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Strategic Framework for Understanding OBOR and CPEC



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Background

“The East Wind prevails over the West Wind”, said Chairman Mao on November 17, 1957, speaking to Chinese students in Moscow¹. His speech laid the ground work for the Chinese strategy during the Cold War and subsequent progress of China from the status of a ‘constrained power’² to its emergence as a ‘global power’.

To quote an authority on the study of international relations, “The struggle for power is universal in time and space and is an undeniable fact of experience”³. Emerging powers seek to dominate the world order by employing politico-economic levers and by exploiting the socio-political dimensions and weaknesses of other nation-states. China is no exception to this.

This journey of China from a constrained power status to a global power one is the context in which the One-Belt-One-Road (OBOR) initiative seeks to have a major role in the evolving world order. And the China-Pakistan-Economic-Corridor (CPEC), becomes the crucial link

Key Points

1. The journey of China from a constrained power status to a global power one is the context in which the OBOR initiative seeks to have a major role in the evolving world order.
2. While building on its historical ideals and constructive design, China started introducing its new economic model from 2013 onwards.
3. The CPEC becomes the crucial link in China’s ambitious OBOR project as it has pure strategic implications for South Asia at large and India in particular.
4. At present, the OBOR is an idea and the CPEC is the major operational aspect of it. If the CPEC produces immediate strategic results, China can further elaborate on it to spread its influence in South, Central and West Asia

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in China's ambitious OBOR project as it has pure strategic implications due to the following reasons:

- Pakistan is a nuclear armed country.
- The CPEC will limit India's growing national power.
- It will provide a land bridge from China to the Middle East.
- It will provide direct access to the Arabian Sea as well as crucial naval ports for the People's Liberation Army Navy (PLAN).
- It will enable China to seek 'strategic depth' in Pakistan.

The CPEC will have larger implications, especially for South Asia and the balance of power in Asia.

The geopolitical equations emerging today are quite similar to those of the Cold War era, when the US was alarmed over Sino-Soviet cooperation but later China took its own path after the Sino-Soviet split in 1961. "China complicated the Soviet Union's decision-making process, both forcing the Soviet Union to compete with China's militancy and somewhat reducing the Soviet Union's own room for manoeuvre"⁴.

Three years after Mao's visit to Moscow, the Sino-Soviet split occurred in 1960 because of ideological differences, which further divided the two countries in 1969 due to border clashes. Sino-US relations flourished after Kissinger visited China in 1971 and the visit to Beijing of President Nixon in 1972. While it is still debatable as to why China left the Soviets alone to be defeated by the US, one can see that the weak Russia and the emerging stronger China was due to the chain of events unleashed by that decision.

Today, however, China-Russia relations have never been better: they are strategic partners with common goals and agendas, and seek to challenge the American-centric world order. The idea of the OBOR is one step towards that, and this paper will later elaborate on this.

An important player in this game is Pakistan. Since the beginning of the Cold War, Pakistan had been allied with the US, and played a crucial role in the collapse of the Soviet Union. Though the US successfully enlisted the support of Pakistan during the Cold War, it failed to build a strategic alliance with the Pakistani people, hence, the hostility that still prevails against America in Pakistan, with the common people feeling cheated by the United States⁵. Pakistan proved its importance to the US during the Cold War, hence, it remains an ally of the United States.

Pakistan also developed a close relationship with China since it wanted China's support in its confrontation with India. And China does not want to repeat the mistakes the US made in dealing with Pakistan. In this context, the success of the CPEC is imperative for China.

The Strategic Framework

Geopolitics provides a frame of reference in which an agreement or decision is to be made⁶ which includes the people, power and state policies. Inequalities force a society to be dependent on others, and economic tools are deployed to tackle the problem of inequality. To safeguard the people, the armed forces are required, and for their effective deployment, connectivity is essential. OBOR touches upon all these aspects and, at the same time, it is intended to fulfil the needs of states which are along the Belt and Road.

