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China's New Opening Up Policy: The One Belt One Road Initiative

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Declaration

I hereby declare that the master thesis submitted is original except for the source materials explicitly acknowledged and that this thesis has not been previously submitted for the same degree or for a different degree.

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Dedication

This thesis is dedicated to my parents and my brother: this achievement would not have been possible without their love

Abstract

The One Belt One Road initiative represents China's greatest initiative to promote economic growth in the world through infrastructure developments. This ambitious undertaking aims to connect Asia to Europe, establishing two main trade routes: the Silk Road Economic Belt and the 21st Century Maritime Silk Road.

The nature of this economic initiative seeks to create a community of shared destiny, in which countries can share mutual benefits and coexist peacefully along the trade routes. Despite these promising goals, some countries are suspicious of China's economic initiative, considering the OBOR undertaking as an unveiled strategy aimed at expanding Chinese influence.

The research focuses on the OBOR initiative, analyzing China's motivations behind the realization of this ambitious project through two different IR perspectives, realism and liberalism. By establishing a liberal lens, the realization of the OBOR lies in three main goals: first, China's need to create new economic corridors based on win-win cooperation; second, China's interest in strengthening regional integration; last, China's desire to improve global governance.

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Introduction

Research Background

China is undergoing a period of economic transition¹ after a long period of double-digit growth. In light of this economic slowdown, the fifth generation of leadership has promoted new policy initiatives aimed at increasing both economic growth and political stability. The Chinese Dream vision of promoting prosperity and stability in the Asia-Pacific region and beyond is at the core of these initiatives. In the domestic field, the New Normal mode seeks to readjust China's economic growth by promoting domestic consumption. While, in the international field, the One Belt and One Road initiative (OBOR) through its financial bodies aims to open additional economic routes abroad under the promises of promoting mutual growth, regional integration, and global governance. The research focuses on the OBOR initiative, trying to understand China's motivations behind the realization of this ambitious project through two different IR perspectives, realism and liberalism.

Research Significance

Globalization and its implications created a world in which states are strongly interdependent. This interconnection shaped an extremely complex international system in which states face common global issues with regard to international trade and political security. These common global issues inevitably require collective and cohesive global solutions. However, International organizations such the World Trade Organization, the International Monetary Fund, the World Bank, and the United Nations have lacked in proposing effective solutions to global issues, putting under scrutiny the real capacities of multilateral organizations. In light of this growing problem, what could be a solution to international gridlocks? And more specifically, what position does China cover in the global governance and to what extent could China help overcome stalemates in multilateral organizations by promoting its own international initiatives? The role of China in the international order has attracted the attention of many scholars, becoming one of the most

¹ Named as the New Normal mode

debated topics in international relations. Most of the research has focused on China's ambitions in the international order, analyzing whether or not China aims to detach itself from the current international system establishing a parallel order to the Bretton Woods system.

My research instead aims to analyze China's motivations behind the OBOR initiative through a liberal and a realist perspective, assessing the most significant economic and political implications as well as the main challenges of this initiative. According to a liberal view, the significance of the research is the great potential of the OBOR initiative to produce mutual economic benefits and promote political security. By establishing the OBOR initiative, China increases the fiscal capacity of its neighbors, demonstrating its ability to act as a responsible power in both the economic and political global governance. In addition, China's infrastructure developments aim to connect its lagging western provinces to China's South Asian neighbors, overcoming a lack of infrastructure developments that remove economic bottlenecks. By contrast, the realist perspective considers the OBOR as tool to advance China's sole national interests, creating market dependencies that guarantee import of natural resources from abroad. In addition, the significance of the realist perspective lies in the perception that China seeks to challenge the United States in the international system, as the Thucydides trap theory argues. The creation of the AIIB multilateral bank and the Chinese-led overseas bases along the maritime routes are considered through a realist lens as clear challenges to the US-shaped Bretton Woods system.

Research Question

Why is China launching the OBOR initiative?

Literature Review

The literature concerning the OBOR initiative is relatively broad if we take into consideration that the project was revealed only three years ago. The literature on this topic is mainly divided into four parts: scholar articles on realism and liberalism in international relations, statistical analyses of China's economic and infrastructure developments in South

Asia, official statements by the Chinese government, and articles by Chinese and Western journals. Scholar articles on realism and liberalism provide the theoretical background to the thesis, statistical analyses of China's economic and infrastructure developments point out the evidences, official statements mirror China's perspective on the OBOR, and journal articles provide additional perspectives to OBOR initiative. All these sources are analysed through a realist and a liberal perspective in order to have a full picture of China's motivations behind the OBOR initiative.

Two IR Schools of Thought in Comparison: Realism Vs. Liberalism

Realism is based on the perception that the countries strive for power in an anarchical state of affairs. As Stephan M. Waltz bluntly considers, "realism depicts international affairs as a struggle for power among self-interested states and is generally pessimistic about the prospects for eliminating conflict and war"². Realism can be divided into two parts according to states' different behaviour in the anarchical world: Defensive realism and offensive realism.

On one hand, defensive realists like Kenneth Waltz believe that the world order is anarchical in nature, but claim the fact that states tend to preserve their position in the international system instead of maximizing their power. Therefore, states aim to secure themselves rather than seek supremacy. On the other hand, offensive realists like John Mearsheimer, debate that state seek to maximize power and security under the assumption that all international affairs are a zero-sum game³. As a result, states continuously compete each other for regional hegemony, excluding the possibility of having "peer competitors"⁴.

