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OBOR: China's Neo-Colonial Great Game

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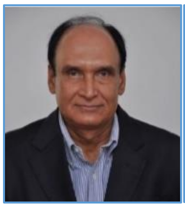
"In terms of the strategic challenges which India faces from China, there is nothing more important at this juncture than to first deconstruct OBOR for what it is in reality and second to understand the perfectly logical and consistent stand taken by the Modi Government ..."




Introduction

There has been much trepidation among certain segments of India's strategic community about the threat of "major consequences" for India, held out by Chinese media and diplomacy, should India fail to participate in the One Belt One Road (OBOR) Summit being convened by Beijing on May 14-15, 2017. In terms of the strategic challenges which India faces from China, there is nothing more important at this juncture than to first deconstruct OBOR for what it is in reality and second to understand the perfectly logical and consistent stand taken by the Modi Government that China needs to explain what the OBOR initiative is all about, before India can take a considered view.[1] In fact, it is the Chinese who have not been forthcoming with a substantive response for the past couple of years.

There is no disputing the fact that China's gravitational pull is being felt across the globe. OBOR is a grand strategy, unparalleled in scope and ambition and far exceeding anything the world has seen before. It is also a masterly blueprint to integrate China's markets, gain access to resources, utilise excess domestic capacity, strengthen China's periphery, gain strategic military access in the maritime domain beyond the Eurasian heartland, and enlist "all-weather friends," as China prefers to call its allies. Its origins may lie in pressures on the CPC to develop China's western provinces and counter the impact of China's economic slowdown and lagging exports, but OBOR has evolved into a predominantly strategic mega project.

Is OBOR a Concept or a Mechanism?

However, as China re-labels OBOR as "Belt and Road" Initiative (BRI) and proceeds to present it to the world as an altruistic regional development initiative, we need to examine the hard facts.

Far from being a regionally negotiated instrument reconciling broader interests of participating countries to achieve "win-win cooperation,"

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Ambassador Hemant Krishan Singh
Director General

> *"…OBOR is a unilaterally conceived national initiative designed to align the economic and strategic landscape … to China's singular advantage."*

OBOR is a unilaterally conceived national initiative designed to align the economic and strategic landscape from Eurasia to East Asia, Southeast Asia to South Asia, to China's singular advantage. It also reflects China's revisionist pursuit of preferential, non-competitive and exclusionary arrangements that propel its ambitions to create economic dependencies, gain political influence and eventually impose hegemonic power. It matters little to China whether the recipients of its favours can either afford or derive long term benefit from China-financed and imposed OBOR projects, however generous these may seem at a time when the US and the West have largely retreated from the developmental space. In any event, gains from OBOR are front loaded and overwhelmingly tilted towards China.

If you are not convinced about the neo-colonial lineage of China's OBOR, specially as it pertains to developing countries neighbouring China, it would be useful to step back and look at another exploitative facet of China's politics of economic coercion, which is growing in tandem with the projection of Chinese political influence and military power. China is now the leading exponent of orchestrated boycotts and embargoes designed to cause economic and political pain to countries responsible for "upsetting the feelings of the Chinese people" and "failing to attach high importance to China's core interests and major concerns." In recent years, Japan, Taiwan, the Philippines and South Korea have all borne the brunt of silent Chinese reprisals triggered through state controlled social media.[2] As a consequence, countries from Europe to Australia are ready and willing to compromise their liberal values and free market principles to ensure access to China's attractive but largely state controlled market. Multinationals from developed countries, who have benefited the most from the post-1991 era of untrammelled geo-economics, are in the forefront of lobbying their democratic governments at home on behalf of communist China, further undermining what is left of the liberal order. Thus, maintaining the goodwill of the Chinese Government is becoming a critical condition for the pursuit of trade and economic relations with China, ensuring the ascendancy of the world's most powerful authoritarian oligarchy and China's unopposed rise to great power.