To quote an analysis of Chinese foreign policy since 1949:⁷

China's history and culture has played a key role in shaping China's external relations. According to this view, ever since 1949, China has been engaged in a drive to regain its "rightful place" in the world. This drive has had two key components. The first was the drive for unity, which involved the control of Taiwan, Tibet, Xinjiang and China's assertion of historical claims over territory and waters

on China's periphery. The second drive was to restore China's "traditional influence" on her neighbourhood. China appears to view Southeast Asia as potentially the most fruitful and receptive region for the projection of Chinese influence. China's relations with Southeast Asia have been described by some analysts as historically part of a traditional "Confucian tribute system" and in the contemporary period as part of the Western concept of a "sphere of influence."

Therefore, the primary focus of the OBOR is its integration into the Chinese provincial government objectives, the development of its western landlocked underdeveloped areas, including Xinjiang, and the establishment of a Chinese sphere of influence in parts of Central Asia, the Middle East and Europe which will eventually be traversed by the OBOR initiative. In support of such actions, expressing his world view in his speech which has been taken as a point of reference for the OBOR, President Xi, on September 07, 2013, speaking at Nazarbayev University, argued,

We should turn the advantage of political relations, the geographical advantage, and the economic complementary advantage into advantages for practical cooperation and for sustainable growth, so as to build a community of interests. We should create new brilliance with a more open mind and a broader vision to expand regional cooperation.

Another aspect of this adventure is the military, in which context, Bertrand Russell once wrote, "Nothing but lack of military force limits the power of one state over another"⁸. "A state having an industrial establishment to sustain great military power is likely to be in a position to make effective use of the device of economic coercion, and military and economic power give strength to moral suasion, even when there is no suggestion of their use."⁹ China, therefore, seeks to dominate the world order and to strengthen its economic infrastructure by introducing the idea of the OBOR. Indeed, it has

been stated that "China presented a new model in international relations for conducting business among major powers."¹⁰ At the same time, China is strengthening its armed forces, while initiating the next phase of its endeavour by asserting its so-called "historical rights" in the South and East China Seas. Economic power is inseparable from military power, hence, control over markets, raw material, credits and transportation is vital and the OBOR needs to be studied from this perspective.

According to this analogy, it would appear, in the short-term that the OBOR is an economically driven idea but in the long-term, it has geopolitical implications. For China, the CPEC is a sub-project of the OBOR, and for Pakistan, it is a bilateral initiative, which will strengthen its economy and improve its geopolitical standing in the region.

OBOR

President Xi, in his speech in 2013, while introducing the idea of the OBOR said,

The ancient Silk Road is becoming full of new vitality with the rapid development of China's relations with Asian and European countries.¹¹

Further, he reiterated,

China will never intervene in the internal affairs of Central Asian countries, seek leadership in regional affairs, or operate a sphere of influence [and will seek] to strengthen mutual support and to be good friends, with sincerity and mutual trust, on the issues concerning the major core interests, including the state sovereignty, territorial integrity, security and stability.¹²

Accidentally or deliberately, this statement has resemblance with the Panchsheel Accord signed between India and China in 1954, which talks about similar principles.¹³

Two months after the signing of the Panchsheel Agreement, Premier Zhou Enlai and Prime Minister Nehru, in their joint statement on June 28, 1954, stated that the Panchsheel Agreement “provided an alternative ideology for all the states dedicated to peace and development of all as the basis for international interaction, whether bilateral or multilateral.”¹⁴ It seems that China conceptualised Panchsheel from the geopolitical perspective and is putting it forth again under the OBOR project. This confirms that China was moving towards this objective strategically for the past few decades. Hence, prior to declaring its OBOR policy, China changed its economic policies consistently in the last three decades.