Differently from realism, liberalism is based on the assumption that economic exchanges, international organizations and societal norms increase beneficial interdependences, promoting positive-sum interactions between states. As Robert O. Keohane

² Stephen M. Walt, "International Relations: One World, Many Theories," *Foreign Policy*, no. 110 (Spring 1998), pp. 31.

³ J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton & Company, 2001), 29–32

⁴ J. Mearsheimer, "Better to Be Godzilla than Bambi," *Foreign Policy* 146 (Jan/Feb 2005): 48.

and Joseph Nye argue “interdependence affects world politics and the behaviour of states...by creating or accepting procedures, rules or institution for certain kinds of activity, governments regulate and control transnational and interstate relations”⁵. Therefore, states interact each other under the assumption that increased interdependence produces mutual growth and international cooperation.

While the realist perspective bases its evidences on China’s national interest in securing natural resources, China’s attempt to increase its military capabilities, and China’s desire to challenge the international order; the liberal perspective support its evidences on the China’s significant growth with its neighbouring countries, China’s engagement in regional multilateral frameworks, and China’s responsible commitment to the international community.

Arguments

Drawing conclusions from the literature taken into account, the thesis presents two different perspectives in analysing China’s motivations behind the OBOR initiative. The realist perspective considers the OBOR as a strategic tool to bring Asian countries under China’s sphere of influence. Whereas, the liberal perspective argues that the OBOR aims to promote mutual economic growth in South Asia.

Where realist scholars point to China’s infrastructure developments as a the intention to create overseas bases along China’s geostrategic economic corridors, liberal theorists stress China’s desire to strengthen regional integration.

On a global level, the realist perspective is suspicious about China’s peaceful rise in the international order, seeing the OBOR and its newly conceived institutions as a challenge to the Bretton Woods international system. By contrast, the liberal view argues that China’s peaceful rise in the international order represents China’s commitment to act as a responsible stakeholder in the global order.

⁵ Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence*, 4th ed. (Boston: Longman, 2012), 5.

Evidences in the research suggest that the liberal perspective is more coherent in assessing China's motivations behind the OBOR initiative. By adopting a liberal lens, the research reaches the conclusion that China is launching the OBOR for three main reasons:

First, China's economic shift from a production based market to a service based market as in line with the New Normal mode highlights China's need to create additional economic routes for goods and resources by connecting its western lagging provinces to China's neighbouring countries and China's wealthy costal provinces.

Second and strictly related to the first reason, China seeks to strengthen regional integration by increasing the supply and value chains of South East Asian countries through infrastructure developments.

Third, China seeks to provide additional financial pools to the international order with the aim to improve regional multilateralism and political stability through the promotion of infrastructure developments.

Research Methodology

The thesis is a descriptive research based on IR theories. The realist and liberal IR perspectives establish the theoretical background for analysing China's motivations behind the creation of the OBOR initiative.

It is a qualitative research rather than a quantitative research due to a lack of statistics on the OBOR initiative. In view of the wide-ranging economic and political implications of OBOR initiative, the level of analysis is national, regional, and global.

Research Limitation

The research is limited to the extent that the OBOR is a long-lasting project that will be fully realized by 2050.

Research Structure

The thesis is divided into 6 chapters, each of which is composed of subchapters.

The first chapter deals with the issue in question, providing the thesis with basic research information.

The second chapter provides the theoretical background to thesis, analysing China's motivations through a realist and liberal perspective.

The third chapter is divided into three parts. The first part addresses the core principles of the OBOR initiative, taking as main reference its action plan. The second part analyses the OBOR initiative through two different perspectives: the Chinese perspective (that could be divided in official and non-official statements) and the American perspective. Taking into consideration these two diverging perceptions, the second part also draws a comparison between the OBOR initiative and the U.S. Marshal Plan. The last part of the Chapter deals with the internal and external challenges of the OBOR undertaking.

The fourth chapter is divided into 4 parts. The first part emphasizes on China's economic presence in the international order on the bases of trade, overseas direct investment, and financial aid. The second part analyses the concept of the Chinese Dream and the New Normal mode, trying to understand how they relate to the OBOR initiative. The third part focuses on the Asian Infrastructure Investment Bank, assessing its importance as multilateral bank in the international order.

The fourth chapter is divided into two main parts. The first part introduces the historical and theoretical backgrounds of South China Sea sovereignty disputes, taking into consideration the implementation of the maritime route of the OBOR initiative. The second part deals with East Asian Multilateralism and the impact of OBOR on security matters.

The Fourth and last chapter draws out conclusion taking into account the content of the body and the hypothesis of the research question.

Theoretical Chapter: The OBOR Initiative through a Realist and Liberal Perspective

Introduction

The OBOR initiative seeks to strengthen economic ties in the South Asia by improving infrastructure connectivity. Through this ambitious undertaking, China aims to promote a closer relationship with its South Asian neighboring country, seeking a win-win environment based on infrastructure advances and stronger trade relations. The OBOR legacy lies in the long legacy of Chinese-led project in Asia, signaling China's new round of investments in the region.

As China continues to promote investments and strengthen its economic ties in the region, Asian countries and the main powers in the international community started to enquire about China's motivations behind the OBOR initiative. These motivations can be analyzed through two IR schools of thought: realism and liberalism. On one hand, the liberal view holds that China is aiming to establish a positive sum game in which all countries can mutually benefit through stronger infrastructure connectivity, enhanced trade, and new financial institutions. On the other hand, realists argue that China's OBOR is a veiled attempt to establish regional dominance, create opportunities to convert harbors into overseas bases along the Indian Ocean, and challenge the international order.

