Belt and Road Initiative (BRI) - China’s Supply Chain Game plan

“Ancient silk route” was the first inter-continental route connecting East and West in 130 B.C. at the time of the Han Dynasty which has given a boost to ancient supply chain and logistics primarily by promoting trade along with the exchange of culture, knowledge and know-how between Europe and Asia for more than 600 years.

In spite of the world’s highest population and fastest growing economy for the last decade, China witnessed saturation of domestic and export markets in 2010. To mitigate this and take out China’s growth model to other countries, China’s President Xi Jinping has introduced the Belt and Road initiative (BRI), formerly known as the “One Belt, One Road (OBOR)” aiming addition of $2.5 trillion business in a decade time with the nations along the proposed routes. BRI has focused on needy countries which have a higher population and disposable income but lack of organised markets and connectivity to boost the business.

The BRI has comprised of two main components: a) The Belt refers to the roads/ rails/ pipelines in the regions of Asia and Europe lands; and, b) The Maritime Road, which comprises maritime routes connecting the Association of Southeast Asian Nations (ASEAN) countries. All previous projects and routes between China and other countries have been absorbed in BRI.

BRI is most ambitious and gigantic supply chain concept to build and upgrade hard infrastructure like highways, railways, ports, energy and electricity generation and soft
infrastructure like the signing of trade agreements, aligning of regulatory standards and improving financial throughout Asia and Europe designed to enrich the economies of China and 65 partner countries. BRI has generated enthusiasm and hopes in the world but also generated scepticism and worries due to China’s expansionist attitude.

**Aim & vision**

- Cost and Time Optimization of transportation to World’s potential markets.
- Infrastructure and equipment manufacturing development in BRI partner countries by providing low-interest loans with a clause to use Chinese resources.
- Inclusion of China’s currency Renminbi (RMB) in global reserve currency and the International Monetary Fund (IMF’s) Standard Drawing Rights (SDR) Basket.
- To secure energy supply, development of sea routes and pipelines for its ever-increasing energy needs.
- A win-win strategy of growing partner countries market and economy which in turn will increase demands of Chinese goods and services.

This renewed and ambitious idea – potentially involving an area equal to 55 per cent of the global GDP, 70 per cent of the global population and 75 per cent of the known energy reserves – could, and is, reshaping global supply chains.

**BRI Partners- 65 countries**

**Strategies**

1. To take out its growth model to other partner countries to lead the industrial trade pattern optimization which can give a boost to China by getting new business
2. Adjustment strategy to facilitate bilateral trade, international production co-operation, cross-border Electricity and E-commerce business, promoting technology with traditional logistics to form global and professional thinking keeping national strategic interest in the centre of the thought. Following are the key strategies.
Challenges/Threats

- Damaging bilateral trade and China’s image due to non-completion of projects in Cost-effective and timely manner in partner countries as it involves importing equipment from China and execution of the project. E.g. Incomplete tasks of Poland’s A2 Highway and electricity grid of Eskisehir in Turkey.

- Lack of stubborn project selection procedure with Chinese banks for Project Financing may cause high-risk investments which may not give expected returns. E.g. Railways and Road Projects in Central Asia.

- Lack of transparency in China’s Economic and Political stand on BRI leads to diversion of investment from BRI to other countries—such as India, Russia, or the United States—against China’s new initiative.

- BRI financing was initially planned from multilateral institutions like AIIB, ADB and BRICS Bank, however, the majority of investment came from China Development Bank and Exim Bank which leads to financial sustainability risk i.e. Investments in Pakistan and Venezuela.
• Political and Economic Instability in partner countries leads to challenges for BRI as newly elected Governments are asking more details and reassurance from China looking to its expansionist view and make the process slower.

• Debt Trap Diplomacy of China leads to coverage of natural resources and strategic assets in case of non-repayment of loans by partner countries. It gave a major setback to BRI and raise the alarming situation in the world. Ie. Military and logistics access to Hambantota port of Sri Lanka.

• Lack of inclusion of the local element in BRI Project leads to friction in partner countries as BRI is majorly focusing on usage and employment to Chinese resources.

**Benefits to China from BRI:**

• Creating opportunities to generate higher returns on China’s vast foreign exchange reserves

• Helping China’s State-Owned Enterprises (SOEs) in construction and engineering to deploy abroad in search of more work and higher returns

• Ensuring China’s excess industrial capacity is exported to regional markets and gain returns

• Expanding China’s export markets, and sending abroad more goods with higher value-added components, such as machinery and telecom equipment

• Boosting the internationalisation of China’s currency renminbi (RMB) to the global reserve currency.

**Benefits to partnering nations**

• Opportunity to increase Infrastructure through economic investments and enterprise support under BRI.

• To build a transportation facility within the country which can increase trade movement and give a boost to the economy e.g. China has invested $14 billion in Eastern Africa Kenya’s Standard Gauge Railway (SGR). SGR is 485km single-track railroad and acts as one of the most significant projects in Kenya.

