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# **Can BRI be the Road to Peace and Prosperity?**

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\*I would like to thank Prof. P. Prime for her helpful remarks. All remaining errors are mine.

## Abstract

The debate about the Belt and Road Initiative (BRI) in the west seems to have reached an impasse. At least three issues require sustained analysis. These are:

1. Trade, investment and growth prospects both in PRC and other countries, but particularly in the Global South;
2. Distributional issues and the possibilities of advancing arrangements that can enhance people's well-being in various BRI countries;
3. The geopolitical consequences and how to avoid a new cold war.

On the trade and investment side, BRI promises to create a multilateral trading and investment area under Chinese leadership. Both preexisting US hostility and fears generated by such prospects summed up under the paranoid term "China's Sharp Power", have given BRI a bad press in the west in the absence of any model-based scientific analysis. In order to assess the impact of BRI using consequentialist logic, it is desirable to have model-based counterfactual results. In order to lend concreteness to a Geoeconomic and Geopolitical analysis of BRI, this short article presents some results from a regional economy wide model developed by the author. Aggregate consequences for the Chinese economy in terms of economic growth, output and employment impacts are estimated for two BRI scenarios—a high investment and demand scenario and the current low investment and demand scenario. Some important dynamic econometric issues are discussed in an appendix of the paper on which this section is based. Also, a more complex economic systems model with explicit banking and financial sectors for the Chinese economy is presented for further, more sophisticated modeling work can be found in the same technical paper. As a first approximation, the current modeling results show that BRI will certainly not harm the Chinese economy; but the low demand scenario does not translate into great gains either. The high demand longer term scenario is much more attractive for the economic policymakers in China. But for the global south---particularly Africa--- prospects for a new deal is there. Achieving a more equitable distribution and enhancing the capabilities of the great majority of people there will require favorable political conditions. While the Chinese do not try to promote democracy, they also do not try to overthrow existing governments. Therefore, progressive political forces of the global south need to organize around a pro-people political, social and economic agenda. Finally, in the sphere of international relations, even in the instance the economic consequences alone cannot justify the strategic importance given to BRI by the Chinese rulers, or perhaps especially in that situation, the prospects for a new cold war are real. One possible conclusion is that although the original investment impetus came largely from balance of payment surplus, excess capacity in PRC and the profit seeking by its private sector firms, by now the geopolitical motives are the main drivers of BRI with modest prospects of economic gains but real prospects of energy security and overall trade and investment security. But this is a delicate and fraught game in geoeconomics and geopolitics in the 21st century. So far, the US response lacks subtlety and nuance . Such responses fueled by fear and insecurity on the part of the US can lead to a dangerous geopolitical conflict.

Keywords: Belt and Road Initiative, China, East Asia, The Global South, Africa, Input-Output Matrix, Social Accounting Matrix, Finance, Trade and Geopolitics, Economic Impact Modeling and Analysis, Sharp Power.

## 1. Introduction and Motivation

The idea of the Belt and Road Initiative (BRI) was first announced in 2013. However, soon, the Chinese leadership, particularly President Xi Jinping articulated a grand vision. As the US Council on Foreign Relations (CFR) stated in 2019 with some degree of incredulity:

Xi's vision included creating a vast network of railways, energy pipelines, highways, and streamlined border crossings, both westward—through the mountainous former Soviet republics—and southward, to Pakistan, India, and the rest of Southeast Asia. Such a network would expand the international use of Chinese currency, the renminbi, while new infrastructure could “break the bottleneck in Asian connectivity,” according to Xi. (The Asian Development Bank estimates that the region faces a yearly infrastructure financing shortfall of nearly \$800 billion.) In addition to physical infrastructure, China plans to build fifty special economic zones, modeled after the Shenzhen Special Economic Zone, which China launched in 1980 during its economic reforms under leader Deng Xiaoping. Xi subsequently announced plans for the 21st Century Maritime Silk Road at the 2013 summit of the Association of Southeast Asian Nations (ASEAN) in Indonesia. To accommodate expanding maritime trade traffic, China would invest in port development along the Indian Ocean, from Southeast Asia all the way to East Africa. (Chatzky and McBride, 2019)<sup>1</sup>

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<sup>1</sup> There are many academic analyses that indicate at least some of the complexities of BRI as well. A representative sample from the recent social science literature on BRI will indicate this:

Aoyama, Rumi. 2016. “One Belt, One Road”: China’s New Global Strategy,” *Journal of Contemporary Asian Studies* 5, no.2:3-22. doi: [10.1080/24761028.2016.11869094](https://doi.org/10.1080/24761028.2016.11869094)

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Chaisse, Julien, Matsushita, Mitsuo. 2018. "China's 'Belt And Road' Initiative: Mapping the World Trade Normative and Strategic Implications," *Journal of World Trade* 52, (1) : 163–185.

