

# China's Dream: Connecting Eurasia's Supply Chain

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## List of Abbreviations

ADB – Asian Development Bank

AIIB – Asian Infrastructure Development Bank

ASEAN – Association of South East Asian Nations

CCP – Chinese Communist Party

CEEC – Central and Eastern European Countries

FDI – Foreign Direct Investment

GFC – Global Financial Crisis

IFI – International Financial Institution

IPE – International Political Economy

IMF – International Monetary Fund

OBOR – One Belt One Road

RMB – Renminbi (China's Currency)

SAARC – South Asian Association for Regional Cooperation

SCO – Shanghai Cooperation Organization

SEZs – Special Economic Zones

UN – United Nations

WTO – World Trade Organization

# Thesis: China's Dream: Connecting Eurasia's Supply Chain

## 1.0 Introduction

As the largest developing nation of the world, it is the self-professed Chinese Dream to build a “democratic, culturally-advanced and harmonious modern socialist country” that projects a “new type of international relations featuring win-win cooperation,” (Arab Policy, FMPRC 2016). China's economic rise in the 21<sup>st</sup> century has received immense speculation of both mainstream and Critical International Political Economy (IPE) scholars as to whether the country and its political establishment presents an ideological or economic challenge to neoliberal hegemony and the ideology of the Washington Consensus institutions. In the context of neo-Gramscian theory, this paper will focus on China's One Belt One Road (OBOR) as a case study to determine how China may be building a counter-hegemonic challenge through the promotion of this “new type of international relations”. What began as a far-flung dream of recreating the ancient Silk Road through the Eurasian continent has now evolved into a serious endeavor including more than 60 countries. Besides offering these countries richer ties to the global economy, the OBOR allows for wide-ranging projects to build super highways and bullet trains, to pipelines and deep sea ports linking a global supply chain for the swift transportation of goods and services. Accelerated development of the OBOR initiative spawn from two recent experiences which have fundamentally changed China's position in the international political economy.

Firstly, the 2007-2008 Global Financial Crisis (GFC) was seen by Chinese leadership as a moment of hegemonic weakness of neoliberalism and its center, the United States. Due to this, China's relative influence and power increased dramatically on the world stage, and pushed a significant grand strategy shift for the People's Republic of China from “hide one's talents, and bide one's time” (Shield 2013, 147) to an assertive country seeking to insistently expand its sphere of influence. Secondly and related, since 2012 the rise of Chinese President Xi Jinping has emboldened a new era of more assertive foreign policy pursuing to put China in the center of the world once more in both a geographic and economic logic as nucleus of the global supply chain. Within the OBOR development assistance, partnerships, joint ventures and infrastructure investment, China seeks to tie together a vast geographic stretch in which Chinese finance and construction companies will be able to grow in the short term, and in the long term facilitate the expedient export of Chinese goods to Europe and Africa through South and Central Asia.

An explicit aspect of China's strategy to grow its economic sphere of influence is offering an alternative model of development that is not laced with conditions and demands that the West offers. Through offering an most unconditional economic alternative, China allows states to expedite and cultivate trade within the current western Washington Consensus paradigm while orienting that trade toward China. In addition to its economic focus, the OBOR likewise seeks to create a cultural exchange in which it is able to export Chinese views of the world in a range of topics from medicine and welfare, to politics and IR. Altogether, China will continue to grow its political economic strength and capabilities, but does not yet have the true aptitude to offer an alternative economic system nor security arrangement to attract a majority of developing countries to align with China on the global governance stage.

This thesis expands on the analyses of scholars and economists (Razavi and Khalessi 2016; Shi 2010; Rucki 2011; Strange 2011; Krishner 2015) suggesting China's economic rise has meaningful implications for the IPE, both in structural terms and in changing ideas and norms within world order. Challenging neoliberalism within "global constitutionalism has provided an opportunity structure that may help China consolidate its long-term strategy of consensual development," (Strange 2011: 539). The transition to power has been unexpectedly accelerated thanks to the Global Financial Crisis (Breslin 2016, 63), and thus China is quickly proceeding with its long-term strategy in its frustration with the existing constituted global governance. A good understanding of China's development within this context makes room for an assessment of how China attempts to change the world order from a neo-Gramscian perspective. By taking neo-Gramscian and structuralist approaches to global governance, I argue that China is offering its IR worldview as an alternative to the current form of neoliberalism. This is done through reforming and partnering with the constitutionalized institutions known together as the 'Washington Consensus', and individually as the World Trade Organization (WTO), World Bank, and the International Monetary Fund (IMF) (Williamson 2012). China leads a set of new international financial institutions and initiatives to offer a complete alternative. In this thesis, the OBOR policy statements will lineate the development policies Beijing gears towards other developing countries, thus providing China's vision of world order and global governance.

By providing a different set of opportunities for developing states, these countries are able to act as 'regulatory states' instead of 'competition states' normally geared towards the United States market (Strange 2011, 541). Recognizing the relative power asymmetry against it, China promotes policies such as non-intervention and domestic sovereignty to assure the greater global community that it has peaceful intentions, in addition to setting a precedent for how the

international community treats China. This paper seeks to address how OBOR plays a role in China's counter-hegemonic position and its view of world order within neo-Gramscian context. By focusing on the OBOR initiative, I am able to conclude that the CCP is actively promoting a vision of world order through its development policies that provide opportunities for economic development as an alternative to Washington Consensus models. This allows countries the room to create their own political economic realities without a necessary compromise of governance structures.

