

One Belt, One Road (OBOR) and The Asian Infrastructural Investment Bank (AIIB)

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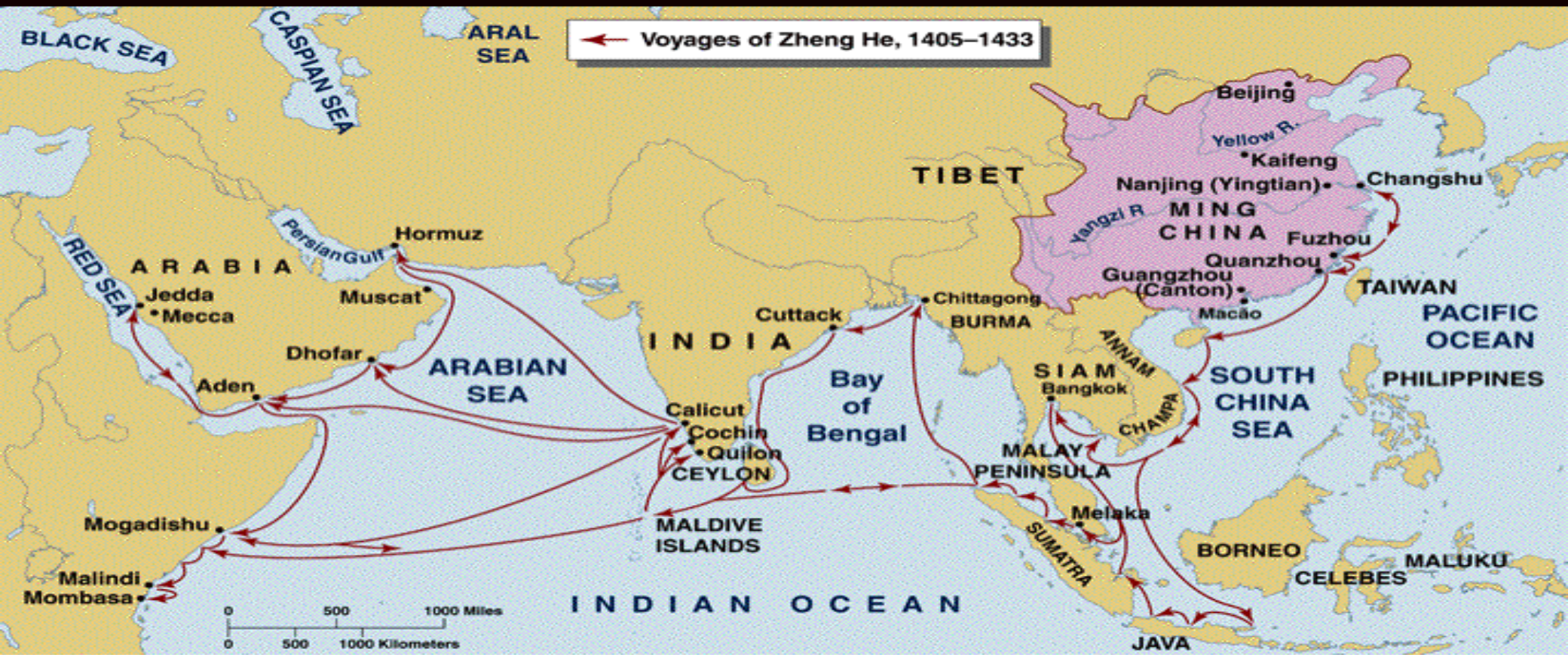
Introduction

- ◆ The Old Silk Road was an ancient land route that linked the present-day Xian and the Roman Empire, the East and the West of the Old World, approximately two thousand years ago. It was a route for not only international trade but also cultural exchange. For example, Buddhism and Zoroastrianism, both of which originated from outside of China, entered into China through the Old Silk Road.
- ◆ The Old Silk Road went from present-day Xian to Dunhuang, and through Xinjiang and Central Asia to present-day Turkey and Istanbul and to points further West.
- ◆ At the time of the Yuan Dynasty (1271-1368) in China, the Old Silk Road was supplanted by a Maritime Silk Road which originated from Quanzhou in present-day Fujian Province, which reached Southeast Asia, the Middle East and Africa. Marco Polo reportedly sailed home to Venice from Quanzhou.
- ◆ In the Ming Dynasty in China, which followed the Yuan Dynasty, Admiral ZHENG He undertook expeditionary voyages to Southeast Asia, South Asia, West Asia, and East Africa from 1405 to 1433.

