

# Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond



## FACTSHEET 3 – The One Belt One Road Initiative

A major development strategy that has emerged from China in recent years is the One Belt One Road (OBOR).<sup>1</sup> Announced by President Xi Jinping in 2013, OBOR aims to increase interconnectivity between China and other countries en route to Europe. OBOR seeks to promote and facilitate development of transport, energy, trade and communications infrastructure, among other things.

While packaged as a new initiative, OBOR is a continuation of China's on-going push to develop regional connectivity and trade routes, enhance the international presence of Chinese companies, and increase access to global markets. In this sense, it can be seen as the next phase of China's Going Out strategy, through which China has been promoting outbound investment for over a decade.

### What is One Belt One Road?

The One Belt One Road initiative consists of two main components: the land-based Silk Road Economic Belt, and the oceanic 21<sup>st</sup> Century Maritime Silk Road. The Silk Road Economic Belt aims to link China with Europe through Central and Western Asia. The Maritime Silk Road will connect China to Europe via maritime links passing through Southeast and South Asia and on to Africa. One Belt One Road is not simply about developing these two routes, but rather about developing a network of interconnectivity. The initiative includes additional routes linking to the two main corridors, as illustrated in the map below.<sup>2</sup>

### Routes of the China-proposed Belt and Road Initiative

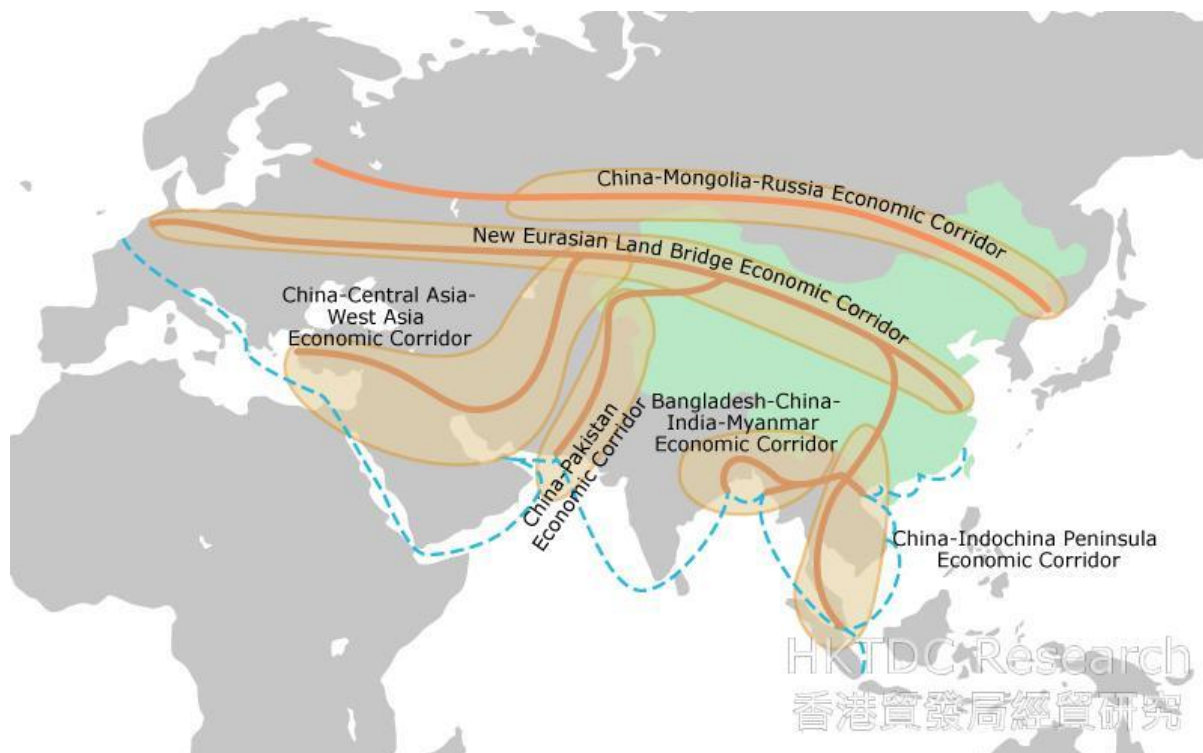


Source: China Daily (2015)

In March 2015, China released its *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* (hereafter referred to as the OBOR Vision). The document frames the initiative in terms of its benefit to all the countries involved, stating that it will promote economic prosperity, develop regional economic cooperation, strengthen exchanges, and promote peace and development.<sup>3</sup>

The OBOR Vision states that the initiative will use economic industrial parks as cooperation platforms, and at sea the initiative will focus on building “smooth, secure and efficient” transport routes connecting major sea ports along the One Belt One Road route. Within this framework the document refers to six major economic corridors. The route of these corridors is illustrated in the map below.

