

CHINA'S "BELT AND ROAD INITIATIVE" AND ITS IMPLICATIONS FOR AUSTRALIA

Discussion Paper prepared for the Australia-China Annual Think Tank Economic Dialogue

Hosted by the Chinese Academy of International Trade and Economic Cooperation (CAITEC) and the Australia-China Relations Institute (ACRI) at the University of Technology Sydney

by

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The Grand Hotel, Beijing, China

18th June 2017

Disclosure: Saul Eslake travelled to China as a guest of CAITEC.

What is the 'Belt and Road Initiative'?

The 'One Belt, One Road' (一带一路 or *yidai yilu*) or, as it is now called, 'Belt and Road', initiative marks a decisive departure from Deng Xiaoping's advice to "hide one's capacities and bide one's time" (韬光养晦 or *tāo guāng yǎng huì*). It is, arguably, China's most important initiative so far in shaping its engagement with its nearest neighbours, and with the Eurasian land mass – if not with the world as a whole. It is emerging as key element in President Xi Jinping's "Chinese dream" (中国梦), first enunciated in November 2012, of the "great rejuvenation of the Chinese nation" – or, to put in another way, "making China great again".

The 'Silk Road Economic Belt' was first formally announced by President Xi Jinping in a speech at Nazarbayev University in Kazakhstan on 7th September 2013, in which he noted that "more than 2,100 years ago, during China's Western Han Dynasty (206 BC-AD 24), imperial envoy Zhang Qian was sent to Central Asia twice to open the door to friendly contacts between China and Central Asian countries as well as the transcontinental Silk Road linking East and West, Asia and Europe". Xi proposed that members of the Eurasian Economic Community, including China and Kazakhstan, "jointly build the 'Silk Road Economic Belt' step by step to gradually form overall regional cooperation"¹.

Four weeks later, in a speech to the Indonesian Parliament, President Xi Jinping recalled that "Southeast Asia has since ancient times been an important hub along the ancient Maritime Silk Road", and committed to "vigorously develop maritime partnership in a joint effort to build the Maritime Silk Road of the 21st century"².

The two proposals were then brought together at a CCP conference on 'peripheral diplomacy' (that is, relations with neighbouring countries) held in Beijing on 24th and 25th October 2013. At this conference, Xi Jinping stressed the importance of making "joint efforts with relevant countries to accelerate infrastructure connectivity, to build Silk Road economic belt and Maritime Silk Road of the 21st century"³. According to Xinhua, President Xi said "China should accelerate establishment of free trade zones, with neighbours as the foundation stone, expand trade and investment and create a new pattern of regional economic integration"⁴.

The concept was formally endorsed at the Third Plenary Session of the 18th Central Committee of the CCP in November 2013. Since then, there has been an ongoing stream of announcements regarding funding for 'Belt and Road' projects, including from the Asia Infrastructure Investment Bank (AIIB), which was formally launched in October 2014 and commenced operations in January last year; a US\$40bn Silk Road Fund, announced in November 2014; and substantial loan commitments from the BRICS New Development Bank, the China Development Bank, the Export-Import Bank and the China Construction Bank.

PwC have estimated that total external financing by Chinese Government agencies for 'Belt and Road' projects could amount to US\$1 trillion over the next ten years⁵. More recently, the ultimate level of Chinese in 'Belt and Road' projects has been put at US\$4 trillion⁶.

¹ Ministry of Foreign Affairs of the PRC, [President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries](#), 7th September 2013.

² ASEAN-China Centre, [Speech by Chinese President Xi Jinping to Indonesian Parliament](#), 2nd October 2013.