After an engagement with the methodology of this thesis, the first section of this paper discusses the mainstream theoretical traditions in IPE, Realism and Liberalism, and makes the argument for the appropriateness of neo-Gramscian IPE to consider China's influential growth via economic institutions. Neo-Gramscianism seeks to understand how counter-hegemonic systems could be built, and posits that this must start within a state at the domestic level before spreading internationally. Secondly, China's interaction with the global governance framework is discussed. China has evolved from 'mimicry' (Ferdinand & Wang 2013) to a 'status quo power' (Kennedy 2012) with the IFIs and the WTO to a norm creator within new institutions of its creation. The following section contains case studies of examples of the One Belt One Road (OBOR) initiative in action. Closing this section is a summary of Beijing's development policies emanating from the the OBOR initiative and the wider effect on global economic governance. Finally, the conclusion reflects on and reiterates how China's economic policies impact the near-future developing state and on a broader global scale.

## 1.1 Methodology

The nature of the neo-Gramscian approach seeks to go past the "positivist assumption that the aim of social science is to identify causal relationship in an objective world," (Bieler and Morton 2003). The interpretivist method seeks to "question the underlying social and power structures of international politics," (Lamont 2015, 20). This thesis focuses on the OBOR initiative which seeks to link Eurasia through infrastructure and economic cooperation. The causal relationship here begins by showing that this allows China to extend its economic growth by utilizing Outward Foreign Direct Investment (FDI). How the institutions with which China will engage its partner countries allows China to project its power through a consensus building project follows. Hegemony, in contrast to Realist dominance, is integral to the power structures in question, and thus its meaning and purpose will be examined through a methodical review of the neo-Gramscian literature.

The One Belt One Road initiative runs through on a physical-geographic continuum, and thus it is useful to present case studies representing the different geo-political situations throughout Eurasia. The case studies utilized are Joint Statements on Partnerships between China and partner countries and institutions, which are often accompanied with OBOR investment projects. Ongoing and proposed OBOR agreements and investment projects observed here have been made since the beginning of 2015. The case studies are: EU-China 2020, Poland, Switzerland, Central and Eastern European Countries, the Czech Republic, Egypt, Saudi Arabia, Afghanistan, Pakistan, Iran, Kazakhstan, China-ASEAN, Republic of Laos, and Sri Lanka. Likewise considered are the Silk Road, the Arab, and the Foreign Aid Policy Papers published by the Chinese Foreign Ministry. Case study variety allows the mechanisms by which China exerts its influence to be observed in different contexts, and to what ends it is able to accomplish this. Between the fourteen case studies, there are six agreements which establish a relationship, four strategic plans built upon an established relationship, and four cases constituting a five-year action plan. Each case study has been analysed for 36 characteristics which fall under one of the following eight categories: Political Sphere; Trade, Investment, and Banking; Military and Security; Science and Tech, Research and Development; Culture, Tourism and Education; Environment, Agriculture, and Forestry; Energy, Oil and Gas Industry Cooperation; and International and Regional Affairs. By identifying which characteristics are utilized per agreement, it is possible to distinguish what China emphasizes in its cooperation partnerships.

Results of the analyses fall under three spheres discussed in detail below. The statements and agreements surrounding OBOR projects reveal how China is building its global supply chain and what China expects of these countries, if anything. Likewise, insight is provided to the extent China expects these countries to conform to certain economic policies. The case studies utilized have not yet fully been investigated as part of China's outward expanse; especially true of the CEEC region. Furthermore, focusing on multiple facets of the One Belt One Road is well suited for the purpose of this research. The research methodology is reliant on translated documents to English, however are based on the most recent published documents.

## 2.0 Theoretical Perspectives on Global Governance and International Institutions

International Institutions play a vital role in the political integration of global governance, and is interest to this thesis in their effect and influence on the decision-making apparatus of states. Nonetheless, both global governance and international institutions are understood with great variety in different theoretical traditions, and is reviewed here.

## 2.1 Realism

Realism contends that states are the most important actors in a world characterized by anarchy and chaos in which there is no central authority or hierarchical system. The distribution of power between states plays a vital role (Snyder 2004, 54), thus states are left to survive on their own, but cooperation is sought when two states are unlikely to be able to dominate each other (Walt 1998, 31). As such, realism does not give in to the belief that international institutions and the norms, ideas, and laws it promotes will be able to provide peace in the international system. Indeed, some strains of realism suggest that international institutions are a tactic utilized by weak states to constrain dominant powers such as the United States, as there is no configuration of states that can challenge the U.S. militarily (Snyder 2004, 56). Realism's state-centric focus makes it difficult for the tradition to explain the influence of non-state actors on the behaviour as states. As Snyder points out, realists have trouble explaining how the U.S. can wage wars against non-state terrorist organizations (Snyder 2004, 56). Though balance of power and avoidance of conflict are important in international affairs, the role of international organizations on state behaviour is deemphasized in realism.

## 2.2 Liberalism and Neo-Liberalism

Within the traditional theoretical paradigms of international affairs, liberalism is seen as the alternative to the realist tradition. Unlike realism's continual anarchic state, liberals believe that global cooperation is inevitably possible as trade, finance, and democratic norms creates persistently deeper ties between nations. Generally, liberalism continues to see the state as the most important actor, though some speculate that the international cooperation erodes the power of state sovereignty (Walt 1998, 40). The values which liberalism promotes such as freedom, democracy and guaranteed rights are so prevalent in Western societies that they are taken as self-evident characteristics to be emulated elsewhere in the world (Snyder 2004, 57). Connected to this, capitalism is seen as the best economic model for democracies to distribute with scarce resources among society, a view emphasized to a much larger extent following the Cold War (Burchill 2005, 56). While states remain the primary actor within international affairs, accountability both at a domestic level of statesmen to their constituents and states among each other is pivotal for the liberalism tradition. International organizations thus clearly play a role in restraining states, and this is seen as good. What the analysis misses however is the ability of transnational forces to influence the manner in which these restraints take place. Stepping back and removing this emphasis on the state and attempting to realize the wider context of international institutions, neo-Gramscian theory neatly comes into place.