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Cheng, Leonard K. 2016. "Three questions on China's "Belt and Road Initiative," *China Economic Review* 40: 309-313. <https://doi.org/10.1016/j.chieco.2016.07.008>

Clarke, Michael. 2017. "The Belt and Road Initiative: China's New Grand Strategy?" *Asia Policy* 24: 71-79. Doi:10.1353/asp.2017.0023

Ding, Yibing, and Xiao Li. 2017. "The Past and Future of China's Role in the East Asian Economy: A Trade Perspective." *Canadian Public Policy / Analyse De Politiques* 43, no. S2: S45-56. <https://www-jstor-org.du.idm.oclc.org/stable/90003694>.

Djankov, Simeon, Miner, Sean. (2016) "China's Belt and Road Initiative: Motives, Scope and Challenges," In *PIIE Briefing*. Peterson Institute for International Economics. [https://books.google.com/books?id=YbiqCwAAQBAJ&lpg=PT3&ots=83GIVL\\_Gbb&dq=belt%20road%20initiative&lr&pg=PT3#v=onepage&q&f=false](https://books.google.com/books?id=YbiqCwAAQBAJ&lpg=PT3&ots=83GIVL_Gbb&dq=belt%20road%20initiative&lr&pg=PT3#v=onepage&q&f=false)

Du, Julan, Zhang, Yifei. 2018. "Does One Belt One Road Initiative Promote Chinese Overseas Direct Investment," *China Economic Review* 47: 189-205. <https://doi.org/10.1016/j.chieco.2017.05.010>

Du, Michael M. 2016. "China's "One Belt, One Road" Initiative: Context, Focus, Institutions, and Implications," *The Chinese Journal of Global Governance* 2 (1). <https://doi.org/10.1163/23525207-12340014>

Fallon, Theresa. 2015. "The New Silk Road: Xi Jinping's Grand Strategy for Eurasia," *American Foreign Policy Interests* 37, no.3: 140-147. doi: [10.1080/10803920.2015.1056682](https://doi.org/10.1080/10803920.2015.1056682)

Ferdinand, Peter. 2016. "Westward ho—the China dream and 'one belt, one road: Chinese foreign policy under Xi Jinping," *International Affairs* 92 (4): 941–957, <https://doi.org/10.1111/1468-2346.12660>

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Hu, Biliang, Qingjie Liu, and Jiao Yan. 2017. "Promoting the Belt and Road Initiative by Strengthening '5 1' Cooperation." In *China's New Sources of Economic Growth: Human Capital, Innovation and Technological Change*, edited by Song Ligang, Garnaut Ross, Fang Cai, and Johnston Lauren, 409-30. Australia: ANU Press. <http://www.jstor.org.du.idm.oclc.org/stable/j.ctt1trkk3v.25>.

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The current paranoia emanating from associating BRI with something the conservatives in the US are calling *China's Sharp Power* expresses a heightened sensitivity in these circles. EU officials ---not to be outdone---also unveiled their own Global Gateway initiative on September 15, 2021 subsequent to US formation of the Quad and its own infrastructure fund as a sideshow. Both the US and EU add words such as sustainability and human rights in their efforts to counter what they perceive as PRCs so far successful geopolitics via the BRI. European Commission President Ursula von der Leyen has underscored the intention to compete with BRI by calling the

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[perspective.pdf](#)

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Global Gateway initiative as a move with the goal of ushering in a “new era of hyper-competitiveness.”

Official adoption of BRI by the Chinese Communist Party(CCP) took place during the 19th National Party Congress in 2017. This was also the year when the Global South, particularly Africa also became a part of BRI. The CCP formally adopted the Belt and Road Initiative (BRI) under its Party Constitution as part of a resolution to achieve “shared growth through discussion and collaboration.” Consequently, President Xi Jinping endorsed a strategy of PRC’s international engagement defined by BRI, interpreted by Japan and most of the west as signaling a sustained commitment to BRI as an International Relations initiative by China. Does this Party Congress mark the point at which Chinese foreign policy rhetoric finally shifted to an operational program? One cannot be so sure, of course and much analytical work in International Relations, International and Global Political Economy and technical International Economics remains to be done.