In other words, China is today "too big to fault," no matter its revanchist "Chinese Dream" of "rejuvenation" and territorial expansion, which is the principal cause of regional anxiety and tensions in Asia today. That is what some timorous voices among India's left leaning circles seem to be advocating. According to this perspective India, despite its consolidating democratic stability, enormous potential, youthful dynamism and aspirational vigour, and the fastest growing major economy, has no option but to accept subaltern status under China's neo-tributary system. We really wonder how such misconceived advocacy will sound to India's future generations in, say, 2050.

India's Perspective

> *"As far as India is concerned, there is little comfort or value in either its trading relationship with China or in the flagship OBOR project, …"*

As far as India is concerned, there is little comfort or reciprocal value in either its trading relationship with China or in the flagship OBOR project, the China-Pakistan Economic Corridor (CPEC).

China's annual trade surplus with India averages \$50 billion. India's reticence on the ASEAN-led RCEP regional trade pact which China dominates is thus well advised. As a non-free market economy, China subordinates market forces and trade relations to suit its mercantilist and national interests; it will only derive more asymmetric benefits from RCEP at the cost of free market economies like India.

> *"CPEC, apart from violating India's territorial sovereignty in Jammu and Kashmir, is designed to further deepen India's strategic, security and economic disadvantages in the region."*

On regional transit and connectivity, India's historic access routes to its natural hinterland in Central Asia and West Asia have been disrupted by Pakistan since 1947. CPEC, apart from violating India's territorial sovereignty in Jammu and Kashmir,[3] is designed to further deepen India's strategic, security and economic disadvantages in the region. It delivers strategic depth for China in Pakistan on the one hand, access denial and strategic encirclement for India on the other. We are not aware of any Chinese effort to press their all-weather ally Pakistan to grant India normal trade and transit rights across Pakistani territory. In fact, the true colours of CPEC are revealed by the *Global Times*: the warning to India that in future, China will have a direct interest in developments in Kashmir.[4]

Djibouti: China is set to increase the number of its marine corps from 20,000 to 100,000 as part of plans to deploy them overseas for the first time, including at the military logistics base in Djibouti in the Indian Ocean. Photo: http://www.businesstimes.com.sg/government-economy/china-launches-charm-offensive-for-first-overseas-naval-base

> ***"To India's east, the BCIM corridor makes even less economic sense, ..."***

To India's east, the BCIM corridor makes even less economic sense, as it would provide one sided advantages to China in terms of market access to Bangladesh, Myanmar and India as well as strategic access to the Bay of Bengal. The corridor would also pass through India's security-sensitive and strategically vulnerable North East, where China still fans insurgencies and lays territorial claim to large parts of Arunachal Pradesh. India is hardly alone in its concerns about BCIM; Myanmar too is wary about such instruments of Chinese domination.

Deconstructing OBOR

Now, let us proceed to dig deeper in our examination of OBOR, which is being fronted as a great symbol of Chinese soft power. OBOR carries President Xi Jinping's personal imprint as the brand which will position China as a moderately developed nation by 2021 and an advanced harmonious society by 2049. By combining Chinese capital investments and surplus infrastructural capacity, OBOR will create supply chains comprising companies, markets, raw materials and people that extend to all corners of continental Eurasia and maritime Asia, with the exception of Northeast Asia. This vast catchment area encompasses some 4.2 billion people and has an estimated trade potential of around $2.1 trillion.[5]

OBOR aims at creating a massive China-centric trade zone where, even if there are no China dominated free trade areas, adjoining nations are subservient to Chinese investments, China's desire to capture markets and of course its attempts to bolster strategic interests.

> ***"There is no formal or multilateral institutional structure called OBOR or Belt and Road Initiative (BRI) and there is a complete lack of transparency about OBOR decision making."***

There is no formal or multilateral institutional structure called OBOR or Belt and Road Initiative (BRI) and there is a complete lack of transparency about OBOR decision making. So, how does the OBOR model work? Essentially, it is propelled by a number of bilateral agreements developed between China and enlisted countries signing on to OBOR under which Chinese companies gain preferential access to low/medium cost economies that need capital to upgrade their infrastructure. These investment decisions are taken at the political level, generally as outcomes of high level visits by China's leaders. Investment decisions emanate from collusive political understandings with national elites, flowing from which projects are awarded to major Chinese companies without any competitive bidding. Little surprise, then, that all Chinese decisions on OBOR investment, project development and coordination are centralised under the Chinese Ministry of Foreign Affairs.