### 2.3 Roots of Neo-Gramscian Theory

Neo-Gramscian theory finds its roots in its namesake Antonio Gramsci, an Italian Marxist whose work has been transformed into a framework with which to understand international political economy by Robert Cox (Cox 1981). Gramsci sought to answer how the working class achieved revolutionary struggle in Russia instead of the advanced capitalist countries as Marx had predicted. Gramsci concluded that the Russian state lacked connection with civil society, thus the revolutionary guard met no resistance from society, who had nothing to gain from the Tsar's continued reign. Meanwhile, the bourgeoisie in the capitalist societies could appease the working class with concessions to settle qualms (Cox 1983, 162-5). The notion of the state goes beyond the apparatus of government, such as political parties and the military but also influences from the private sphere, such as religion, [social] media, and education (Bieler and Morton 2003).

Gramsci establishes his concept of hegemony from his early observations as well. Hegemony is understood as the entrenched subordination of the working and lower classes by the proletariat and capitalist classes within society. This hegemonic position is attained when “the interest of the of the leading class into harmony with those of subordinate classes and incorporates these other interests into an ideology expressed in universal terms,” (Cox 1983, 168). This universality, or society's common sense, is reached not by coercion, but by ‘the organisation of consensus’ among society (Engel 2009, 160) and within a national context is referred to as an historic bloc. A historic bloc is more than a simple political alliance, it is the integration of different class interests within society into a universal way of thinking about political-economic goals (Bieler and Morton 2004, 90).

Gramsci's analysis was purposed to find how the working classes could create such consensus in their image, but this necessitated to discover how hegemony was established in his day. In order to maintain this consensus, ‘bourgeois hegemony’ “necessarily involved concessions to subordinate classes in return for acquiescence in bourgeois leadership, concessions which could lead ultimately to forms of social democracy which preserve capitalism while making it more acceptable to workers and the petty bourgeois,” (Cox 1983, 163). Concession production for acquiescence to leadership becomes a built-in political mechanism through the ‘universalized’ ideas, material resources, and institutions to continually co-opt and absorb counter-hegemonic ideas without the need for coercion (Cox 1981, 136). These political mechanisms are highlighted to create an understanding of the inner workings of

the state, but are also a criticism of the mainstream IR theories, which theorize the state without any discussion of its origins.

### 2.3.1 Neo-Gramscian IR

These observations of state-civil society complexes and hegemony break with the state centric notions of the positivist paradigm of the mainstream IR theories, and explains via structural analysis how social forces within a state can project their power internationally onto the world stage. Like liberalism, neo-Gramscianism sees the world order as founded “upon the regulation of inter-state conflict”, though in addition there exists a “globally-conceived society, that is, a mode of production of global extent which brings about links among social classes of the countries encompassed by it,” (Cox 1983, 163). The current era of globalization, has facilitated the creation of this globally conceived society through transnational classes between dominant and subordinate states that have economic interdependency and shared interests (Linklater 2005, 127). To ensure the hegemonic position of the social classes of the dominant states, an international “system of institutions and administrative apparatuses that universalize the productive relations and make their application appear objective and merely bureaucratic” is produced (Rucki 2011, 338). Stephen Gill, in his ground breaking work, identifies the Trilateral Commission as an early unifier of norms and ideas. Since then, international institutions such as the IMF, the World Bank and the World Trade Organization (WTO), as well as the many state groupings, as forums for the reaffirmation of hegemonic policies and ideas (Gill 1990, 114). In a sense, there is a connection with realism, in that states act in their own independent interest, however, that interest is shaped by the compelling nature and “power of global financial markets and institutions,” which is an inquiry of neo-Gramscianism (Linklater 2005, 128).

## 3.0 China and the Institutions of Global Governance

Deciphering the origins of institutions allows us to see how the rules and constraints will affect its users. A main theme of this thesis is the institution building of China in contemporary global governance. Before documenting China’s own institution building exercises in a bid to increase economic influence throughout Eurasia, a review of China’s interactions during its economic rise and growth within the current neoliberal institutions of global governance is in order. China’s dream and view of the world as a supply chain are coloured given China’s development internalization within the system.

### 3.1 Chinese interaction with *Pax Americana* and Global Economic Governance

Highlighted in much neo-Gramscian research, is how the United States exerts its hegemony through international institutionalisation of its preferred state relations and mode of production (Gill 1990). If China were to participate in these institutions, it was believed, this would allow unparalleled US-dominance over the biggest up-and-coming market. Given the concessions China made in order to join the World Trade Organization (WTO) in 2001, the accession

marked the highpoint of US influence and ascendancy. Since then, China's position has been steadily improving, something that the recent emergence of its sovereign wealth fund and its subsequent role in bailing out distressed US financial institutions has dramatically highlighted, (Beeson 2009, 729).

Beijing's behaviour in global governance and international institutions is directly correlated with its bilateral US-relations and its economic growth. Progression of this conduct has occurred in four distinct eras. China evolved from a passive outsider position of global institutions to seeking membership to intergovernmental organizations throughout the 1980s. When accession was accomplished, China socialized and learned the rules during the 1990s (in the 2000s for the WTO), while taking a more selective and activist position in the early 2000s (Ferdinand and Wang 2013). Many commentators took China's participation in international processes, similar to that of the US and Russia, in this era to mean Chinese socialization towards accepting the practices, norms and values of the system (Kennedy 2012, 10-11).

