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Promises and Pitfalls of the Belt and Road Initiative

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China's signature economic and foreign policy project – the 'Belt and Road Initiative' (BRI), also known as 'One Belt, One Road' (OBOR) – is the most ambitious global connectivity project ever launched by China or any country. The project aims to connect 65 Asian, African, and European countries comprising two-thirds of world's population, through various sub-projects. The estimated investment cost for realizing this project is $4-8 trillion.

The goal of BRI is to connect China with Asia, Europe, and Africa through a network of railways, highways, oil and gas pipelines, fiber-optic lines, electrical grids and power plants, seaports and airports, logistics hubs, and free trade zones.

Bipul Chatterjee and Saurabh Kumar, Executive Director and Policy Analyst, respectively, at CUTS International, explain that "China may accrue significant long-term trade benefits if it reduces tariffs through free trade zones, particularly on products from BRI countries."

The promise of BRI

First, a promising aspect of this initiative is the potential reduction in transportation costs which would reduce the price of trade more broadly. At a time when countries are looking for specific measures to reduce trade costs and shying away from free trade agreements, a reduction in transportation costs as a substitute for trade deals can effectively widen the volume of international trade. A Bruegel study pointed out that a 10% reduction in railway and maritime costs can increase trade as much as 2%, while the effects of a reduction in tariffs would take a much longer time to be felt. An Asian Development Bank and Purdue University study estimated that improvements in transport networks as well as trade facilitation measures could increase the gross domestic product (GDP) by 0.3 % for India and 0.7 % for the South Asian region as a whole.

This type of development is necessary for a country like India, where a lack of infrastructure and connectivity hampers cross-border trade. According to the Global Enabling Trade Report of 2016, India was ranked 102 out of 136 countries, which is indicative of its limited capacity to facilitate cross-border trade. The Doing Business Report of 2017 estimated that the cost to export (which includes border compliance and documentary compliance) is too high in India ($505) in comparison to other South Asian countries such as Nepal ($373), Bhutan ($109) or Sri Lanka ($424).

Second, BRI presents huge business opportunities for companies engaged in infrastructure development. A total of over $900 billion is expected to be invested in roads, ports, pipelines and other infrastructure as part of the project. This could immensely benefit countries suffering from inadequate infrastructure for their economic development.

Third, from the point of view of trade facilitation there are a number of factors that will create dynamic effects. China may accrue significant long-term trade benefits if it reduces tariffs through free trade zones, particularly on products from BRI countries. Beijing is also expected to reduce some of the non-tariff barriers hampering the prospects of foreign firms doing business in China including in those emerging areas such as internet banking and electronic commerce.

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Potential Implications

Apart from the sheer number of participating countries, BRI appears to be both economic and strategic in nature. This became visible during the recently held Belt and Road Forum for International Cooperation in Beijing. The initiative came under scrutiny after European Union officials voiced apprehensions over transparency, labor, and environmental standards. This resulted in the EU's refusal to endorse a trade statement tied to BRI. India's non-participation due to sovereignty issues relating to the China-Pakistan Economic Corridor passing through part of Jammu and Kashmir also served as a serious dampener.

Even though BRI seeks to create trade infrastructure around India, it also encircles the country by creating a ring through land and sea routes passing through several countries with which India has sensitive relationships. However, India — with around 90% of its international trade through maritime routes and only 10% by rail and road — is comparatively less likely to see much benefit through enhanced connectivity under the initiative. Most of India's maritime trade occurs from its western ports located in Arabian Sea and via land routes within the Bangladesh-Bhutan-India-Nepal network.

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In presenting BRI, China appears to be unaccommodating with respect to political and diplomatic issues as well as economic concerns. Trade facilitation alone cannot drive trade flow upward. There needs to be smart and secure management of trade routes so that end-to-end supply and value chain networks can be strengthened. In recent times, piracy has emerged as a major potential threat for railways and highways as well as maritime routes. BRI does not address these challenges in a meaningful way.

Although the project was launched around four years ago, it suffers from a lack of key information, operational strategy, terms of reference, and detailed work plan for the role of partner countries. This has eroded trust.

The Next Steps

While it is true that China's economic and strategic interests are intertwined, it would have been beneficial for the BRI to be planned more holistically in order to give due consideration to the economic and political interests of other participating countries. For a large project like BRI, an international governance structure involving all the participating countries to institutionalize objectives and safeguard the interests of participants has to be established now with a particular emphasis on financial mechanism. The decision-making structure for the execution of BRI should be based on consensus.

Several sub-projects of various Chinese companies to receive political and financial support from the Chinese government are being touted as part of this initiative but have nothing to do with it and should be de-coupled so that ambiguity can be cleared and only official BRI projects can be materialized. Participating countries should also get equal treatment in the financing of BRI, so that they can also reap the long-term benefits of the project, a step in this direction could be the revamping of the New Development Bank. A clear operational strategy for the entire project with an economic and political matrix should now be made to increase trust and transparency. This should clearly indicate relative as well as absolute potential losses and gains of participating countries. Active participation of global institutions such as the United Nations, the International Court of Arbitration, and International Court of Justice should be included for reliability as well as to resolve a potential dispute.

BRI should be executed in a selective manner with focus on economically viable sub-projects developing trade and economic corridors, for example a Bangladesh-China-India-Myanmar Corridor in the case of South Asia.

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