One critical question in the post-COVID world is: will the COVID-19 pandemic lead to a decline of commitment to BRI and turn China’s development strategy inward as the “dual circulation” policies take shape? Can BRI adapt to the dual circulation after the pandemic? The difficulties for the BRI initiative are real but not insurmountable. Undoubtedly arguments for scaling down and mainly Eurasian and Southeast Asian focus made by scholars such as Khan(2018a,b;2021) based on balance of payments constraints now seem prescient. However, as Min Ye(2020) points out, the domestic political forces behind the launch of BRI are still at work, and therefore, “...the interests and institutions that emerged during its implementation over the past few years remain robust in China”. One underlying economic reason that is still important is the role of BRI-related exports that relieve overcapacity in Chinese heavy industry. Khan (2018b) gives quantitative estimates and counterfactual modeling results to demonstrate the significance of the overcapacity factor and other causally relevant factors including some countervailing factors. He concludes that BRI will continue as China’s geo-economic and geopolitical strategy on a more restricted geographical domain.

## **2. Moving Towards a Geoeconomic and Geopolitical Analysis of BRI Based on Logical Modeling Foundations:**

Although social science work on BRI is of relatively recent origin, non-economic analyses have dominated the work done so far. The main purpose of this brief note is to offer a preliminary analysis of the BRI impacts on PRC, and the Geoeconomic and Geopolitical consequences. The implications of BRI for the Chinese economy can be examined in terms of output and employment effects in a multi-sectoral context. The preliminary findings by this author using input-output and social accounting matrix based modeling confirm that progress has been made in shared growth agenda. Despite the COVID-19 crisis, further progress towards deepening the BRI towards the Global South in particular is possible although in the worst-case scenario, some shrinkage in size may occur partially reversing course on BRI. But it should be kept in mind that the Chinese initiative has a large geopolitical and diplomatic component in addition to considerations of economic security and prosperity which are also important.

It should be mentioned that in approaching strategically the problems of China's geoeconomics and geopolitics (Zhang et al. 2018, 301-318; Zhang and Xinshen 2013; Zhixin 2016, 55-56) and in drawing the consequences for economic growth by considering both efficiency and equity aspects, we are following the goals of dual circulation and moderate prosperity in China that are consistent with the advice given by economists like Stiglitz, Sen and Khan.<sup>2</sup> They and their followers emphasize the need to think of the economy as a system that should be evaluated from the perspective of both human well-being fulfilment and economic efficiency.

To the extent many of the BRI-affected sectors in the PRC have public or collective goods characteristics, their distribution is relatively more equitable than private goods in a society with

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<sup>2</sup> See Joseph Stiglitz, "How to Restore Equitable and Sustainable Economic Growth in the United States." *American Economic Review* 106, no. 5 (2016): 43-47. In development economics, the debate goes back several decades, e.g., Amartya Sen, (1999). See also Khan (2021a,b;2020, 1997a; 1997b;2017a,b,c; 2016;1997a,b, 1998,2002, 2004a,b,c; Khan and Thorbecke 1988,1989).



highly unequal income and wealth distribution.<sup>3</sup> Not only have the income, wealth and other types of inequalities in the PRC been high and steadily increasing since the mid-1990s compared particularly with Japan or even Taiwan, these inequalities pose grave threats for social and political cohesion of China in the near future. No abatement is possible unless countervailing public policy measures are taken. Increasing the supply of public and collective goods can be one way—but not the only way and certainly not the magic bullet— of mitigating inequalities in the PRC. To the extent, BRI will affect these sectors positively or negatively both directly and indirectly through the backward and forward linkages in the PRC economy, to that extent BRI will have beneficial or adverse consequences distributionally for years to come. This will indeed be a policy matter of great moment for the Chinese elite.

Therefore, clearly---- as the political scientists claim correctly---- the debate on BRI is also—even primarily—both a domestic political and an international geopolitical debate in China. The economists can provide through their modeling of possible economic consequences of various types of BRI policies the necessary data that can be used scientifically in this important public policy debate, the outcome of which depends ultimately on political coalition building and political institutional processes within and outside the CCP and Chinese government. It should also be emphasized here that with the narrativist turn in some areas of social sciences the construction of a persuasive story for identifying the common good and then uncovering and undertaking policies for common good also crucial(Khan 2022). The process leading up to the BRI decision was clearly a political one although economic “analysis”—sometimes of dubious nature—was advanced occasionally.