Observations of socialization were consistent in the individual multilateral institutions, though these would soon be used for China's benefit. In the WTO, for example, Lawrence identifies that after seven years of membership, "China emerges...as the most active developing country and the third most active WTO member," and that China "participated in forty-seven cases as a third party, something both the EU and US routinely do to ensure that they have the right to defend their interest should the need arise," (2008, 151-2). Nonetheless, China's practice of deploying countervailing measures is now normal practice. Through bilateral trade free trade agreements, China frees itself to trade for the economic benefit of the Chinese economy and its partner countries outside the constraints of tough WTO accession agreements (Lanteigne 2005, 52; Lawrence 2008, 158).

Comparable socialization evidence of Chinese foreign policy is found at the World Bank. Chin observes, socialization became a two-way relationship, where China seeks "to advance alternative norms and rules within the new cooperation arrangements led by China Exim Bank,"

that allowed infrastructure investment within the country (Chin 2012: 227). Lastly, in the International Monetary Fund (IMF) China originally acted as a gold standard for developing countries to emulate (Ferdinand & Wang 2013: 904). After the global financial crisis, China has been working diligently to improve its standing in the IMF, but is often blockaded by the singular veto-wielding member, the United States of America. It continues to face delays in small reforms in countries voting quotas, thus “China has no expectation that substantial transformation is likely to take place soon. The IMF is effectively accountable to the United States, and it will remain a western-dominated institution for years to come. China has no illusions about that,” (Ferdinand & Wang 2013: 906).

Delays in reform for the benefit of China and other developing countries, in combination with the weight of the GFC, are cause for China’s behavioural shift. China’s position has shifted to a new moderately revisionist posture since 2008 that seeks to selectively alter rules and ‘balance of influence’ largely from within existing institutions, while simultaneously trying to establish alternative institutions and norms of global governance and redistribute power and resources within the international system from North to South and from West to East, (Shambaugh 2013, 100).

Chinese leadership sees the traditional institutions as intrusive to states not only for the South East Asia region, but also towards developing states as a whole. According to a former Chief Economist at the IMF, China is not alone in refuting a strong autonomous IMF, “instead, China would be in favour of greater freedom for states to experiment in devising policies that are best suited to their particular circumstances, just as China has done,” (Ferdinand & Wang 2013: 905). While China had been patient with this dissatisfaction, the GFC could no longer allow it do so, seeing the danger in the continuing to trust the Bretton Woods system to assure global economic stability. In 2009, the former Governor of the People’s Bank of China, Dr. Zhou Xiaochuan, wrote in that the crisis and the IMF’s ability to contain it “reflect the inherent vulnerabilities and systemic risks in the existing international monetary system,” (Xiaochuan 2009). Thus, the GFC is the impetus in China’s new behaviour towards global governance.

### 3.2 The People’s Republic of China’s Activist Era Towards Global Leadership

The PRC’s exposure after the GFC was limited due to risk-averse investment strategies abroad, and being less dependent on export-oriented growth than commonly believed (Anderson 2007). Striped down for only value-added revenue adding to China’s GDP in 2008, exports only accounted for 10%. While GDP growth fell as low as 6.2% in the second quarter

of 2009, still extremely high compared to even normal growth in the Western world, by the Q1 of 2010, growth was back up to nearly 12% (Rucki 2011: 346-7). China and other emerging economies experienced the crisis much differently than the developed world, and did in fact return to a significant growth rate in the years following (Rucki 2011: 354). Recovery from the GFC in this manner set the stage for China's growth in confidence and relative power as the country pursued its new perceived interests.

Change in posture of China's grand strategy within the global economic governance since 2008 can be found within two spheres of activity. First, Chinese Heads of Government and diplomats seek revisionist tactics within the existing institutions as outlined above. Second, it is attempting to enlarge China's political and economic influence by offering an alternative set of institutions and initiatives to the US dominated financial institutions. This second sphere of activity includes internationalization of the Renminbi (RMB), outwards foreign direct investment (FDI) into and concessional loans for other developing countries, and multilateral institutions in which China is the majority stakeholder. Internationalization of the RMB allows as a currency for global trade and investment, as well as a reserve currency with sovereign governments allows China's grand strategy of a global supply chain to be a reality (Steinbock 2015). For these reasons, pursuit of the grand strategy has received greater emphasis since 2012 with the rise in power of President Xi Jinping. This assertiveness seeks to alter global (economic) governance to incorporate China's vision of international relations and world order to reorganize the global supply chain to feed China's economic needs as the world's biggest exporter and second-largest economy in absolute terms (Steinbock 2015).

### 3.3 Rise of Chinese-Led Multilateral Institutions & Initiatives

Contemporary China seeks to reorganize world order as a global supply chain to enable the continued economic growth of China's domestic, consumer-facing, economy. In order to achieve its economic place in the world, China seeks to fundamentally alter the infrastructure of nearby countries in order to facilitate quick passed trade. To foster the type of relations among other states, Chinese leadership has promoted the idea of China's 'peaceful rise' since the beginning of the 21<sup>st</sup> century (Zhang 2015, 17). While the United States fought wars in the Middle East, the PRC carefully follows a policy of non-intervention in the domestic affairs of other states, and focuses instead on building trust through economic partnerships with other developing nations.

In the first decade of the 21<sup>st</sup> century China has been able to enter political, military and commercial deals with countries of the ASEAN community, the countries of Latin America and the Caribbean, and the countries and observers in the Shanghai Cooperation Organization (SCO). In November 2006 China sealed this circle with a strategic partnership

with the Forum on China-African Cooperation (Campbell 2007, 89-90). The peaceful rise policy reflected Deng Xiaoping's long-standing maxim for China to 'hide one's talents, bide one's time' in order to prevent frightening other countries (Shield 2013, 147). Nonetheless, the global financial crisis was a turning point that, according to some Chinese leadership, accelerated the relative power growth onto China much to their own surprise (Breslin 2016, 64). Early responses from Chinese leadership were strong, such as former Chinese premier Wen Jiabo's speech at the 2009 World Economic Forum at Davos, in which he stated that the crisis had "fully exposed the deficiencies in the existing international financial system and its governance structure", and called for 'the establishment of a new world economic order that is just, equitable, sound and stable,' (Shield 2013, 147). In realisation of the global power asymmetry against that continues to this day, as well as the fact that China has immensely benefited from the current system, China treads carefully while seeking restructuring of global governance structures. The GFC was hence the impetus for developing new multilateral institutions to build China's economic influence and interdependence with other states where the current framework would not allow it.