This Chapter assesses China's motivations behind the OBOR through a realist and liberal lens by addressing the following questions: Does the OBOR only benefit China's national interest? Does China seek regional hegemony through the OBOR? And does China challenge the international order? All these questions try to assess China's intentions by taking into account the political, economic, and security issues surrounding the OBOR.

The chapter is divided into three parts. The first part is on Chinese-led initiative in South Asia and the aim of China in bringing all the previous initiative under the OBOR undertaking and how these spread the view of a Sino-centric agenda. The second part analyses China's motivations behind the OBOR through the realist and liberal lenses. The

last part assesses the findings, reaching the conclusion that the liberal view is more consistent the real than the realist view in addressing the three questions.

Chinese-led Infrastructure in South China

China's idea of creating a highly interconnected South Asia through the creation of infrastructures traces back to the first Chinese-led initiative aimed at connecting China massive industrial capacity to its western region and consequently to its southwestern neighboring countries. These infrastructure projects fall into different categories: land-based economic corridors through road and railways and maritime lanes through South Asian ports⁶.

Starting from the first category of Chinese initiative, China has placed a lot of efforts in establishing land-based economic corridors that connect could China with its neighboring country. China and Pakistan launched the first infrastructure project in the region, conceiving the idea of developing a highway through the Karakoram mountain range with the aim to promote "trade and people to people contact and the implicit propose of enhancing both countries' political and logistical control over the frontiers to deal with external and internal security threats"⁷. In 1978, the Sino-Pakistani Highway projected was successfully realized, representing the first step towards the idea of creating strongly integrated Asia. In 2011, after 23 years of its creation, China and Pakistan planned to turn the Karakoram highway into the center of a new China-Pakistan economic corridor that could connect China's most western province, Xinjiang, to the Chinese-constructed port in Gwadar, Pakistan, allowing access to the Indian Ocean (KKH). Despite China and Pakistan proposed additional plans to the KKH in 2006, the project has been delayed due to a severe landslide in 2010. In addition to the natural calamity, the project has faced some security issues originating from disputes between

⁶ Scott Kennedy and David A. Parker, "Building China's 'One Belt, One Road,'" Center for Strategic and International Studies, April 3, 2015, <http://csis.org/publication/building-chinas-one-belt-one-road>.

⁷ Ziad Haider, "Sino-Pakistan Relations and Xinjiang's Uighurs: Politics, Trade, and Islam along the Karakoram Highway," *Asian Survey* 45, no. 4 (2005): 522.

the Pakistani government and the Baluch nationals that consider the project as tool for the Pakistani military to control the region⁸. Despite these obstacles, president Xi's constant support to the initiative mirrors China's aspiration to see the project accomplish.

Aside from the ambitious project KKH in Pakistan, China has proposed many other infrastructure developments in Myanmar, Bangladesh, Nepal, and across the Tibet Autonomous region with over 140 corridors binding China to its neighboring country. Starting from Myanmar, China's need to promote growth in its western provinces led to the development of transportation infrastructures, connecting the wealthy eastern part to the lagging western part and its neighboring country. In particular, this domestic strategy has produced substantial developments in China's Yunnan province, connecting Myanmar ports to the south of China. This economic undertaking known as the Yunnan International Passage consists of more than 800 miles of new roadways built from 1999-2012. However, some infrastructure developments connecting Myanmar to Yunnan province has stuck due to public protests. The planned railway between Kunming in China and Kyauk phyu in Myanmar is a valid example of how public opinion can obstacle the creation of new project. In this case, Myanmar public opinion strongly opposes the railway project due to China's alleged exploitation of its natural resources⁹.

Similar to the previously mentioned initiatives connecting China's lagging western provinces to its neighboring countries, Chinese projects have also taken place in Tibet. The first major railway construction connecting China to the Tibetan city of Lhasa was completed in 2006, laying the foundation for further transportation connections to Nepal, Bhutan, and northeastern India. As Chinese official statements point out in the last years, China seeks to

⁸ Andrew Small, *The China-Pakistan Axis: Asia's New Geopolitics*, Kindle ed. (New York: Oxford University Press, 2015), 99.

⁹ Jacob Goldberg, "Myanmar's Great Power Balancing Act," *Diplomat*, August 29, 2014, <http://thediplomat.com/2014/08/myanmars-great-power-balancing-act/>.

further develop the Lhasa railway extending it to the Nepal border in Zhangmu¹⁰. In addition, recent reports unveiled a very ambitious initiative that seeks to dig a tunnel under the Mount Evert to connect Kathmandu to the Lhasa railway by 2020¹¹.

