is extending China's influence. OBOR provides China with a means to shoulder more responsibility for global development, but on its own terms. That might help it address charges, including from President Obama, that China has for too long been a "free-rider" in the international system. OBOR could also serve as a strategic coordinating framework for China's extensive overseas investments. China has suggested that it hopes the initiative will bring greater prosperity, and with it greater stability, to the countries to China's west, which could support China's efforts to stabilize its own Xinjiang region. China says it sees potential economic benefits for the economies of all its western provinces, which have lagged behind the coastal east in development, and for domestic industries facing overcapacity at home, such as steel and cement. New land transportation links stand to give China's trade-reliant economy alternatives to shipping routes across seas where the U.S. Navy is the predominant power. To the east, China has said that the maritime road may help it to repair relations with Southeast Asian nations frayed by maritime disputes in the South China Sea.

### Challenges

China's OBOR vision faces myriad political, security, and economic challenges. Although they may spur greater economic activity, infrastructure investments themselves typically deliver only low rates of return. Physical security and political risk are challenges in key OBOR countries, particularly in Central Asia and the Middle East. China has to tread carefully with Russia, which may fear challenges to its influence in Central Asia. China must also overcome suspicions in India, which sees a strategic threat in the proposed China-Pakistan economic corridor and objects to its proposed route through Pakistan-controlled territory also claimed by India. For the maritime route, China faces deep-seated tensions in Southeast Asia caused by its assertive tactics in the maritime disputes, which remain unresolved. At home, advancing OBOR could require skillful management of competing bureaucratic and geographic interests. China's leaders may also need to confront the question of whether, by giving Chinese provinces incentives to invest in new infrastructure, OBOR might undermine China's efforts to rebalance its economy away from reliance on investment and exports and toward greater reliance on domestic consumption for growth.

### Recent Developments

In February 2015, China established a leadership body to oversee OBOR led by Vice Premier Zhang Gaoli, a member of China's most senior decision-making body, the seven-man Politburo Standing Committee. In March 2015, China's National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce

jointly issued a preliminary OBOR "Visions and Actions" document, presenting OBOR as intended to build "an open, inclusive and balanced regional economic architecture that benefits all." China has also established new financial institutions wholly or in part to support the initiative. (See "Financing" below.) In July 2015, Vice Premier Zhang confirmed that a top priority for the initiative is constructing six "international economic corridors." One is a "new Eurasian land bridge," an extensive rail network linking China to Europe. The others are corridors linking China, Mongolia, and Russia; China, Central Asia, and West Asia; China and Indochina; China and Pakistan; and Bangladesh, China, India, and Burma.

## OBOR's Scope

Infrastructure investment clearly is one focus of OBOR, but the March 2015 OBOR "Visions and Actions" document discusses a total of five focus areas:

- **Policy coordination**, including coordination of economic development strategies and policies.
- **Facilities connectivity** to "form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step." This includes joining up unconnected road sections, improving port and aviation infrastructure, building cross-border power supply networks and power-transmissions routes, ensuring the security of oil and gas pipelines, and building optical cable networks and improving "spatial (satellite) information passageways" in order to create an "information Silk Road."
- **Unimpeded trade**, including enhanced customs cooperation; streamlined inspection and quarantine procedures; and efforts to promote the World Trade Organization's Trade Facilitation Agreement. The document also calls for cooperation in exploring and developing conventional and renewable energy sources.
- **Financial integration**, including building an Asian exchange rate stabilization system, investment and financing system, credit information system, and financial risk early warning system; expanding bilateral currency swap and settlement agreements; and developing the Asian bond market. The document says China will support OBOR countries and firms issuing bonds in China in renminbi, and encourages Chinese firms to issue renminbi and foreign currency bonds outside China.
- **People-to-people ties**, including student and personnel exchanges, more convenient tourist visa procedures, and information sharing for epidemic control.

## Financing

The OBOR initiative's total capital requirements are uncertain. The projects on the March 2015 CDB list would reportedly require funding of \$890 billion. In early 2015, China's provinces reported plans for \$167 billion in OBOR-related spending at home and abroad. To support OBOR,

China has launched a \$40 billion Silk Road Fund. It has also launched a new multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), and joined with Brazil, Russia, India, and South Africa to launch the New Development Bank BRICS. (For more information on the AIIB, see CRS Report IF10154, *Asian Infrastructure Investment Bank*, by Martin A. Weiss.) China has proposed a Shanghai Cooperation Organization financing institution. It has said it hopes to involve the World Bank and Asian Development Bank. Beijing has tasked the CDB and the Export-Import Bank of China with supporting OBOR. It foresees roles, too, for sovereign wealth funds, commercial equity investment funds, bond issuances, and private funds.

## China's Assurances

Critics have faulted some previous Chinese overseas investment projects for favoring Chinese state-owned companies and Chinese workers and materials, dismissing environmental concerns, and failing to consider the needs of local populations. The March 2015 OBOR document pledges that China "will abide by market rules and international norms [and] give play to the decisive role of the market in resource allocation." In the case of Chinese companies operating in OBOR countries, the document says the Chinese government supports "localized operation and management of Chinese companies to boost the local economy, increase local employment, improve local livelihood[s], and take social responsibilities in protecting local biodiversity and [the] eco-environment."

## The Obama Administration's Response

Speaking in April 2015 about the AIIB, President Obama said, "to the extent that China wants to put capital into development projects around the region, that's a positive." He emphasized, though, the need for adherence to best practices, such as transparency about financing, and for projects to benefit local populations and not just "the leaders of some countries and contractors." In Central Asia, OBOR overlaps with the U.S.-backed New Silk Road. The State Department describes the New Silk Road, launched in 2011, as intended to stabilize Central Asia and Afghanistan through improved economic and energy connectivity along a north-south axis. After May 2015 talks in Beijing about possible coordination of the New Silk Road with OBOR, a senior State Department official said he believed China's efforts "can be quite complementary to our own." The same month, Assistant Secretary of State Nisha Desai Biswal stated, "Whether it is the Eurasian Economic Union promoted by Russia or the One Road One Belt [sic] strategy promoted by China, all are interested in a more connected region. Our only stipulation is that trade be inclusive, multidirectional, and rules-based."

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