The first of these new multilateral institutions was the BRICS, formed due to shared dissatisfaction with slow reform of global economic governance in wake of the GFC. In mid-2009 the initial meeting took place, eventually adding South Africa to the fold with Brazil, Russia, India, and China in 2010. An early BRICS endeavour offering lending power to the IMF was not accepted in 2011. Consequently, the BRICS made arrangements for the New Development Bank in 2014 as an alternative to the World Bank, and in 2015 finalised plans for the Contingency Reserve Arrangement (CRA) for similar purposes. By staking more than 40% of the capital for each institution and gaining more voting rights than any other individual country, China has a majority influence in BRICS. As Robinson notes, the BRICS cooperation has been increasing the integrations of the transnational-capitalist classes of between each of these nations (Robinson 2015, 18), critical for consensus building around hegemony according to neo-Gramscians.

The Shanghai Cooperation Organization (SCO), though formed in 1996, is gaining renewed significance, serving as China's strategic energy and security partnership with Russia and the Central Asian countries. In addition to the five original members of the SCO, 2016 will see Pakistan and India joining its ranks (Crosston 2016). Ambition for a SCO Development Bank after the crisis was not welcomed by Russia, as Central Asia is its traditional sphere of influence. These initial setbacks led Xi Jinping to announce the OBOR \$40 billion investment fund to create a sophisticated infrastructure system to reinvigorate the ancient Silk Road between China and Europe (Hooijmaaijers 2015, 327). Particularly of interest is China's recent agreement with Iran, who has recently had its international sanctions lifted, to be included in the One Belt, One Road initiative in addition to China proposing the country join the SCO as full-fledged member. Bringing together states with vastly divergent strategic interests, the SCO helps find common economic and security interests, and the region plays an important role as a crossroads for trade through Eurasia.

At the 2014 Asian Pacific Economic Cooperation (APEC) Summit in Beijing, President Xi Jinping announced China's plans to invest a total of \$1.25 trillion overseas in the next 10 years. Just a month prior, China publicized with twenty other Asian countries the establishment of the Asian Infrastructure Investment Bank (AIIB), with China contributing \$50 billion, half of the initial starting capital of the new regional investment bank (Zhang 2015, 15). Of significant interest, the AIIB shows China's "commitment to proactively becoming a provider of new governance structures, and this time one that has got significant buy-in from many of the established Western global actors" (Breslin 2016, 66) with important exception of the United States. A further cause for concern in Washington D.C. is that Beijing will use the AIIB to accelerate the internationalisation of the RMB and encourage its use as a reserve currency, reducing the global dominance of the dollar (Hooijmaaijers 2015, 328). Likewise, the AIIB reflects waning US influence on its close allies as many European states and Australia came into the fold. Together with the Silk Road Fund, the AIIB plays a pivotal role in funding the infrastructure projects throughout the OBOR.

These initiatives reflect China's consolidation of "role as the world's trading engine," (Steinbock 2015), and its vision and values on multilateralism which seek to promote economic growth and development while respecting national sovereignty, consensus decision making, and absence of treaty obligations. This does make these initiatives weak and susceptible to easy break up, especially at such a young age of these institutions. Nonetheless this is typical of Chinese foreign policy that allows them to be fluid and quickly change policy as necessary,

while not tying down China to any institutional failures or unfavourability (Hooijmaaijers 2015, 328). Besides gaining access to resources the country needs to fuel domestic growth, the creation of new institutions spreads China's power while diminishing the independent power of institutions like the IMF in South Asia. The latter has additional significance, as South East Asian countries are wary of these institutions following the financial crisis at the end of the 1990s (Nicoll and Delaney 2015).

#### 4.0 One Belt One Road: Infrastructure and Economic Integration of Eurasia

Announced in 2013 by Chinese President Xi Jinping, the One Belt One Road initiative seeks to reinvigorate the ancient Silk Roads that once connected the spice trade between China and Europe through the Middle East and Central Asia. The initiative boils down to two separate projects known as the Silk Road Economic Belt and the 21st Century Maritime Silk Road (Baohong 2016). The former focuses on building motorways, railways, and pipelines connecting routes throughout Asia, Europe, and East Africa. The latter are infrastructure investment projects focused on the creation or expansion of deep sea ports across the Pacific and Indian Oceans as well as the Mediterranean Sea in order to facilitate China's and the world's shipping fleets. Chinese Ambassador Sun Baohong states the initiative "involves 65 countries and regions with a population of 4.4 billion, accounting for 63 percent of the world, and \$21-plus trillion GDP, accounting for 29 percent of the world," (Baohong 2016). In order to finance the construction of the Belt and Road, Xi proposed the Asian Infrastructure Investment Bank (AIIB) in October 2013 while addressing the China-ASEAN Community. A year later, the Silk Road Development Fund was established by China by an amount of \$40 billion. The former came into being in November 2014, and demonstrated a huge diplomatic success for China by winning the support of developing countries, barring the US and Japan. The case studies herein analyze fourteen OBOR agreements that work towards connecting the Eurasian supply chain on both the land and sea route. Each agreement has been scrutinized for a wide range of bilateral policy objectives between China and partner countries or organizations (See Appendix 1). Of all the agreements, the Egypt-China 5-year implementation plan was the most robust, including agreements on artificial rain creation and removal of mines left over from the World Wars. Other agreements established new strategic relationships, but all made a commitment to the OBOR, the AIIB, and "People-to-people" exchanges.