> ***"Investment decisions emanate from collusive political understandings with national elites, flowing from which projects are awarded to major Chinese companies without any competitive bidding."***

Djibouti: China has launched projects to build overseas naval bases such as in Djibouti, seeking to assuage global concerns about military expansionism by portraying the move as Beijing's contribution to regional security and development. Photo:https://www.dailymaverick.co.za/article/2015-05-14-djibouti-welcomes-china-to-the-playground-of-the-superpowers/

At a recent OBOR conference of 16+1 countries (conglomeration of Central and East European states) which we attended, a European delegate put it in succinct terms: “These are Chinese tailor-made responses to the needs of the Chinese economy to primarily meet Chinese interests”.[6] Europe has long been in the forefront of welcoming Chinese courtship with open arms, but now voices are growing in Europe for greater clarity on OBOR. There is both skepticism about OBOR’s altruistic pretensions and concern about China's economic and strategic inroads in Europe.[7]

Secondly and even more importantly, OBOR is clearly linked to China’s core security objectives that include enhancing its strategic periphery through the consolidation of relations with immediate neighbours, from Europe to Southeast Asia.

“The different strands of OBOR corridors help China in the consolidation of its military power by creating arteries for force projection.”

The different strands of OBOR corridors help China in the consolidation of its military power by creating arteries for force projection. This is even more relevant for the Maritime Silk Road or MSR, which is being utilised to build maritime leverages through port development infrastructure and overseas naval bases like Gwadar and Djibouti. In fact, MSR is China’s new and more potent “string of pearls”. A Chinese consortium led by the CITIC Group is currently pressing the Myanmar government to grant it a commanding stake in the strategically important Kyaukphyu deep water port in the Bay of Bengal, the entry point for new oil and gas pipelines to China.[8]

Gwadar: Chinese trucks parked at Gwadar port. These trucks were part of the trade convoy that carried the first export consignment from Kashgar to Gwadar for onward shipment on Nov 13, 2016. Photo:http://www.straitstimes.com/opinion/pakistans-road-to-china

The third aspect is the utilization of OBOR and strategic leverages to forge China-centric regional integration by pushing trade liberalisation models such as RCEP. China’s blatant attempts at concluding RCEP negotiations without India, based on the premise that India will not agree to a deal where it is a loser, is a classic attempt at abandoning rules-based mechanisms and imposing economic unilateralism.[9]

Next is the issue of China’s attempts to utilise new institutions like the AIIB to its advantage. AIIB, with 53 member states and 18 more prospective members (other than the US and Japan), is emerging as an alternate funding mechanism to existing multilateral funding institutions. Being the largest investor ($10 billion), China is gearing up to utilise AIIB funding to emerge as the leading player in regional and global infrastructure and investment decision making processes. AIIB has cleared nine infrastructure projects so far, mainly in Asia (Tajikistan, Pakistan, Bangladesh, Indonesia, Myanmar, Azerbaijan and Oman), with total investment of $1.7 billion. All these projects are linked to OBOR and explicitly advance China’s regional interests.

Gwadar: China has won the right to operate Pakistan’s Gwadar port for a period of 40 years. This move will give China access to the Gulf countries, and the possibility of building a naval base on the Arabian Sea. Photo: http://www.alshamscitygwadar.com/gwadar-development/

“But it is not just smooth sailing for OBOR. ... fears are being expressed about the economic viability of the investment model.”