#### Economic Corridors within the One Belt One Road Initiative<sup>4</sup>



Source: HKTDC Research (2015)

A key goal of the initiative is “policy coordination,” which envisions coordination of economic development strategies between China and countries within OBOR, and policy support for cooperation and large-scale projects.<sup>5</sup> “Facilities connectivity” is another priority area, and includes improving infrastructure connectivity, construction of international transport corridors, and development of cross-border infrastructure networks. The initiative also prioritizes development of energy infrastructure, especially oil and gas pipelines, cross-border power transmission and upgrading of regional power grids.<sup>6</sup>

#### OBOR Priority Economic Corridors

- China-Mongolia-Russia
- New Eurasian Land Bridge
- China-Central Asia-West Asia
- China-Pakistan
- Bangladesh-China-India-Myanmar
- China-Indochina Peninsula

Another major focus of the initiative is the removal of investment and trade barriers and establishment of free trade areas. The OBOR Vision highlights investment in multiple areas, including agriculture, forestry, fisheries, environmental protection industries, and tourism, and calls for increased cooperation in the exploration and development of coal, oil, gas, hydropower, nuclear, wind and solar power. In order to make the initiative a reality, China will seek to develop new memoranda of understanding, plans and bilateral cooperation projects with countries within OBOR.

## **Management of One Belt One Road**

OBOR is not an institution and is not coordinated by a single entity. However, it is a government-driven initiative, and since March 2015 it has been overseen by the Leading Group for Advancing the Development of One Belt One Road.<sup>7</sup> Members of this group include senior government officials, and it is headed by Vice Premier Zhang Gaoli, who is also a member of the Communist Party of China's Politburo Standing Committee.<sup>8</sup> Little is known about the exact role of this group, but the seniority of its members is evidence of the importance that the government places on this initiative.

China is working on sector-specific plans for areas including energy, agriculture, environmental protection, education and cultural cooperation under the initiative.<sup>9</sup> However, the OBOR Vision document states that development of the initiative is a flexible process that will differ from place to place, and China will cooperate with other countries along the route to "work out relevant timetables and roadmaps, and align national development programs and regional cooperation plans." Given the broad nature of this initiative, many actors are likely to be involved in future OBOR projects, including Chinese state entities responsible for overseeing outbound investment, national and subnational authorities in host nations, regulators, Chinese companies, non-Chinese joint-venture partners, various state and commercial financiers, and so on.

## **Environmental and Social Safeguards Attached to One Belt One Road**

China's Foreign Minister has stated that the OBOR would incorporate "wide consultation" and shared benefits, and that it will ensure transparency and openness.<sup>10</sup> The OBOR Vision makes several broad commitments to pursuing environmentally friendly projects, and calls on companies operating under the initiative to contribute to local economies, employment and livelihoods. It also states that efforts should be made to promote green and low-carbon projects, taking into full account the impact of climate change.

However, due to the broad range of actors involved in implementing projects, no single set of standards or guidelines will apply to environmental and social impacts or other aspects of project design and implementation. Instead, projects will need to abide by applicable domestic laws and regulations, as well as the institutional safeguards and policies of the financiers and other actors involved in the specific project in question. For example, if the AIIB supports a project within the One Belt One Road route, its environmental and social framework will apply. Likewise, Chinese policy banks such as the Eximbank would be bound by local regulations and their own internal policies.

## **Financing for Projects Within the One Belt One Road**

Projects within OBOR will require billions of dollars in the coming years. Financing will come from a number of sources, many of which are not new. For example, China's policy banks, including the China Development Bank, have been financing projects within what is now the One Belt One Road route for over a decade. China's commercial banks are also active in many countries along the route, as are Chinese equity funds and investment companies.