#### 4.1 Case Studies Summary

As the case studies will indicate, the OBOR seeks to attain three main goals: 1) Create opportunities through the Outward FDI for infrastructure investment to allow Chinese

companies to continue growing in a manner familiar to China's era of double digit growth; 2) Produce the infrastructure necessary to in the long term being able to as efficiently as possible import raw materials to fuel the Chinese economy, and export cheap finished manufactured products to other developing countries in the world; and 3) Promote its new type of international relations through "win-win cooperation".

While the former two objectives help sustain Chinese economic growth in the future, the latter has several more implications that help attain the goal of economic growth through friendly relationship with partner states and institutions. This includes several factors that are consistent themes in China's various investment projects, as well as special economic zones. These factors are: a) the internationalization of Renminbi by using it as the investment currency; b) utilizing the Renminbi as a reserve currency in the sovereign banks of those countries; c) gaining commitment in words to sovereign rights of non-interference and the self-determination of each state; d) cooperation with China and her partners in the pursuit of infrastructure development; and e) institutions that promote bilateral cultural and academic exchange.

Together, this consensus allows China to organize the world as its global supply chain on the terms that China sets, while building a Chinese governance paradigm as it was known under the United States. When the US took over the reigns of the British and French Empires, it rejected their colonialist approaches of subjugating entire countries, but was willing to invade countries and strike with the stick so to speak in order obtain its will. In part this was a product of the Cold War. China faces a very different situation; in which it is cooperating within the confines of the system that the United States has built. Nonetheless the Chinese approach to global governance seeks to offer peace, stability and self-determination as well as direct economic investment that acts as a carrot instead of the stick. Throughout the various policy statements and the conjoined OBOR investment projects, eight distinct policy spheres are indicated. Rather than presenting the findings of each of these categories individually, they are presented here in order to understand the underlying objectives of China's policies within three major grand strategies: Global Governance and Regional Affairs; Trade, Infrastructure Investment, and Banking.

## 4.2 Global Governance and Regional Affairs

From China's policy papers and statements on its foreign affairs, there is a clear self-belief in the creation of a rejuvenated view of international that seeks to be "win-win" for all those involved. Though China presents its ideas as benevolent, this paper believes it is part of a consensus building project. To which ends that is can be teased out in the various agreements under consideration. In all eleven bilateral OBOR agreements, explicit commitments are made towards a 'One-China' policy, most definitively stated in the Afghan reaffirmation to support "China's positions on issues related to Taiwan, Tibet, and Xinjiang and stated that Afghanistan would not allow its territory to be used by any forces for any separatist activities against China," **(Point III, Afghanistan)**. Related to this is the vow made in eight of the bilateral agreements to work to eliminate the 'three forces' of terrorism, extremism, and 'separatism within human society'. With Pakistan and Afghanistan, China agrees to fight resolutely against the East Turkistan Islamic Movement, specifically maintaining support for the Afghani government as the legitimate leader of the reconciliation process in the country. While the agreements do call for action to be taken within the confines of the "UN Charter with respect to sovereignty, independence and territorial integrity" (Point XVII, Egypt), for that action be taken at all is novel. Motivations for these declarations are support for a statist orientation of global governance, in which the state has the full right to the monopoly of power. This reveals China recognizes use of United Nations framework to meet its end goal of non-interference in its own territory by supporting that same right with other states. By doing so, China is reinterpreting the UN Charter to ensure that rival states are unable to ground interference or an invasion on the basis of Chinese internal issues. While ten of fourteen of the agreements reaffirmed commitment to the the UN Charter, six explicitly stated bilateral support for each other in the UN and WTO, and two agreements, with Egypt and Pakistan, vowed support for reforming the UN Security Council. By building support for its partner states, China is able to build consensus around ensuring state power away from subordination or scrutinization of international institutions.

Consensus-building and a move away from its non-interventionist past are seen in China's positions on the Middle East. Interestingly enough, in opposition to the territorial integrity argument normally made, China advocated in partnership with four countries from the region that Palestine be restored into an independent country based on the 1967 borders (Egypt, Point 63). To reconcile Saudi Arabia's dissatisfaction with Sino-Iranian agreements, China backed the Kingdom's stance to support the government of Yemen in the ongoing civil war

there (Saudi Arabia, Section 6). Likewise, China and Egypt agreed that the “Syrian government and the opposition should implement UN Security Council Resolution 2254 resolution,” (Egypt, Point 64). China’s support of these Middle Eastern issues are in line with its stances on sovereignty and territorial integrity, in which it still sees the state as the most important actor. Furthermore, it is a sign of compromise between Chinese and Arab negotiators whom are further developing their economic relationships. The Middle East as a whole is China’s biggest source of crude oil and is the 7<sup>th</sup> biggest trading partner as a whole, and, according to China’s Arab Policy Paper, where energy, infrastructure and investment are the three most important features of the Sino-Arab Relationship (Arab Policy, FMPC 2016). So while China’s view of governance as state-centric is vital, it makes way for economic compromise and consensus building. The economic incentives for building the ‘win-win’ Eurasian Supply Chain follows.