The second category of Chinese-led initiatives consists of the port cities in South Asia to which roads and railways are connected. Where roads and railways aim to connect less developed western provinces to eastern provinces and to China's neighboring countries, port cities constitute China's gateways to the Middle East, Africa, and Europe. The importance of creating these maritime routes throughout the Indian Ocean and beyond have prompted China to allocate substantial financial resources to initiatives aimed at building ports in Pakistan, Sri Lanka, Bangladesh, and Myanmar. In Pakistan, the Chinese constructed port in Gwadar has become of key importance because of its proximity to the Strait of Hormuz¹² and the possibility of overcoming the highly trafficked Strait of Malacca. Since the opening of the port, China has invested a lot of money in the project. As the China Overseas Port Holdings Company retook control of the port, Beijing provided around \$45 billion investment to the infrastructure developments that seek connect China to the Pakistani port. In addition, China aims to further develop the project by turning the port into a free trade zone similar to Singapore or Hong Kong¹³. In addition to Gwadar, China financed many other port city infrastructures in Hambantota (Sri Lanka), Chittagonga (Bangladesh), Kyauk Kpyu (Myanmar). In Sri Lanka, a Chinese state-owned bank gained rights to manage four berths after financially contributing to the construction of the Hambantota port with substantial

¹⁰ Holslag, Jonathan. "China's Roads to Influence." *Asian Survey* 50, no. 4 (July/Aug 2004): 641–62.

¹¹ "China-Nepal Railway With Tunnel Under Mount Everest 'Being Considered,'" Telegraph, April 9, 2015, <http://www.telegraph.co.uk/news/worldnews/asia/mounteverest/11524428/China-Nepal-railway-with-tunnel-under-Mount-Everest-being-considered.html>.

¹² Rorry Daniels, "Strategic Competition in South Asia: Gwadar, Chabahar, and the Risks of Infrastructure Development," *American Foreign Policy Interests* 35, no. 2 (2013): 95.

¹³ Jack Detsch, "China's Grand Plan for Pakistan's Infrastructure," *Diplomat*, April 21, 2015, <http://thediplomat.com/2015/04/chinas-grand-plan-for-pakistans-infrastructure/>.

loans¹⁴. Similarly, China provided significant loans (\$9 billion) to construction of the Chittagonga deep-water port in Bangladesh¹⁵. The full of realization of these Chinese-led initiatives would allow China to further promote growth in its western provinces and to establish strategic gateways to the Middle East, Africa, and Europe.

Since the first infrastructure developments in Pakistan, China has sought to improve economic connectivity in South Asia through the establishment of new infrastructures. Despite the large amount of Chinese-led initiative proposed in the region, China lacked a unified policy designed to connect Chinese gateways to the World. The conception of the One Belt One Road undertaking attempts to provide for this lack of policy by putting all the past and new infrastructures under a single strategy.

China's Motivations Behind the OBOR Initiative: Realism Vs. Liberalism

The OBOR initiative is likely to have a significant impact on the economy and the geostrategic situation of the region, affecting China's relations with its neighboring countries and with the global powers in the region. To understand China's motivations behind the OBOR initiative the second part of the chapter analyzes the OBOR through the realist and the liberal lenses, addressing the following three questions: does the OBOR only benefit China's national interest? Does China seek regional hegemony through the OBOR? And does China challenge the international order?

The OBOR Through a Realist Lens

Despite China's peaceful rise doctrine in the international community, realist scholars hold that the OBOR initiative represents China's veiled attempt to bring South Asian countries under its sphere of influence, exclusively advancing a Sino-centric agenda. Indeed,

¹⁴ Namini Wijedasa, "China Gets Controlling Stake at Hambantota Port," Sunday Times, October 19, 2014, <http://www.sundaytimes.lk/141019/news/china-gets-controlling-stake-at-hambantota-port-123262.html>.

¹⁵ Mukul Devichand, "Is Chittagong One of China's 'String of Pearls,'" BBC Online, page last updated May 17, 2010, <http://news.bbc.co.uk/2/hi/business/8687917.stm>.

realist scholars believe that there are significant evidences that support the view of China orchestrating a grand strategy. According to the realist view, the OBOR initiative and its infrastructure developments improve only China's national interest. Second, the OBOR project allows China to bring south Asian countries under its sphere of influence, establishing regional hegemony. Third, the OBOR through its new institutions- the AIIB and SRF- seek to challenge the Bretton Woods international system status quo.

Starting from the first assumption, realists emphasize that OBOR enhanced investments in South Asia mirror China's increasing need for natural resources. As data show, China's demand for imported oil, natural gas, and coal is expected to rise by 60% by 2010 and 2035¹⁶. In response to this need, China is working on securing supply lines connecting China to the Middle East and Africa. In particular, China is trying through additional economic corridors to overcome the Strait of Malacca since whoever controls that strait can exercise a stronghold on China's supply energy lines. Through a realist lens, China's vision of diversifying supply lines aims to advance exclusively Chinese national interest rather than promoting local growth in its neighboring countries. However, China's strategic actions in securing supply lines does not fully support the realist position unless there are clear evidences that Chinese-led infrastructures exploit countries' economies taking part in the OBOR project¹⁷.

The KKH in Pakistan and maritime constructions in Sri Lanka entail some of these evidences, demonstrating that Chinese-led infrastructures could also produce unintended effects both on a regional and national level. In Pakistan, for instance, the KKH has not produced the expected outcomes in the Gilgit-Baltisan region, failing in promoting significant growth in the local economy. According to a report of the Institute of Defense Studies and

¹⁶ Jeff M. Smith, *Cold Peace: China-India Rivalry in the Twenty-First Century* (Lanham, MD: Lexington Books, 2014) 146.

¹⁷ Smith, Jeff M. *Cold Peace: China-India Rivalry in the Twenty-First Century*. Lanham, MD: Lexington Books, 2014.

Analyses in New Delhi, “the per capita per annum income of Gilgit-Baltistan is only one-fourth of Pakistan’s national average and more than 1.3 million of inhabitants still live below the poverty line”¹⁸. Similarly on the national level, statistics show that “when Sino-Pakistani trade reached 7\$ billion mark in 2009, the share of trade via KKH was miniscule 4%.”¹⁹.