China has been building up a dense network of BITs (Bilateral Investment Treaties) since it concluded its first treaty with Sweden in 1982¹⁵. As of August 15, 2016, China had negotiated 145 BITs, of which 125 are actually in force.¹⁶ However, it has terminated 12 BITs, most of them with the European countries. Interestingly, China has not signed a BIT with the US. Subsequently, China started moving from BITs to PTIAs (Preferential Trade and Investment Agreements), and also introduced a new clause in its international investment policy, providing for “exceptions to the free transfer of investment related funds, thereby allowing contracting parties to restrict investment flows in the event of serious balance of payments or other macro-economic difficulties”¹⁷. China’s foreign aid has grown rapidly after accession to the World Trade Organisation (WTO) in 2001. From 2010 to 2012, China provided assistance of \$14.41 billion bilaterally under grants, interest free loans and concessional loans to 121 countries, including 30 in Asia, 51 in Africa, 9 in Oceania, 19 in Latin America and the Caribbean, and 12 in Europe.¹⁸ China also provided assistance to regional organisations such as the African Union (AU) but its bilateral aid is much larger than the multilateral aid.

After successful accession to world economic forums, China started building up its own idea of

a new economic model which it started introducing from 2013 onwards, that is the OBOR. In 2014, it announced the creation of a US \$40 billion Silk Road Fund (SRF), and in 2016, it established the Asian Infrastructure Investment Bank (AIIB). On the other hand, China strengthened its own internal economic institutions to equip them to handle large projects. These institutions include the China Development Bank and China Investment Corporation.

At present, China is deeply integrated into the world production networks and its huge need for raw materials provides a big market for the developing countries which has made it a major trading partner for them. On the other hand, China dominates the markets of the developed world by supplying cheap products due to its low labour costs and its large production capacity. With this, it has placed itself in the global market as an indispensable player that the world powers cannot ignore or isolate for its actions.

By design and tactically,¹⁹ China introduced its plan of the OBOR in 2013. The OBOR has five stages, as President Xi explains:²⁰

1. Strengthen policy communication between states.
2. Improve road connectivity from the Pacific to the Baltic Sea.
3. Investment facilitation.
4. Enhance monetary circulation.
5. Strengthen people-to-people exchanges.

The OBOR has been divided into two areas under the strategic ‘go out’ focus, that is, the New Silk Road Economic Belt and Maritime Silk Route. The China Investment Corporation, China Development Bank, China Exim Bank and State Administration of Foreign Exchange will be looking after investment and funding issues. Geographically, the OBOR covers around 60 countries from three continents, and one-third of the world’s Gross Domestic Product (GDP). China established the AIIB to raise funds and to finance projects under the OBOR initiative. It has pledged to provide \$100 billion as initial capital



The Silk Road Economic Belt and the Maritime Silk Road, collectively known as the Belt and Road initiative. (Xinhua)

for it, and signed Memorandums of Understanding (MOUs) with 21 countries, with assurances that it would cooperate with other funding sources such as the Asian Development Bank (ADB)²¹.

With such a large number of projects which cover 21 countries and pass through different socio-political realities, such an initiative is bound to face a number of risk components which have been listed by the Economist Intelligence Unit.²² These risk components include those related to (1) infrastructure; (2) security; (3) political stability; (3) government effectiveness; (4) legal-regulatory; (5) macro economy; (6) foreign trade and payment; (7) financial; (8) tax policy; and (9) the labour market.

To understand the practicability of the OBOR project, a study of all these above mentioned risks with respect to all the participating countries needs to be undertaken.

As far as the CPEC is concerned, in Pakistan, the CPEC faces all these risks, and, hence, it would be the most challenging project for China. However, as stated earlier, the CPEC, even in the short-term, is of

strategic interest, to China, and, therefore, China has pledged US \$46 billion for this project.