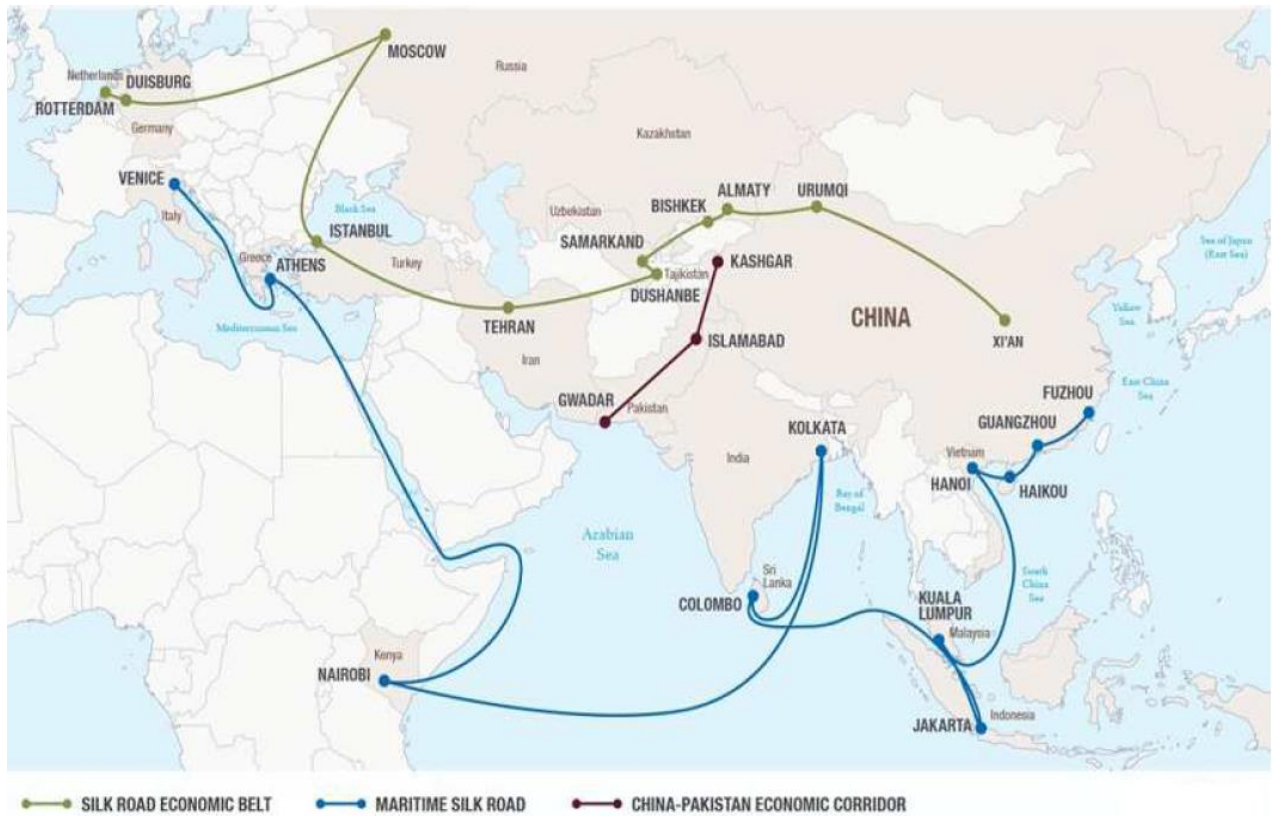
³ Ministry of Foreign Affairs of the PRC, [Xi Jinping: Let the Sense of Community of Common Destiny Take Deep Root in Neighbouring Countries](#), 25th October 2013.

⁴ 'Xi Jinping: China to further friendly relations with neighbouring countries', Xinhua, 26th October 2013.

⁵ Yeroen van der Leer and Joshua Yau, [China's new silk route - the long and winding road](#), PwC Growth Markets Centre, February 2016, p. 4.

⁶ Christopher M Campbell, [If you build it they will come](#), China Daily, 5th June 2017.

Chart 1: The Silk Road Economic Belt and 21st Century Maritime Silk Road



Source: Xinhua.