In terms of another Nobel laureate Amartya Sen’s capabilities theory, (Sen 1992; Sen 1999; Sen 2009)—especially in the version extended by Khan ( Khan 1997a; Khan 1997b; Khan 1998; Khan 2017a; Khan 2017b)<sup>4</sup>— economic consequences of the BRI policy— if negative—will make the

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<sup>3</sup> Stiglitz (2013,2016).Also Kang and Khan(2016); Khan, Schettino and Gabriele (2017) and Khan and Schettino(2018), Kong(2015),Nie(2016, Ratner(2018), Callahan(2016), Chatzky and McBride(2019),Clarke(2017), Vangeli(2017), Zhai(2018)

<sup>4</sup> See also Judzik, Khan and Spagnolo (2016) for an analysis of human capabilities enhancing policies in a learning economy. The PRC increasingly fulfils the requirements of a learning economy with a dynamic innovation system. See also Khan (2004a,b,c).

PRC much less equitable in social capabilities terms than it would be otherwise. On the other hand, if those consequences turn out to be positive distributionally, these will affect equity in the PRC in a more substantially positive sense socially by increasing human capabilities in the PRC.<sup>5</sup> In the absence of detailed survey based data on well-being indicators, the economy wide employment and income generated by the consequences of BRI can serve as a proxy for an initial approximation of the effects of BRI on well-being in the PRC (Sen 1999; Khan 1997a; Khan 1998; Khan 2017a,b,c;; Khan 2018).

The detailed empirical results that I have derived based on modeling using data from Chinese Input-Output and Social Accounting Matrices indicate modest economic gains for PRC but large gains for its BRI partners particularly in Africa and Central Asia. This is true especially for the high Chinese investment scenario.

### **3. The Economic and Geopolitical Impact of BRI on the Global South---a few brief remarks**

This subject requires an extensive book length treatment. Here I can offer only some brief observations given the limitations of space. Chinese investments in Africa in particular have created geopolitical controversies and have led to potential military preparations and responses by the US in particular. Several observations are in order:

- 3.1 Other than the Djibouti base where other powers including Japan have military bases that predate China's, so far China does not seem to have any longterm strategic plans for military bases in Africa or elsewhere in the Global South. This may change but so far the facts do not support the US presumption that China is the new colonizer.
- 3.2 So far Chinese investments show a fairly pragmatic bent. There are no political or human rights conditionalities. In this area, China seems to be following the earlier Japanese path in the 1980s. Here the input-output and social accounting matrix based detailed economy wide modeling can help by allowing us to pose specific counterfactual questions related to economic impacts on specific countries in the Global South along with a clear picture of the complex interdependent economic relations for each country internally and externally.
- 3.3 Of course, China has been criticized precisely because of indifference to human rights. It has also been criticized for not hiring enough African skilled workers and managers. This

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<sup>5</sup> For an analysis of racism in an unequal society and its impact on human capabilities, see Khan (2016)

is particularly the case for Chinese private investment. On the whole, though African governments welcome Chinese trade and investment, these issues may fester and cause frictions with China.

3.4 Much depends on the reform moves in China. If the dual circulation economy develops the domestic side in PRC more effectively and extensively, the need for exporting and investing abroad will decrease along with a downward movement in current account surplus. If the party succeeds in bringing private capital under control and pursue a strategy of common prosperity, the inner compulsion to export capital will decrease.

3.5 Geopolitically, Chinese energy security and more broadly, national security have led already to the belt part towards central Asia and the Eurasian landmass being prioritized. Chinese navy has the long term goal of expelling the US at least from the first chain of islands. But short of Taiwan declaring independence, it will probably not risk a war. If a war does break out, it is doubtful that PRC will have the political will and military capability to challenge the US in Africa or Latin America. Therefore, the fundamental rational geopolitical strategy for China will be to be a regional hegemon at best. But much will depend in game theoretic terms on what the US considers to be its best strategic response to a rising power like China.

#### **4. Brief Prognosis for the 2020s and 2030s**

However, over the next two decades, *ceteris paribus*, the demand generated by BRI will in all likelihood increase thus enabling the Chinese economy as well as the other BRI connected economies---particularly in the global south---to expand. Not only will these economies expand but given the tendencies towards more high-end technology intensive goods exports, China and other relatively advanced BRI economies will see their more advanced sectors expand relatively quickly leading to an accelerated growth impact of 1 to 1.5 per cent per annum, *ceteris paribus*. Again, even this more attractive scenario for China can be generated by increased demand for domestic consumption and investments with the latter also stressing the priorities of Made in China 2025.