• A second most important parameter is energy and electricity generation through BRI which can help to build industries and enterprises. BRI’s energy project in Pakistan — the Nehru Tim Jielu Hydropower Station. It is estimated to generate 5.15 billion kilowatt-hours with an investment of nearly about $4.3 billion in Pakistan where there are more than 500 million-megawatt deficits on the national grid. This project will light up Pakistan and also assists in the nation’s economic development.

• Improvement in GDP through bilateral trade with China and multilateral trade in partner countries Economics for mutual economic benefits. For example, Kazakhstan is located in Central Asia and during pick winters there is barely any fruits and vegetables grow there. BRI connects Kazakhstan and China for cross-border trade of vegetables which provides
Kazakhstan’s people with their basic needs with an estimated trade of more than $11 billion annually.

- Partner countries have natural resources but due to unavailability of technology and equipment for excavation, they couldn’t take benefits of it. BRI helps to develop infrastructure for excavation and distribution of natural resources. E.g. Under BRI, China has provided a loan of approximately $2.5 million to Brunei for manufacturing Oil and Gas Pipelines. This investment not only generates $100 million, but it also offers more than 300 job opportunities.

- BRI shortens the distance between each country and promotes the global economy and will hopefully see ongoing progress and generate benefits for every country.

**BRI’s role in Global Supply Chain and International Trade**

The BRI is an umbrella initiative which encompasses multilateral financing, enterprise development and technology transfer between partner countries which enables the flow of goods, investment and people. The new connections fostered by the BRI could reconfigure relationships, reroute economic activity, and shift power within and between countries.

- BRI will improve intergovernmental communication to better align high-level government policies like economic development strategies and plans for regional cooperation.

- BRI will Strengthen the coordination plans mainly focusing on hard infrastructure like roads, hi-speed railways, marine routes and pipelines as well as Energy generation projects.

- BRI also facilitates soft infrastructure such as the signing of trade deals, aligning of regulatory standards and improving financial integration.

- Encouraging people-to-people connections by cultivating student, expert and cultural exchanges and tourism.

- In the era of online marketing and E-commerce, BRI opens a gateway for E-commerce by developing Logistics infrastructure and co-operative trade deals between partner countries.

- In both supply and demand reforms, supply-side should promote new innovations, IoTs, Internet application, industry 4.0 etc to reach up to new growth level. New trends of China’s economic development and new changes in international geopolitical and economic shifts have open doors for China's supply chain logistics network to speed up overseas distribution and realize industrial structure optimization.

- BRI is not a few Chinese friend countries forum but rather a new concept of cooperation among many countries and various civilizations. It is a hidden call for power in the form of the public good that China would like to share with all interested countries and later on increase its strategic importance in the region.

- BRI is inclusive and advocates respect, tolerance, and dialogue among civilizations and countries at different stages of development.
China’s expansion strategies – Other countries’ reaction

Russia: Initially it has a negative view which later on turned into limited access for mutual development without sharing any project ownership to China and limited access to Chinese people. Russia is also promoting Greater Eurasian Partnership (GEP) through which Russia wants to show its own grand vision to the world and expects China will support the same with BRI.

Europe: Europe sees China as a big threat as China completes with Europe in international markets based on low price and high quality. Further, the USA’s non-supportive attitude in Trump administration forces Europe to become united, aggressive and competitive.

India: India eyes the BRI with suspicion since its announcement as it attacks the sovereignty of many countries by long term debt trap policy. India turned down China’s invitation to the inaugural Belt and Road Forum in May 2017 and has not even attended 2nd BRI summit in 2019. On the contrary, India is trying to improve business relationships with its Asian neighbours, has revived Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), building infrastructure by partnering with Japan in Africa, South Asia, and Southeast Asia.

United States: Unites States has shown legitimate concerns over BRI’s transparency and corruption issues.

Conclusion – A supply chain game plan to boost the economy and becoming superpower

After understanding BRI in details along with its strategic and geopolitical impacts on the global economy, first and foremost motive of China is to become next superpower by influencing the world through the development of a global supply chain network. F

BRI is not merely a Chinese-funded infrastructure project and although major chunk owned by State-Owned Enterprises (SOEs), the involvement of many Private Owned Enterprises (POE) and Multi-National Companies (MNC) is expected in near future.

BRI’s opportunities will become more significant and it shall be reviewed for a longer timeframe of 10 to 15 years. Many projects run under higher risks of repayment but surely gives higher returns and strategic importance to China on longer terms.

BRI is a collaborative ecosystem that to date is focused on infrastructure and energy, but over the period of time will evolve to concentrate on trade, manufacturing, the internet, tourism and other aspects.

BRI is a tool to push China’s economy to the next level and create a more equitable global system for trade.