Total Chinese investment in 'Belt and Road' projects since 2013 has amounted to about US\$50bn, according to He Lifeng, Director of the National Development and Reform Commission, speaking at a press conference outside the session of the 12th National People's Congress in March this year⁷.

'Belt and Road Initiative' projects now span more than 60 countries. In his speech to the Belt and Road Forum held in Beijing last month, attended by 29 Heads of State and representatives from over 130 countries, President Xi Jinping noted that China had now signed 'co-operation agreements' with over 40 countries and carried out 'framework co-operation on production capacity' with more than 30 countries⁸.

Within China, there has been a flurry of activity related to the 'Belt and Road Initiative'. At least 30 of China's 34 provinces now have an OBOR strategy, even though only 18 of them are officially listed as 'key' to the plan⁹. Most major state-owned enterprises and many companies have OBOR plans: US multi-national GE's Vice-Chairman was quoted in the Australian press recently as saying that "very company that GE had worked with had an OBOR plan" and that "One Belt One Road is more than an initiative – it is a way of life"¹⁰.

There is even a Chinese pop song which portrays 'One Belt One Road' as "a new worldwide tide, mankind's beautiful quest"¹¹.

⁷ ['China's investment to Belt and Road countries exceeds 50 bln USD: official'](#), Xinhuanet, 3rd March 2017.

⁸ Xi Jinping, '[Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road](#)', Xinhua, 14th May 2017.

⁹ Brenda Goh, '[Chinese provinces fizz with fervor for Xi's New Silk Road](#)', Reuters, 10th March 2017.

¹⁰ Tony Boyd, '[Opportunities for business in China's One Belt One Road](#)', Chanticleer column, Australian Financial Review, 23rd May 2017.

¹¹ Zhou Yanhong (周艳泓), '[One Belt One Road](#)', 13th August 2015.

Officially, the 'Belt and Road Initiative' has five major goals – policy co-ordination; connectivity of facilities (in particular, transport and communications infrastructure); unimpeded trade; financial integration; and 'people-to-people bonds'¹². Various commentators have suggested that the 'Belt and Road' Initiative is intended to further a number of other Chinese economic objectives and aspirations, including promoting economic development in China's western provinces, through which the 'Road' in particular passes; encouraging greater use of the renminbi in international transactions; providing alternative and more secure pathways for critical imports, including energy; providing new markets for Chinese industries afflicted by 'spare capacity'; and promoting the wider acceptance of Chinese standards in high-speed rail, airports, telecommunications and energy¹³.

There is also, almost certainly, a geo-strategic dimension to the 'Belt and Road' initiative¹⁴ - just as there was to the roads built across Europe by the Roman Empire, the construction of the Suez and Panama Canals, and the trans-Siberian railway, all of which had purposes beyond promoting trade and 'people-to-people' bonds. This is emphatically not a criticism of the 'Belt and Road Initiative': but the fact that this dimension has been widely perceived is, inevitably, a consideration in how other countries, including Australia, will assess and respond to the Initiative.

What does the 'Belt and Road Initiative' mean for Australia?

As is readily apparent from any of the maps depicting the 'Belt and Road', Australia isn't on it. Nonetheless, as President Xi Jinping said in his address to the Australian Parliament in November 2014, "Oceania is a natural extension of the ancient maritime Silk Road, and China welcomes Australia's participation in the 21st century maritime Silk Road"¹⁵.

The 'Belt and Road Initiative' is thus of considerable potential interest to Australia, from a number of perspectives, including opportunities for Australian businesses arising from infrastructure and other projects in countries which are formally on the 'Belt' or the 'Road', and Chinese involvement in infrastructure projects in Australia which may complement various aspects of the 'Belt and Road' initiative.

Australian firms have considerable expertise in areas such as the design, construction, financing, and management of infrastructure projects and operations for which there are likely to be profitable opportunities arising from 'Belt and Road' projects in Asia and Europe. Education and training in the skills required for these areas may be another area of opportunities for Australian institutions and businesses¹⁶.