In Sri Lanka, the scenario is almost the same. Chinese-led infrastructures have produced little economic benefits when compared to the high debt (around \$7 billion) Sri Lanka owes to China. As these infrastructures have produced small growth, the newly elected Sri Lanka President, M. Sirisena has officially relinquished the idea of joining the OBOR project, driving the country towards a closer relationship with India and the United States²⁰. Despite China’s evident strategic actions in the region and the lack of economic benefits produced in Pakistan and Sri Lanka through infrastructure developments, the realist view of seeing Chinese-led initiatives as tool to advance only China’s national interest does not find sufficient evidences. Nonetheless, China needs to demonstrate that countries are concretely benefitting from Chinese infrastructures in terms of trade, employment, and lower interest rate conditions.

Aside from considering the OBOR as tool to promote only Chinese national interest, realist scholars also believe that China is trying through its infrastructures developments to expand its sphere of influence in South Asia, dictating economic and political policies. According to this view, the OBOR and its economic corridors acts as strategy to make South Asian countries economically and politically dependent from China²¹. In addition, India is concerned that China’s initiatives could interfere in its sphere of influences. Indeed, China has

¹⁸ Senge H. Sering, “Expansion of the Karakoram Corridor: Implications and Prospects,” *Institute for Defense Studies and Analysis Occasional Paper* no. 27 (2012): 19–20.

¹⁹ Patrick Mendis, “The Sri Lankan Silk Road: The Potential War Between China and the United States,” *Harvard International Review* 34, no. 2 (2012): 54.

²⁰ Balazs, Daniel, and Patrick Mendis. “Colombo Consensus 2.0.” *Foreign Policy*, (October 1, 2015). <http://foreignpolicy.com/2015/10/01/colombo-consensus-2-0/>.

²¹ Garver, John W. “Development of China’s Overland Transportation Links with Central, South-West and South Asia.” *The China Quarterly*, no. 185 (2006): 1–22.

succeeded in surpassing India in trade relations with Pakistan, Bangladesh and Burma, enjoying good economic relations with nearly all countries. Through a realist lens, China's increased influence in South Asia through its infrastructures developments allows China to pressure countries that do not conform to OBOR principles. As the Center for American progress outlines, the OBOR invested "in countries that have both a strong relationship with China and hold popular support for Chinese investments"²².

Furthermore, some realists argue that China is economically supporting countries that could challenge India's sphere of influence in the region. According to this realist assumption, Beijing's strong relationship with Islamabad enables Pakistan to contain India's influence in the region "under a Chinese security blanket"²³. On the basis of this view, realists also highlight China's strategy of prioritizing other areas of national interests, while constraining India's influence through the strategic help of Pakistan. Although there are some evidences that see the OBOR as a strategy to enhance China's political influence in the region, it is still difficult to understand if China is seeking a strategy aimed at creating political and economic dependencies and directly undermining India's interest in the region.

Moving to the global level, China's newly conceived financial institutions, the AIIB and the SRF, represent through a realist lens a challenge to the status quo of the international system. China's decision of creating multilateral organizations originated from U.S. Congress failed attempt to ratify reforms in the voting power system of the IMF. In addition, the

²² Ariella Viehe, Aarthi Gunasekaran, and Hanna Downing, "Understanding China's Belt and Road Initiative: Opportunities and Risks," Center for American Progress, September 22, 2015, <https://www.americanprogress.org/issues/security/report/2015/09/22/121628/understanding-chinas-belt- and-road-initiative/>.

²³ Srinath Raghavan, "Stability in Southern Asia: India's Perspective," in *Crux of Asia: China, India, and the Emerging Global Order*, ed. Ashley J. Tellis and San Mirski (Washington, DC: Carnegie Endowment for International Peace, 2013), 139.

incapability of providing sufficient funds in the region by Japan and U.S. led ADB, pushed China to come up with a multilateral solution²⁴.

According to realist scholars, the creation of these new institutions constitutes an attempt to challenge the regional and global order, advancing the strategic influence of OBOR-led infrastructures through the allocation of funds²⁵. Related to this concern is the division of voting shares in the AIIB. While China's voting power in the ADB and IMF is around 5% and 4%, respectively, China holds 26.06% in the AIIB²⁶. As a result, realist scholars see in the increased voting power China's intention to allocate funds, exclusively on the basis of its national interests. In line with this assumption, the United States has not joined the AIIB yet, pointing out the lack of transparency and high standards of the bank. As President Obama officially stated in a press conference "we don't want to be participating in something and providing cover for an institution that does not end up doing the right thing to the people. Because when these countries borrow money even from a development bank...they are most of the time on the hook for paying that money back"²⁷.

However, those in favor of promoting the multilateral bank argue that these statements are hypocritical since the United States had repeatedly blamed China for not carrying any international responsibilities. Although the realist view still considers the OBOR and its financial institutions as a mean to rewrite international norms and challenge the US-shaped

²⁴ Junio, Don Rodney Ong. "Asian Infrastructure Investment Bank: An Idea Whose Time Has Come?" *Diplomat*, (December 4, 2014). <http://thediplomat.com/2014/12/asian-infrastructure-investment-bank-an-idea-whose-time-has-come>.

²⁵ Yun Sun, "China's AIIB Challenges," Pacific Forum CSIS, March 11, 2015, <http://csis.org/files/publication/Pac1516.pdf>.