Introduction: The Old Silk Road (map created by OrexCA.com creative group)



Introduction: Voyages of Admiral ZHENG He (1405-1433) (map from www.history.ubc.ca)



MAP 2-6 VOYAGES OF ZHENG HE, 1405-1433

Introduction

- ◆ The “One Belt, One Road” Initiative was launched by President XI Jinping in September 2013 in Kazakhstan and in October 2013 in Indonesia. It consists of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road (One Belt, One Road).
- ◆ The Silk Road Economic Belt, as the Old Silk Road, links Asia, Europe and Africa together. It brings together China, Central Asia, West Asia, Middle East, North Africa, Russia and Europe. It will encompass new Eurasian Land Bridges.
- ◆ The 21st-Century Maritime Silk Road is designed to connect China’s coastal regions to Europe through the South China Sea and the Indian Ocean in one route, and through the South China Sea to the South Pacific and Oceania in the other. However, the “Northern Passage” has also been proposed to be part of the 21st-Century Maritime Silk Road.

Introduction

- ◆ The Belt and Road Initiative is a long-term strategic policy of the Chinese Government and is expected to be implemented over the next several decades, in cooperation with the governments and private sectors of different countries in Asia, Europe and Africa. In addition to its economic dimensions, it also has cultural, diplomatic and geopolitical dimensions.
- ◆ Economically, many of the developing economies in the ASEAN, the Central Asian, South Asian and Middle Eastern regions face three major bottlenecks to their development—a shortage of capital, inadequate public infrastructure, and a low level of international trade.
- ◆ OBOR and AIIB, together with the Silk Road Fund, can help these developing economies overcome these bottlenecks, working together with other institutions of developmental finance, such as the World Bank, the Asian Development Bank, the BRICS Development Bank and the China Development Bank.

Introduction

- ◆ Public infrastructural investment, such as airports, highways, railroads, harbors, ports, and power plants in these economies can make possible domestic production and exports (and imports) at an efficient scale, which in turn can enable the expansion of both their GDP and international trade.
- ◆ Moreover, with foreign exchange proceeds derived from exports to underpin the repatriation of principal, profits and interest earnings, the inflow of foreign direct and portfolio investment and foreign loans becomes possible for individual economies. On the basis of the imported capital (foreign savings), these developing economies can begin to invest and grow and take off to a stage of self-sustaining economic growth as other economies, such as Israel, Taiwan, South Korea and China, before them.

Introduction

- ◆ The Chinese economic development experience as well as the experiences of the other East Asian developed economies have demonstrated the critical importance of public infrastructural investment and export promotion policies, especially at the early stage of their economic development. Without the potential foreign exchange earnings from exports, it is difficult to attract foreign direct and portfolio investment or foreign loans as the investors and lenders ultimately need to be compensated in foreign exchange.
- ◆ There is no shortage of labor in these developing economies and for that matter no real shortage of capital as long as investors and lenders can be assured of repatriation of capital and profit and repayment in terms of foreign exchange.

One Belt, One Road (OBOR)

- ◆ The “One Belt, One Road (OBOR)” Initiative is a multi-country, multi-decade project that has the potential of transforming the economies of not only China, but the entire Asia (including Oceania)-Europe-Africa. It is an undertaking that will benefit the whole world.
- ◆ It will promote the development of infrastructure linking all three continents by land and by sea (the Eurasia land bridge, the maritime silk road, and the northern passage), promoting economic development and international trade among all the countries involved.

One Belt, One Road (OBOR)

- ◆ The “One Belt and One Road” initiative potentially involves 66 countries, with a combined population of 4.4 billion people (63% of the World) and a combined GDP of US\$21 trillion (29% of the World). It is China’s most ambitious, important and strategic external initiative to-date. But as most of these countries are still developing economies, their potentials for further development and growth are much higher than the developed economies.
- ◆ Accelerating the building of the public infrastructure of the Belt and Road can help enhance the economic prosperity of the countries along the Belt and Road and regional economic cooperation, strengthen exchanges and mutual learning between different civilizations, and promote world peace and development.
- ◆ The New Silk Road also supports the same spirit as the Old Silk Road, with emphases on “peace and cooperation, openness and inclusiveness, and mutual learning and mutual benefit”* among all the countries and people on the Belt and Road.
- ◆ *Taken from Full text: Action plan on the Belt and Road Initiative, updated: Mar 30,2015 7:31 PM, english.gov.cn.