But it is not just smooth sailing for OBOR. Interestingly, four years after the announcement of OBOR in 2013, fears are being expressed about the economic viability of the investment model. In China’s “iron brother” Pakistan, which was earlier exuberant about nearly $50 billion worth of investments in CPEC, there is growing concern both about the efficacy of the project and more importantly the debt burden it will impose. The average rate of interest of Chinese loans to both Sri Lanka and Pakistan is 6.3%, whereas corresponding loans by the ADB run at 0.25% to 0.3% and India's lines of credit to neighbouring countries are as low as 1%, or even less, in some cases.[10] A similar refrain about high interest rates carrying the potential risk of a debt trap was what we picked up in Europe as well.[11] Little wonder that some Pakistani strategists have stated recently that the only advantage for Pakistan from investments in the CPEC corridor will be earnings from "toll and tea". As Chinese container trains trundle across Eurasia, the same can be said about the Russian railway networks being utilised by OBOR.

Our Response: An "India First" Orientation

From the overall Indian perspective, it is important to recognise the following factors related to OBOR which should guide our policymaking:

(a) This initiative is all about China leveraging its surplus capacity to expand its sphere of influence and strategic space as a geo-gravitational state. India can at present neither match Chinese investments nor does it possess surplus capacities like China.

(b) With an obstructionist Pakistan to India's west and a disputed boundary with China to its north and east, how will joining OBOR help India? Even if China was to provide certain assurances on connectivity, will any such guarantees work, given Pakistan's deep-seated hostility towards India? Very unlikely, to say the least.

(c) India is a developing economy and has relatively limited resources to deploy on projects beyond its immediate strategic periphery; it cannot match finance rich China. Thus, if India is to leverage connectivity projects, advancing bilateral and regional mechanisms serves far greater purpose than OBOR. Even discourse in Chinese academic circles has begun to appreciate these Indian concerns.[12]

(d) The simple logic of comparative transportation costs highlights that larger economic gains lie in sea transportation vis-a-vis rail or road. India's interests are best served by its direct access to the sea lanes of the Indian Ocean, rather than by alternate routes being developed under OBOR to its west and east.

(e) As India considers the possible terms of engagement or even the rationale of joining OBOR, we must recognise that OBOR investment arrangements are mainly designed for countries that do not have adequate economic capacities and need access to funding beyond the multilateral financial institutions in order to bypass their stringent conditions or political roadblocks. As some Central European, Sri Lankan and Cambodian experiences highlight, rules based funding from established institutions is far more beneficial in the long term than funding based on political expediency.

Kyaukphyu : A jetty for oil tankers is seen on Madae island, Kyaukphyu township, Rakhine state, Myanmar October 7, 2015. Kyaukphyu Township is ready to receive oil from the Middle East. Ships will bring the crude oil to Madae Island, from where it will then be sent to China through a newly built pipeline. Photo:http://www.reuters.com/article/us-china-silkroad-myanmar-port-exclusive-idUSKBN1811DF

(f) India's own outreach to its strategic neighbourhood has to be structured through consensus driven multilateral, and not unilateral, frameworks. India should act accordingly and intensify its efforts to promote BBIN and BIMSTEC regionalism to eventually forge a Bay of Bengal Economic and Security Community, as well as its "Act East" initiatives with South East Asia and ASEAN.

Thus, to conclude, abundant caution is well advised for India on OBOR, along with a watchful eye on its strategic and military dimensions. We also need to borrow a page from the Chinese playbook and resort to economic nationalism wherever necessary. Let us not forget that soon after coming to power, one of the slogans coined by Prime Minister Narendra Modi in the context of external economic relations was "India First".

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Endnotes:

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[5] "'16+1' as part of Belt and Road Initiative in the context of realization of Chinese Dream – achievements, challenges and prospects," Conference organized by the Faculty of Political Sciences, University of Belgrade, April 24-25, 2017

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[7] "Chinese OBOR discussed in the European Parliament," *The Wire*, May 6, 2017

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[11] Note 5, ibid.

[12] "Beijing must pay attention to India's CPEC Concerns", *Business Standard*, May 4, 2017.

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