²⁶ Cary Huang, "Voting Rights Reflect Beijing's Leading Role in AIIB," South China Morning Post, June 30, 2015, <http://www.scmp.com/news/china/diplomacy-defence/article/1829316/voting-rights-reflect-beijings-leading-role-aiib>;

²⁷ "Remarks by President Obama and Prime Minister Abe of Japan in Joint Press Conference," Office of the President of the United States, April 28, 2015, <https://www.whitehouse.gov/the-press-office/2015/04/28/remarks-president-obama-and-prime-minister-abe-japan-joint-press-conference>.

Bretton Woods system, there are not sufficient evidences supporting the realist view behind the OBOR undertaking. Only time will demonstrate if China's multilateral financial institutions will yield mutual benefits in terms of economic growth and political stability.

The OBOR Through a Liberal lens

Since its opening policy in 1978, China has declared to seek economic growth and modernization through peaceful developments. Roughly 30 years later, the launch of the OBOR initiative in the region reaffirms this strategic choice, seeking to create a multilateral infrastructure framework that promotes economic integration, mutual cooperation, and a win-win environment. The liberal motivation behind the OBOR initiative supports this view, underlining China's multilateral economic and political growth, China's refrained military influence, and China's abidance by the international norms. Taking into account the questions set out in the introduction, the liberal view holds that the OBOR Chinese-led infrastructure promotes a win-win environment in South Asia, China's OBOR infrastructure connectivity lays the foundation for strong interconnections between China and its neighboring countries, and the OBOR with its newly conceived multilateral institutions beneficially complement the international order.

The first assumption lies in China's need to rebalance its economy by creating stronger economic ties between the wealthy eastern provinces and the less developed western ones as well as with its neighboring countries. The OBOR initiative would correct these economic disparities by connecting China to its neighboring countries through the western provinces. Although the realist perspective considers this strategy as an attempt to advance only China's national interest, past and recent evidences show a different view of China's intentions.

Since the start of its peaceful rise, China has always adopted a non-interference/mutual respect policy towards its neighboring countries, recognizing the importance of refraining itself from interfering in domestic affairs of other countries. In

addition, China has actively supported its neighboring countries by providing economic assistance in terms of infrastructure developments. Since then, China has put a lot of efforts in increasing economic integration in the region despite the risks of facing free-riders burdens. In particular, China has invested significant resources in the constructions of ports in Sri Lanka and Bangladesh, providing both countries with fundamental infrastructures designed to strengthen regional integration and promote mutual growth. As data show, significant rise in trade occurred between China and its neighboring countries, accounting for \$45 billion in trade²⁸. On the basis of this growing interdependence, the liberal perspective foresees in the OBOR the potentials of creating greater economic growth in the region.

In line with the first assumption, the second liberal view sees the OBOR as a tool to increase economic integration through the development of infrastructure developments. The OBOR initiative has the potentials to establish new economic corridors and give the possibility of including China into South Asian organizations such as the South Asian Association for Regional Cooperation (SAARC). As liberal scholars hold, China's involvement in multilateral organizations could help overcome geopolitical frictions between India and China, opening the path to new economic corridors under the OBOR project. Despite these positive trends, India is still refrained from getting involved in this project, stalling any initiative that could further expand China's influence in the region. On its behalf, China needs to find a common ground with India, demonstrating that the OBOR does not clash against India's own Act Easy policy²⁹.

Moving to the third assumption, the liberal perspective maintains that the OBOR with its newly conceived financial institutions, the AIIB and SRF, seek to beneficially complement

²⁸ Nargiza Salidjanova and Jacob Koch-Weser, "China's Economic Ties with Asean," U.S-China Economic and Security Commission, March 17, 2015.

²⁹ Ashlyn Anderson, and Alyssa Ayres, "Economics of Influence: China and India in South Asia," Council on Foreign Relations, August 07, 2015, <http://www.cfr.org/economics/economics-influence-china-india-south-asia/p36862>.

the international system by encouraging reforms. Whereas, the realist perspective sees these initiatives as China's desire to challenge the US-led economic order and advance a Sino-centric agenda, the liberal view argues that these new institutions represents China's effort to instill efficiency into an obsolete international order system and give greater importance to developing countries. China has indeed conceived these two new institutions in response to lack of reforms carried out in the Bretton Wood international order, pointing out the importance of adapting the international system to the growing role of developing countries. The need to conceive new institutions originated from US Congress failure in ratifying IMF reforms that would have conferred greater voting shares to developing countries. Specifically, the reform consisted in transferring 6% of the shares voting power from developed states to developing ones, fairly enlarging the voting power shares of the developing countries³⁰. In response to US stalemate over IMF reforms, China created its own institutions aimed at advancing economic integration, win-win cooperation and mutual growth through OBOR initiative promises.