CPEC

The Free Trade Agreements (FTAs) which China signed with Taiwan, Hong Kong, Macao, Association of Southeast Asian Nations (ASEAN), Pakistan and Singapore were primarily driven by geopolitical concerns.²³ In 2006, the PTIA China signed with Pakistan was the first comprehensive bilateral agreement into which China had entered²⁴. Subsequently, during his visit to Pakistan in April 2015, President Xi signed 51 MoUs related to the CPEC. They cover connectivity projects, Special Economic Zones (SEZs), fibre optic connectivity, and the major focus was on energy projects and the Gwadar port.

Logically looking at the CPEC related projects, it seems a fair deal for both countries, where China will get direct access and its own port in Gwadar to secure its energy trade which comes through the Persian Gulf, and Pakistan, which is in dire need of energy to strengthen its economy, will get new energy projects.

The importance of the geographical location of Pakistan is well known: it has human resources, natural resources and it is a nuclear-armed nation. The point is that even when states have the raw materials, they must add labour, technology and capital to convert potential utility into actual utility²⁵, which Pakistan does not possess. China is exploiting this weakness of Pakistan. Through funding for the CPEC, China will end up being one of the most important creditor nations of Pakistan. Controlling the debt of a country, one can influence the policies of the nation-state as a whole.²⁶

The CPEC has its inherent constraints and the strategic community is debating about the practical aspects of this project. Additional reasons for concern are the instability in Pakistan and the secretive nature of China. From a nationalistic point of view, Indian strategists seem alarmed over the CPEC, while Pakistan takes a populist approach, and Chinese experts talk about idealism, describing the project as one that promotes regional connectivity and stability.

Conclusion

The year 1946 was marked in world history for two events: one was Churchill's speech in Fulton where, for the first time, he spoke about the 'Iron Curtain'; and the second event was the Soviet rejection of US aid and International Monetary Fund (IMF) membership at the start of the Cold War.

Notes

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In 1972, China chose a different path and integrated itself in the new world order. China is now introducing its version of a new liberal economic system with minimum standard agreements and it is challenging the US led initiatives such as the TPP (Trans Pacific Partnership) which are based on very high standards. China knows that emerging economies cannot afford those standards, and, therefore, it has introduced a new path which is the OBOR. Initially, it looks lucrative and affordable to the recipients of Chinese loans for economic projects but, in the longer term, it has the potential for leading towards China's dominance over the world order.

The situation for the US is more difficult than it was in 1946—it has limited options and a larger agenda while China has more options and a smaller canvas to play in. The goal of the so-called Chinese grand strategy is no different from that of any other emerging power with aspirations to regional and global influence.

Nevertheless, at present, the OBOR is an idea and the CPEC is the major operational aspect of it. If the CPEC can produce immediate strategic results, China can further elaborate on it. But, at the same time, other regional powers such as India feel threatened by it because of the assertive nature of China and its growing ambitions. Hence, the real nature of the CPEC needs to be defined and assessed from a realist perspective in order to understand China's next move.

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9. Ibid., p. 33.
10. Masood Khan, "One Belt One Road and Geopolitics in the Indian Ocean Region", *Hilal*, Edition 6, Vol 53, June 2016, pp. 4-9.
11. President Xi Jinping, during a speech at Nazarbayev University in 2013, for the first time proposed the idea to build a Silk Road Economic Belt with the Central Asian countries. Xi Jinping, "Promote People-to-People Friendship and Create a Better Future", at Kazakhstan's Nazarbayev University, September 07, 2013, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml. Accessed on July 28, 2016.
12. Ibid.
13. The Panchsheel Agreement, which was signed between India and China, talks about mutual respect for each other's territorial integrity and sovereignty, mutual non-aggression, mutual non-interference, equality and mutual benefit, and peaceful coexistence. Ministry of External Affairs of India, "Panchsheel", p. 1, http://www.mea.gov.in/Uploads/PublicationDocs/191_panchsheel.pdf. Accessed on August 05, 2016.
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24. Berger, n.15, p. 16.
25. Palmer and Perkins, n.8, p. 45.
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