Since the announcement of the initiative, several of these entities have established new funds and received additional state money specifically to fund OBOR projects. A number of dedicated funds have been established specifically for the initiative, the most well-known being the Silk Road Fund. China has also announced that it plans a considerable expansion of foreign aid programs, with a focus on transportation, energy and telecommunications projects in countries along the OBOR route.<sup>11</sup>

## Conclusion

The One Belt One Road initiative reflects a renewed emphasis from China on promoting outbound investment, especially in projects that enhance regional connectivity. Dedicated funds have been created to support OBOR, and existing institutions and companies have been quick to express their support and announce plans to increase investment and financing in projects along its route.

If OBOR is successful in both generating new opportunities for investments and in mobilizing new sources of finance, Chinese firms are likely to benefit from contracts to design, develop and operate projects under the initiative. State-owned enterprises in particular have been encouraged by the Chinese government to seek opportunities to invest in OBOR countries, but many private companies have also expressed support.<sup>12</sup> Increased connectivity may create new markets for Chinese exports, while also increasing China's access to much needed natural resources and energy supplies. In addition to increasing China's influence in global economic affairs, the initiative will increase opportunities for the country to export technology and production capacity that is no longer required in China.

The OBOR vision emphasizes the potential for increased cooperation and investment to benefit China as well as countries with underdeveloped infrastructure. An increase in the availability of infrastructure finance will be well received by many countries within the OBOR route. However, in order for the initiative to live up to its commitment to "win-win" development, it is essential that this finance flows to projects that are sustainable, do no harm, and which truly benefit those most in need.

*This factsheet draws on the Inclusive Development International report [Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond](#). The research and development of this publication was supported by: Heinrich-Böll-Stiftung South East Asia, The McKnight Foundation and Planet Wheeler Foundation*

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<sup>1</sup> "One Belt One Road" is a literal translation. It is also sometimes called the "Belt and Road" initiative.

<sup>2</sup> Chan, J. (2015, 15 April), "Belt and Road" takes new route, China Daily.

[http://europe.chinadaily.com.cn/business/2015-04/15/content\\_20435638.htm](http://europe.chinadaily.com.cn/business/2015-04/15/content_20435638.htm) (accessed May 2016).

<sup>3</sup> National Development and Reform Commission, Ministry of Foreign Affairs & Ministry of Commerce of the People's Republic of China (2015), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html) (accessed May 2016).

<sup>4</sup> Wong, B. (2015, 16 April), "One Belt, One Road" Initiative: The Implications for Hong Kong, HKTDC Research. <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/One-Belt-One-Road-Initiative-The-Implications-for-Hong-Kong/rp/en/1/1X000000/1X0A23WV.htm> (accessed May 2016).

<sup>5</sup> National Development and Reform Commission et al (2015), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*.

<sup>6</sup> *Ibid.*

<sup>7</sup> Xinhua (2015, 29 March), *China sets up leading team on Belt and Road initiative*, Xinhuanet.

[http://news.xinhuanet.com/english/2015-03/29/c\\_134107435.htm](http://news.xinhuanet.com/english/2015-03/29/c_134107435.htm) (accessed May 2016).

<sup>8</sup> Blanchard, B. (2015, 17 April), *China sets up coordinating group for modern Silk Road*, Reuters.

<http://www.reuters.com/article/2015/04/17/china-silkroad-idUSL4N0XE3G220150417> (accessed May 2016).

<sup>9</sup> Xinhua (2015, 20 November), *China works on sector-wise plans on "Belt and Road" initiatives*, Xinhua Finance. <http://en.xinhuanet.com/html/Policy/2015/167919.shtml> (accessed May 2016).

<sup>10</sup> Xinhua (2015, 8 March), *China's Belt and Road initiatives not solo, but symphony*, Xinhuanet.

[http://www.chinadaily.com.cn/business/2015-03/08/content\\_19750844.htm](http://www.chinadaily.com.cn/business/2015-03/08/content_19750844.htm) (accessed May 2016).

<sup>11</sup> Li, X. (2014, 9 December), *China plans more aid for Silk Road countries' infrastructure*, China Daily Online.

[http://www.chinadaily.com.cn/business/2014-12/09/content\\_19047154.htm](http://www.chinadaily.com.cn/business/2014-12/09/content_19047154.htm) (accessed May 2016).

<sup>12</sup> Xinhua (2015, 19 June), *Chinese Premier emboldens state firms' int'l industrial cooperation*, China Daily Online. [http://www.chinadaily.com.cn/china/2015-06/19/content\\_21056915.htm](http://www.chinadaily.com.cn/china/2015-06/19/content_21056915.htm) (accessed May 2016).