Despite realist criticisms, the financial engines of the OBOR entail evidences that support the liberal agenda. First, the AIIB does not challenge the international system but rather it modernizes it, by introducing new efficient institutions into the international order. As previously explained, the preexisting international institutions such as the IMF and ADB have not succeeded in representing the growing role of developing countries, creating clear disparities in terms of voting powers between developed countries and developing countries. In addition, loans provided by these institutions have been subject to strict conditions that developing countries have not been able to meet. Therefore, the AIIB presented itself as solution to the lack of developing countries' international recognition, allowing emerging

³⁰ "List of Developing Economies According to the International Monetary Fund's World Economic Report," *ISOQOL.org*, April 2012, http://www.isoqol.org/UserFiles/file/Developing_Country_

countries to actively take part in this institution and providing fair economic conditions to loans. Even a Japanese editorial praised China's creation of the AIIB, stating that this financial institution represents China's "intent on being part a member of the current economic order rather than challenging the status quo"³¹. Second, China has constrained itself to a vote based on equal percentage among the founding members that nearly represents all the South Asian countries, by creating a multilateral system. Contrarily to the realist view, these limitations make it extremely difficult for China to dictate policies and select projects under the OBOR initiative. Last, the AIIB is open to any country interested in taking part in the project, discrediting the idea that China and the United States will fall into the Thucydides trap.

Despite evidences that show that Chinese-led infrastructures are advancing national interest, there are also evidences that demonstrate that South Asian countries are benefitting from these economic initiatives. Second, China is not trying to establish economic and political dependencies that exercise pressures on smaller countries, but rather it is aiming at increasing economic integration through infrastructure developments. Last, the OBOR initiative along with newly conceived institutions is aiming to modernize the system by increasing the sharing power of developing countries in the international order and providing loans based on favorable conditions. In light of the OBOR great potentials, future evidences need to assess the increased trade between China and South Asian countries and to what extent China and South Asian countries benefit from each other. Moreover, the AIIB as the main financial engine behind OBOR must demonstrate to fairly represent all the interest of the members promoting win-win cooperation and mutual economic benefits through

³¹ Robert Bestani, "AIIB Can Succeed Where Its Predecessors Have Failed," *Nikkei Asian Review*, September 24, 2014, <http://asia.nikkei.com/Viewpoints/Perspectives/AIIB-can-succeed-where-its-predecessors-have-failed>.

infrastructures developments. If evidences demonstrate these positive trends, China and its ambitious initiatives will receive full support.

Conclusion

Throughout the chapter, three questions were addressed to understand China's motivations behind the OBOR initiative, analyzing in each single question the economic and political implications through two schools of thought: realism and liberalism. Tacking into account all the evidences, the chapter draws the conclusion that the liberal perspective seems more consistent in understanding China's motivations behind the OBOR initiative.

Starting from the first question, evidences favor the liberal perspective suggesting that China through the OBOR and its previous infrastructures is seeking to promote win-win cooperation and providing economic opportunities to its neighboring countries. These evidences are shown in the significant rise in trade between China and its neighboring countries. Although China's investments have also produced negative effects, there are no clear evidences demonstrating that China is responsible for the high-debt levels of some countries such as Sri Lanka and that all the economic benefits from Chinese-led initiatives flow into China's market.

In the second question, evidence also supports the liberal view over the realist one, showing that China's investments in the region create opportunities through multilateral economic corridors. Despite realist scholars hold that the OBOR aims to gather countries under its influence in order to challenge India's position in the region, evidences favoring the liberal view point to the inclusive nature of the OBOR nature, accepting all states, including India, into the OBOR project and its multilateral institutions. In addition, China's investment in countries opposing India's sphere of influence demonstrates through liberal lenses that China is concerned to secure good relationship in light of its own economic needs, rather than for the desire of challenging India's position in the region.

In the last question, evidences confirm the liberal perspective on China's intentions behind the OBOR initiative, holding that the OBOR and its newly conceived financial institutions aim to modernize the system, beneficially complementing the changing international order. Although the realist view considers the OBOR and its financial institutions as strategy to diminish the US-shaped Bretton Wood system, evidences demonstrate that China is seeking to overcome voting shares disparities originated from preexisting financial institutional such as the IMF. In addition, evidences further supporting the liberal perspective show how China is committing itself to the international community through the creation of new institutions that do not envisage veto powers. Therefore, the realist view that considers the OBOR and its financial framework as tools to advance a Sino-centric agenda that directs projects and challenges the international order fail in presenting evidences.

Chapter One: The One Belt and One Road Initiative as China's Major Foreign Policy

Introduction

China is carrying out a very ambitious economic initiative that will have global-wide implications in the international order. This initiative consists in recreating the ancient Silk Road trade routes³² in the current international landscape. In the past, this trade route mirrored “peace and cooperation, openness and inclusiveness, mutual learning and benefits”³³, promoting development and prosperity along major civilizations. Today, all these vital concepts are lacking among the main actors of the international order, further hampering the recovery of the global economy and producing deadlocks among major international organizations. In order to cope with this complex situation, China has launched a new international economic initiative aimed at boosting global economy and promoting peace and security along the trade routes.

In 2013, China turned rhetoric into actions, developing an action plan for its new Silk Road concept in the form of the One Belt One Road initiative (hereafter referred to as OBOR, yidai yilu). This initiative has become a fundamental priority for China's foreign policy and a determinant new round of opening up to the international system.

Although the nature of the OBOR initiative is intrinsically open and inclusive, some countries, especially the United States, has raised concerns about the strategic implications behind China's OBOR initiative, pointing out that China aims to change the international order through the creation of new international organizations. By contrast, China has argued that it does not seek to change the current international order but rather it tries to complement the international order through the establishment of new organizations.