One Belt, One Road (OBOR)

- ◆ There are actually many belts and many roads (For example: The China-Pakistan Economic Corridor; The Eurasian land bridge; the Central and Eastern Europe (CEE) initiative; the 21st Century Maritime Silk Road).
- ◆ It will promote international trade, not only from Asia to Europe, but also from Europe to Asia, in both directions as well as along the way, so that it is win-win for all on the Belt and Road.
- ◆ The 16 countries of CEE recently met in China to discuss possible Chinese financing for their public infrastructural projects.
- ◆ Ultimately, there will be an integrated Asia (including Oceania)-Europe-Africa market with international division of labor, bring economic prosperity to all.

Asian Infrastructural Investment Bank (AIIB)

- ◆ AIIB is established as a multilateral institution of developmental finance for the promotion of sustained and stable economic growth in Asia through its support of the construction of public infrastructure.
- ◆ The modus operandi of AIIB “will be lean, clean and green: lean, with a small efficient management team and highly skilled staff; clean, an ethical organization with zero tolerance for corruption; and green, an institution built on respect for the environment.”*
- ◆ AIIB will be open and inclusive to participation to all countries; 57 Founding Member Countries including: Australia, Brazil, China, Germany, India, Israel, Saudi Arabia, the United Kingdom and Vietnam.
- ◆ AIIB complements and supplements the existing multilateral and bilateral institutions of development finance which do not have sufficient resources to meet all the infrastructural investment needs of developing economies in Asia.
- ◆ *from “What is the Asian Infrastructure Investment Bank? – AIIB”₁₃
www.aiib.org/html/aboutus/AIIB/.

Asian Infrastructural Investment Bank (AIIB)

- ◆ The projects that AIIB will finance include energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics.
- ◆ These potential demands are estimated to be as high as US\$10 trillion over the next decade or two—the sooner this infrastructure can be built, the better.
- ◆ The AIIB will be professionally managed with open recruitment for all the senior management positions. The President-Designate is Mr. JIN Liqun, a former Vice-Minister of Finance of the People's Republic of China. Mr. JIN has made good governance at the AIIB as his goal.
- ◆ The Silk Road Fund can provide the necessary equity investment for the infrastructural projects.

Asian Infrastructural Investment Bank (AIIB)

- ◆ Public infrastructure typically has long lives (say 40 years) and long gestation and payback periods and very often cannot be financed on commercial terms. This is where development banks such as AIIB comes in.
- ◆ Some types of public infrastructure may be development leading (e.g., new highways). Other types of public infrastructure may never be profitable (e.g., a mass transit system designed to reduce congestion and environmental pollution). Thus, public financing or subsidies may also be required.
- ◆ In addition to physical infrastructure, the financial infrastructure is sometimes also very important. Private enterprises, especially small and medium enterprises, frequently need short-term financing. A network of commercial banks serving private enterprises efficiently may also be necessary. The infrastructure required may include real-time clearing and settlement systems and regulatory agencies.

What is in it for China and the World?

- ◆ OBOR and AIIB aim to create value and to result in a win-win outcome for all, and especially for developing economies in Asia and Africa. But developed economies will also benefit by being suppliers and contractors to these developing economies.
- ◆ OBOR and AIIB will greatly facilitate the growth of international trade and investment in both directions along the Belt and Road by creating new export and import opportunities.
- ◆ These efforts will increase aggregate demand, and hence the growth of real GDP, employment and international trade not only in the individual project countries but also worldwide.
- ◆ The Belt and Road will help promote peace through prosperity and rising economic interdependence as well as cultural exchange. It will help lift even more people out of poverty.

What is in it for China and the World?

- ◆ For China, it will be able to achieve six objectives.
- ◆ (1) the further reform and opening of the Chinese economy to accommodate and support the Belt and Road Initiative;
- ◆ (2) the productive investment of surplus savings for future use as its population ages;
- ◆ (3) the development of Western China, including Xinjiang, as direct and faster international trade routes over land are open;
- ◆ (4) the absorption of excess domestic manufacturing capacity and new export markets for the design and construction of public infrastructure such as highways, railroads, power plants and mass-transit systems;
- ◆ (5) the further expansion and diversification of its trade routes and trading partners; and
- ◆ (6) the creation of a peaceful and friendly environment for China to continue to develop and prosper, to fulfill the “Chinese Dream” of national renaissance.

Concluding Remarks

- ◆ OBOR, AIIB and the Silk Road Fund are all efforts designed to accelerate the growth of the GDP, employment and international trade of developing economies in Asia, and hence indirectly the growth in the World economy as a whole as well. All countries are welcome to participate in these efforts.
- ◆ The success of these efforts will benefit everyone, either directly or indirectly, and not only China.
- ◆ Economic prosperity for all, especially if it is based on international economic interdependence, is an effective instrument for the promotion of sustainable peace as well as an effective antidote against terrorism.