¹² National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, [Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road](#), 28th March 2015.

¹³ See, for example, Christopher K Johnson, [President Xi Jinping's "Belt and Road Initiative"](#), Center for Strategic and International Studies, Washington DC, 28th March 2016, pp. 17-19; Bank of China, 'RMB to become "One Belt One Road" mainstream currency' ([人民币料成“一带一路”主流货币](#)), 20th June 2016;

Peter Cai, [Understanding China's Belt and Road Initiative](#), The Lowy Institute for International Policy, Sydney, 22nd March 2017, pp. 6-16; and Huw Mackay, [One-Belt One-Road initiative: episode one](#), *Prospects*, BHP Billiton, Melbourne, 27th March 2017.

¹⁴ See, for example, Jane Golley, David Murphy and Michael Wesley, 'The Geonomics of One-Belt-One-Road', in [China: Wealth and Power](#), Australian National University, Canberra, 7-8th April 2016; Geoff Wade, [China's 'One Belt, One Road' initiative](#), Parliamentary Library Briefing Book, Parliament of Australia, Canberra, 2016; and Hans Hendrischke and Wei Li, *The sustainability of Chinese direct investment in Australia*, Paper presented to the Australia-China Economic Dialogue, June 2017.

¹⁵ Commonwealth of Australia, House of Representatives, [Address by the President of the People's Republic of China, Hansard](#), 17th November 2014, pp. 12720-12724.

¹⁶ Professor Liang Haiming, as quoted by Mukund Narayanamurti, [Why business should get behind a one-belt, one-road China](#), *Blue Notes*, ANZ, 11th March 2016.

Opportunities for Australian firms to participate in 'Belt and Road' related projects in China itself should in some cases be enhanced by the market-opening provisions of the China-Australia Free Trade Agreement. However, both within China and especially in other 'Belt and Road' countries where Australian firms do not have any significant established presence, opportunities for Australian firms are more likely to be enhanced by more formal collaboration with Chinese firms.

The other important dimension of the 'Belt and Road Initiative' from an Australian perspective is the extent to which it may incorporate infrastructure projects within Australia. Australia needs to invest a lot in infrastructure, both to make up for past under-investment, especially in urban transport, or mis-directed investment, especially in energy; to capitalize on emerging new technologies; and to facilitate new opportunities for international trade, including with China.

As a capital-intensive economy with a relatively small population spread across a very large geographical area, Australia has been partially reliant on foreign capital to meet its investment requirements ever since the commencement of European settlement. What has changed over time is the origin of that capital – from Britain and other European countries until the 1960s, then from the United States and Japan, and more recently from other Asian countries, including China, and the Middle East. According to the Australian Bureau of Statistics, Chinese investment into Australia totalled A\$87.3bn at the end of 2016, of which almost \$42bn was direct investment (as opposed to portfolio investment in shares and bonds)¹⁷. Data compiled by KPMG and the University of Sydney puts the cumulative value of Chinese direct investment between 2007 and 2016 into Australia at US\$89bn¹⁸ – equivalent to almost A\$120bn at current exchange rates. An increasing proportion of this investment – 28% in 2016 – has been in infrastructure (in particular, seaports).

Infrastructure investment raises particular political sensitivities in Australia because, although Australia has always been a predominantly capitalist economy, the provision of transport and energy infrastructure has historically been undertaken by government departments or state owned enterprises (as is also the case in China). The movement towards greater involvement of private enterprises and investors, whether Australian or foreign, in the provision and operation of infrastructure assets, has not been without numerous difficulties: many Australians feel, rightly or wrongly, that the result of 'privatization' has been higher prices and inferior standards of service, the opposite of what had been promised¹⁹. Many Australians resent the fact that investors from countries which don't permit foreigners to purchase land, businesses or other assets are nonetheless allowed to do so in Australia²⁰. The fact that these differences in foreign investment policy may reflect different political systems, or a polar opposite balance between domestic saving and investment, does not usually persuade Australians who hold these views to a different opinion.