#### 4.3 Trade, Infrastructure Investment, and Banking

Creating a well-connected Eurasian supply line is of vital interest to the Chinese to secure future stability of its economy, and trade plays a major role in this. While the United States is the leading trading partner of no more than 54 countries, the PRC holds that title with 124 countries (Khanna 2016). For China, to secure its economic future, it must make trade with these countries more efficient by lowering costs of transportation and thus the availability and access of Chinese goods. In the initial OBOR policy paper, published in March 2015, the State Council of China calls on the countries along the route to play their part as a coordinating functions to open up their countries for investment and trade, while encouraging Chinese enterprises to build the necessary infrastructure when possible (NDRC 2015). Indeed, as is uncovered in the case studies here, all bilateral agreements outside of Europe (8 out of 11) include Chinese commitments to Outwards Foreign Direct Investment (OFDI) into partner countries. In turn, partner countries agree to FTA terms that create preferable customs agreements and in addition to the government playing a facilitating role “to create a good investment and business environment” for Chinese enterprises (FMPC 2016, Sri Lanka Pt. 8).

For many of its trading partners, China holds a trade surplus. The deficit trade balance was addressed in 11 of 14 agreements, to find ways in which to increase exports to China. Raw materials were often the goods considered for export, agricultural in CEE Countries, Afghanistan and Egypt, or oil and gas resources in Iran, Pakistan, Saudi Arabia and Kazakhstan. This reveals the uneven nature of trade balance that could come out of the future of the OBOR. While raw materials and energy resources are imported into China to power the industrial complex, cheap manufactured goods are being exported outwards to the rest of the world. While

the cheap goods have helped many places such as Egypt and Gaza (Kāzemi and Chen 2014), it is possible that a dependency on the Chinese supply line will come to fruition in the future.

To facilitate an ever more expedient form of trade, China is replicating its coastal Special Economic Zones (SEZs) in Egypt, Pakistan, and Laos in a style similar to Chinese experiences in African countries (Kāzemi and Chen 2014). China's own experience with SEZs gave foreign corporations access to China's cheap labour market while allowing control over the remainder of the domestic economy, creating a dual system of capital controls and bank reserves. Replication of SEZs in the developing world gives China multiple benefits: cutting administrative red tape, cheap access to labour, ownership over facilities and enterprises, tax havens, and, again, guarantees on raw material imports (Khanna 2016). As the need for raw material imports dwindles with a slowing domestic economy in China, the SEZs will remain an important site of production and access point for Chinese exports. The benefits for SEZ-host countries are increased investment, trade, employment, infrastructure and regional development, and technology transfers. However, it is often disputed that the SEZs truly help create the mutual benefit that China promises, and instead merely advances Chinese interests (Hooijmaaijers 2015, 330).

Lastly in the finance sphere are the OBOR Financial Cooperation Agreements. Though only half of the agreements make explicit mention of development or cooperation of Central Banks, it is significant to note that this includes the regional organizations of the European Union, China-ASEAN, and the CEECs. Of equal consequence is each agreement affirmed cooperation with the AIIB, which, as discussed above, is an Renminbi financial-institution where China wields effective veto-power. Whereas the IMF has always had the US-veto power given Washington overwhelming influence, the AIIB will rival as an alternative but Chinese led institution. Though Vermeiren and Dierckx (2012) argued that China's capital controls would stop the internationalization of the Renminbi, the AIIB and further cooperative monetary programs will change this. With the CEE Countries, China plans to launch two additional Reminmbi based investment funds to facilitate quick infrastructure development. This includes projects such as the the reinvigoration of the Hungary-Serbia high-speed railway, which in turn is part of a larger "land-sea express passage" connecting the "Piraeus Port of Greece in the south to Budapest of Hungary in the north via Skopje of Macedonia and Belgrade of Serbia" (China-CEEC 2015). Finally, currency swap agreements have been created between the European Central Bank and the People's Bank of China (European Union External Action

2013), and is increasingly occurring between private western and Chinese banks. A greater role of China's currency in the world economy is another sign of China's growth of influence.

#### 4.4 Culture, Education, and Tourism

The last sphere of the agreements highlighted within this thesis are the "People-to-People exchanges", or the promotion of cultural and education exchanges to connect civilizations. As Campbell notes of Chinese hegemony building activities in Africa, that "in the long run, transnational civil society linkages between the Chinese people and African peoples will be more important than the relations between leaders," (2007, 92). It seems as if this advice has been taken to heart throughout the OBOR agreements. The cultural and academic approach is a soft power angle that has a four pronged strategy: 1) Building Confucius Institutes and Chinese cultural centres in other countries, in 10 of 14 agreements (Prince 2009); 2) Inviting students and academics to study Chinese language and culture within China, in 9 of 14 agreements (Metzgar 2015); 3) By facilitating Chinese cultural years in partner countries through a vast array of cultural events, in 6 out of 10 agreements; and 4) Creating links between localized governments and cities, in 6 out of 14 agreements. While the long term implications of newly created academic and cultural exchanges with China are unknown, they seek to promote the view of China as a friendly, defence-minded pacifist country while promoting a vision of a unified kinship (Scobell 2014, 223; Chang 2011, 59).

Promoted as a way of facilitating friendly relations, China has an upper-hand in its ability to project unified academic and cultural thought to its many partners which it does through its Confucius Institutes (Paradise 2009). China's huge populous can sustainably absorb the many cultures with which it exchanges as a whole, whereas the influence of its smaller partner countries will be considerably less. Moreover, as OBOR agreements show, China has been ambitiously providing scholarships and funding for Western and Arab academics to learn Chinese language and culture. Though China promotes norms, ideas, values and understandings with the goal of friendly perception by the international population, this soft power has been slow to grow (Metzgar 2015, 230). All in all, as countries welcome and align Chinese presence, both companies and culture, but that the common sense thinking prevalent today will move from a western US-centred culture to an Eastern Chinese-oriented approach is not clear.