Thus, our results in both scenarios establish the primacy of geopolitics over geoeconomics for China. This is particularly true in the land-routing of energy through Russia and Central Asia. Happily for China, here geopolitical and geoeconomic factors play an equal and complementary role through the BRI thus leading towards a genuine win-win situation. But such success will most likely result in further hostile stance from the US and EU. For the latter, much will depend on the domestic politics of individual countries, particularly Germany and France.

In terms of broader geopolitics, four sets of geopolitical observations seem pertinent to me. First, as Khan(2021) and several others have underlined, the United States and China are now advancing towards being locked in a geopolitical competition. As Khan(2018a,b;2021a,b) emphasizes, this is for the time being primarily still in Asia. Although not deterministic, the path-dependent evolution of this competition will delineate the rules, norms, and institutions that govern international relations in the emerging global order-disorder dialectic through the coming decades, deciding crucially matters related to global peace and prosperity.

Our second observation is that the United States might be losing this competition in ways that increase the likelihood of the rapid decay of the US-led order in Asia and perhaps in other parts of the world. However, China by itself will not be able to affect this substantially with or without the BRI.

Third, the overreaction of the US government, media and punditry has failed to approach this competition realistically. Washington—and the west in general—is still mired in prejudices from their collective imperial past and present. The theories with which our analysts in IR and IPE work and the advice they give are based on a fundamental misunderstanding of the grievances of the dominated peoples all over the world many of whom now are looking for an alternative world order with new leadership. It remains beyond the vision and imagination of these advisors in the west that China is not Japan and cannot be pushed around as Japan was in the 1980s and 1990s continuing up to the present. One hopes that the days of western hegemony and neocolonialism

will end in this century but how violent this end will depend on the west being able to disentrall itself from its pet myths of a benign “liberal” world order constructed by the US after WWII.

Here an observation regarding soft power is also in order. Recently, the Chinese have begun to pay attention to this important concept with many practical consequential aspects.<sup>6</sup> So far, the thinkers in the West—particularly in the US—have neglected this dimension of “Nonwestern” and “socialist” soft power. The underlying assumption seems to be that the type of problematic modernity that came to prevail in the Global North is the only modernity possible. This is not only shallow and arrogant but also shortsighted, ignorant and downright dangerous.

Finally, with a sound understanding of the realities and the need to be less hypocritical and more deeply honest about western domination and exploitation of the rest, the way can open for constructive changes in the west and the east including PRC. Despite current trends, the United States can if it can become more deeply democratic and accountable than it has been throughout its entire history, arrest China’s momentum and prevent the growth of an illiberal order in Asia. The foundations of American power remain strong, If the US can approach the global issues more responsibly and democratically in a multilateral context, global peace and prosperity can be achieved.

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<sup>6</sup> Apparently, three different Chinese phrases have been used for soft power—*ruan shili*, *ruan quanli*, and *ruan lilian*. So far as official usage is concerned, in Hu Jintao’s political report delivered to the 17th Party Congress, he used the term *ruan shili*. But Chinese scholars seem undecided about which term is the most appropriate.

## **5. Concluding Remarks**

If one focuses on purely economic analyses, it appears that economic gains for PRC from the BRI so far are not enormous although future synergies can multiply these manyfolds. However, more important than just pure economic costs and benefits may be strategic international political factors. To this extent, we need to consider this preliminary economic impact analysis within a broader strategic framework.

Although the original investment impetus came largely from China's balance of payment surplus, excess capacity in PRC and the profit seeking by its private sector firms, by now the geopolitical motives are the main drivers of BRI with modest prospects of economic gains but real prospects of energy security and overall trade and investment security. But this is a delicate and fraught game in geoeconomics and geopolitics in the 21st century. So far, the US and EU responses lack subtlety and nuance. Such responses fuelled by fear and insecurity on the part of these powers can lead to a dangerous geopolitical conflict.

Therefore, future follow up discussion of Chinese foreign policy, US-China and EU-China relations in the context of BRI should begin with an understanding of the overall international political context in the third decade of the 21<sup>st</sup> century. Meanwhile, with illiberalism developing in the US and other advanced countries, many countries in different parts of the world will probably go their own way and a disorderly international system is likely to be the "order" during the current and the next decades.

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