These and other sensitivities have to be borne in mind when evaluating Australia's response to the 'Belt and Road Initiative' – just as Australia has had to be mindful of, for example, Chinese sensitivities when pursuing greater access to Chinese markets during negotiations over the China-Australia Free Trade Agreement.

¹⁷ Australian Bureau of Statistics, [International Investment Position, Australia: Supplementary Statistics, 2016](#) (catalogue no. 5352.0), 10th May 2017.

¹⁸ KPMG and the University of Sydney, [Demystifying Chinese Investment in Australia](#), May 2017.

¹⁹ See, for example, the views of Australian Competition and Consumer Commission Chairman Rod Sims, as reported by Ben Potter, '[Why ACCC boss Rod Sims lost it with privatisation](#)', *Australian Financial Review*, 27th July 2016.

²⁰ As but one example, see Anne Taylor, '[Stop foreign ownership of our farms and public assets to protect our food security and national security](#)'.

In particular, Australia's response should not be influenced by fear – either of China's purposes in promoting the 'Belt and Road' Initiative, or 'fear of missing out' (FOMO) on business opportunities in China, and Chinese investment in Australia.

There would seem to be little reason for concern if Australia were to sign a 'memorandum of understanding' similar to the one agreed between China and New Zealand earlier this year.

That Memorandum²¹ provides for both sides to "respect each other's interests and major concerns to deepen mutual trust", to "maintain and enhance existing bilateral co-operation and multilateral mechanisms", and to "promote practical co-operation in areas of mutual concern".

It provides that China and New Zealand will "carry out senior-level dialogue and promote communication" on macro policies and development strategies", including as to "how they will best support the Belt and Road Initiative in line with [their] comparative advantages"; it includes a numerical target for the value of two-way trade by 2020 and a commitment to "conduct mutually beneficial co-operation" in a number of fields, including infrastructure, agricultural technologies and clean energy; it provides for "cultural exchanges", including specifically in film and television"; and it commits both countries to "enhanced co-operation" in various multilateral fora including APEC, the AIIB and the Pacific Islands Forum". The agreement is effective for five years, and will be renewable automatically every five years thereafter, subject to three months' notice of termination by either country.

A similar understanding between Australia and China would likely be beneficial for both countries. From the standpoint of Australian businesses, it would serve to indicate that their participation in 'Belt and Road' projects has the formal endorsement of the Australian Government, and it would be a signal to Chinese businesses that participation by Australian partners in such projects is welcomed by the Chinese Government. That is likely to be helpful in pursuing business and investment opportunities.

However, more specific commitments – in particular, the designation of any specific projects in Australia as part of the 'Belt and Road' – would need to demonstrate 'win-win' characteristics that would be readily evident to both sides. They should be negotiated on a case-by-case basis, with sufficient time for the claimed benefits to be properly evaluated and any costs to be assessed.

In that context, it would probably assist in enhancing mutual understanding if Australia were to make clearer the criteria by which decisions regarding foreign investment are made – both in advance, and in explaining the reasons for particular decisions. As an Australian citizen, I am not satisfied by a mere declaration that a particular foreign investment proposal is 'contrary to the national interest', without at least some attempt being made to explain why – and I would imagine that foreign investors would feel much the same.

The 'Belt and Road' Initiative has the potential to be a major influence on the economic, political, social and cultural evolution of not just Asia, but a large part of the world, over at least the next three decades. Australia should want to be part of it – but for that to be sustainable it needs to be on terms that recognize and advance Australia's own interests, and which resonate with the Australian people.

²¹ See New Zealand Ministry of Foreign Affairs & Trade, [Memorandum of Agreement on Strengthening Co-operation on the Belt and Road Initiative between the Government of New Zealand and the Government of The People's Republic of China](#), 27th March 2017.