#### 5.0 Conclusion

Through the lens of the One Belt One Road initiative, this paper has sought to answer the question of whether China's economic rise presents an economic or ideological challenge to

the neoliberal hegemony. Utilizing neo-Gramscian theory to understand the effect of institutional effect on the ability to increase influence in China's partner countries is appropriate. Highlighting the ability of the Chinese state to build cultural and academic exchanges, is a manner in which a consent based counter-hegemonic support can be built for China. This surpasses the state-centred perspectives within in Realism or Liberalism. The OBOR represents not only the global expansion of China's domestic companies and economy, but an influence on other countries to deviate from having to align their domestic economies as the 'transmission belt' to the global economy. Instead, the infrastructure investment and development from China allows states to move away from being 'competition states' bound by the rules of global governance to 'regulatory states' in which countries can organize their domestic political and economic space in the manner of their choosing. While a reliance on China is certainly part of the picture, China's junior partners are able to reclaim a sense of state agency that could be lost in the subordination to a strong and independent IMF and World Bank (Strange 2011, 541).

The development of the OBOR initiative is still at an early stage, and how the initiatives will unfold into a realistic infrastructure will be compelling in future studies of China's impact on the Eurasian global supply chain. This is especially true if the Chinese Foreign Ministry is able avoid overreaching with their OBOR objectives, and keep up with an onslaught of partnership, arrangements and information. Overflow of information seems to be much the cause for lack of transparency (Kāzemi and Chen 2014), or delays in contracts (Khanna 2016) and failed investment (American Enterprise Institute n.d.). Once the OBOR is accomplished however, the necessary infrastructure will be in place for the fast-paced trade of goods, and it will be of immense interest to take an in-depth look at the trade balance between China and the rest of Eurasia. At the time of this writing, it appears that China will have the upper hand in being able to develop cheap manufactured goods within China, while taking advantage of its factories in foreign special economic zones. While China does represent a rising economic challenge to the United States, China will remain as a secondary power for the time to come as the economic determination of the US in the global economy will fade swiftly. Nonetheless, from this secondary position, China will be able to organize much of the world's infrastructure to facilitate its future trade.

## Appendix 1: Case Study Characteristics

Country	Egypt	Saudi Arabia	Pakistan	Iran	Afghanistan	Kazakhstan	EU-China	CEEC	Tech Republic	Poland	Switzerland	China-ASEAN	Laos	Sri Lanka	Total
Date of Agreement	1/21/16	1/19/16	4/21/15	1/23/16	5/18/16	8/31/15	6/29/15	11/24/15	3/29/16	6/21/16	4/8/16	3/3/16	5/4/16	4/9/16	
Agreement Type	5-year	Est.	Est.	Est.	Cont.	Cont.	5-year	5-year	Est.	Est.	Est.	5-year	Cont.	Cont.	
<b>Political Sphere</b>															
One China Policy, territorial integrity	x	x	x	x	x	E			x	x	x		x	x	11
Counter-terrorism	x	x	x	x	x	x			x			x			8
<b>Trade, Investment, &amp; Banking</b>															
Support for OBOR, AIIB	x	x	x	x	x	x	x	x	x	x	x	x	x	x	14
China OFDI Commitment	x	x	x	x	x	x		x					x	x	9
Trade Balance	x		x	x	x	x	x	x	x	O		x		x	11
Special Economic Zone	x		x					x					x		4
Development/Cooperation of Banks	x					x	x	x	x		x	x			7
<b>Military &amp; Security</b>															
Bi-lateral military cooperation	x		x	x			x					x	x	x	7
<b>Science, Tech, &amp; IT, Space, Nuclear Energy</b>															
Technology Transfer/Cooperation Agreement	x					x		x	x		x	x	O		7
Space deployment/assembly	x	x	x		x	E	x					x	O		8
IT & Telecom Partnership	O				x		O	x	x			x			6
Personnel Support	x				x		x		x	x			x		5
<b>Cultural, Media, Tourism, Education</b>															
Culture Years	x	x	x	x									O	x	6
Confucius Institute, China Cultural Centre	x		x	x	x	x	x	x				x	x	x	10
Students to China, Learn Mandarin	x				x		x	x	O			x	x	x	8
Bilateral Tourism	x	x		O		x	x	x	O	O		x			9
Sister Cities	x		x			x	x	x		O		x			6
Academic Exchange	x			x	x	x	x	x				x	x	x	9
<b>Environment, Agriculture, and Forestry</b>															
Agriculture Cooperation	x			x	x	x	x	x	x	x	x	x		x	11
Water Treatment	x			x		x	x	x				x		x	7
Desertification/Deforestation Control	x			O				x				x			4
<b>Energy, Oil and Gas Industry Cooperation</b>															
Renewable Energy Cooperation	x			x			x	x		O		x	O		7
Nuclear Energy Cooperation		x	x	x		x	x	x	O						7
Oil & Gas exploration in partner country	x	O		x		x						x			5
<b>International &amp; Regional Affairs</b>															
Uphold UN Charter	x	x	x	x		x	x			x	x	x	x		10
Bi-Lateral Support in UN	x					x					x	x	x	x	6
Palestine	x	x	x	O											4
Syria	x	x		O											3
Yemen	x	x		O											3
Doha Round Negotiations	x						x								2
Support to join/cooperate in SCO	x		x	x	x	x									5
SAARC Cooperation			x	x	x	x								x	5
ASEAN Cooperation												x	x	x	3
EU-China Cooperation							x	x	x	x	x				5
CEEC-China Cooperation								x	x	x	x				4

## Guide to Appendix

x – clear reference to subject matter

O – reference to subject matter in passing

E – reference to subject matter in earlier document

### *Agreement Types*

5-year – Implementations of 5-year plans based on previous agreements

Est. – Establishment of a new relationship surrounding One Belt One Road

Cont. – Continuation of agreement, not detailed 5-year plan

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