³² The Ancient Silk Road was a trade route along the major civilizations of Asia, Europe, Africa

³³ Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” issued by the Ministry of Foreign Affairs and the Ministry of Commerce of the People's Republic of China, March 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

Taking into account a liberal and a realist perspective in assessing China's motivations behind OBOR initiative, this chapter aims to analyze the Chinese perspective and the American perspective on the OBOR initiative. On one hand, the Chinese perspective is based on liberal assumptions. On the other hand, the American perspective emphasizes on realist assumptions. There are three main points in which the Chinese perspective and the American view have divergent positions: the extent to which the OBOR has significant security implications; whether or not the OBOR challenges the existing global governance structure; and whether or not the OBOR is a Chinese version of the Marshal Plan. Evidences conclude that the Chinese perspective based on a liberal framework is more consistent in analyzing China's motivations behind the launch of the One Belt One Road initiative.

The chapter is divided into three parts. The first part of the chapter focuses on the nature and the principles of the OBOR initiative, taking into account the OBOR action plan. The second part analyzes the motivations of China behind the OBOR through two different perspectives: the Chinese perspective and the American perspective. The last part of the chapter explains the main challenges the OBOR initiative faces on the domestic and international level.

The Dimension of the OBOR initiative

The OBOR³⁴ initiative conceives two main projects the Silk Road Economic Belt and the 21st Century Maritime Silk Road. President Xi Jinping unveiled these projects when he visited Central Asia and Southeast Asia in September and October of 2013, respectively. In these two occasions, he stressed the importance of instilling "vigor and vitality" into the ancient Silk Road and laying the foundations for a "community of destiny"³⁵. These

³⁴ The Silk Road Economic Belt and the 21st Century Maritime Silk Road will be simplified to the OBOR initiative and treated as single initiative

³⁵ Xi Jinping, "Towards a Community of Common Destiny and A New Future for Asia"; "China sketches out priorities of 'Belt and Road' initiatives," The State Council, The People's Republic of China, February 2, 2015, <http://bit.ly/1Q6Idnc>

ambitious initiatives aim to create a highly interconnected and mutually beneficial network of maritime and land-based economic routes, involving an area that covers 55 percent of the World GNP³⁶, 70 percent of global population and 75 percent of energy resources³⁷. Additional statistics show that the OBOR geographic size involves more than 60 emerging and developing country, accounting about 65 percent and 30 percent of the global totals in land-based and maritime-based production values, respectively³⁸. These statistics underline the great potentials behind the OBOR initiative as well as the challenge that could arise from “the most significant and far-reaching initiative that China has ever put forward”³⁹. The establishment of a special leading group to oversee the implementation of the OBOR initiatives under the National Development and Reform Commission (NDRC) further underlines China’s intention of concretely realizing this ambitious economic initiative.

The Nature of the OBOR Initiative

The nature of the OBOR initiative lies in four main principles that are in line with the purposes of the UN Charter and its Five Principles of Peaceful Coexistence⁴⁰. First, the initiative is “open for cooperation” to all countries, economies and international organization,

³⁶ The Action states that “the Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The 21st- Century Maritime Silk Road is designed to go from China’s coast to Europe through the South China Sea and the Indian Ocean in one route, and from China’s coast through the South China Sea to the South Pacific in the other.”

³⁷ Li Jinlei, “Report: Silk Road Economic Belt May Be Divided Into Three Phases; Initial Completion Predicted in 2049”, *Zhong- guo Xinwen Wang*, 28 June 2014.

³⁸ Zhong Sheng, “Open Up Bright Prospects Through Active Action,” *People’s Daily*, February 17, 2015.

³⁹ Wu Jianmin, “China to Play a Bigger Role as a World Contributor,” *China Daily*, April 20, 2015, http://usa.chinadaily.com.cn/opinion/2015-04/20/content_20481447.htm
Former president of China’s Foreign Affairs University (attached to the Ministry of Foreign Affairs and a member of the Foreign Policy Advisory Committee of the Chinese Foreign Ministry

⁴⁰ Mutual respect for each other’s sovereignty and territorial integrity mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence

regional cooperation mechanism and non-governmental organization in the world⁴¹. Second, the initiative is “harmonious and inclusive”, meaning that there is no threshold for any country or region interested in participating as long as there is tolerance among civilizations, respect of different modes of development, and promotion of dialogues and peaceful solutions. Third, the initiative respects market rules and international norms, giving play to the decisive role of the market in allocating resources. Fourth, the initiative is “mutually benefitting”, seeking complementary advantages of all participating parties to share benefits, achieve common development, and share the same destiny.

The Cooperation Priorities of the OBOR Initiative

The OBOR⁴² initiative is based on five main “cooperation priorities”: policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond.

Policy coordination is a fundamental “guarantee” for the accomplishment of the OBOR initiative. It consists in the promotion of inter-governmental cooperation, multi-level intergovernmental macro policy exchanges and communication mechanisms, shared interests, mutual political trust, and new cooperation consensus. Specifically, OBOR action plan underlines the importance of countries in “coordinat[ing] their economic development strategies and policies, work[ing] out plans and measures for regional cooperation,

⁴¹ The OBOR undertaking does not entail geographic restrictions

⁴² “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” As the OBOR Action plan precisely states: “the Belt and Road Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas, establish and strengthen partnerships among the countries along the Belt and Road, set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries. The connectivity projects of the Initiative will help align and coordinate the development strategies of the countries along the Belt and Road, tap market potential in this region, promote investment and consumption, create demands and job opportunities, enhance people-to-people and cultural exchanges, and mutual learning among the peoples of the relevant countries, and enable them to understand, trust and respect each other and live Taking into account its nature, the OBOR project aims to establish a mutually beneficial cooperation that could foster development, boost growth and promote peace. in harmony, peace and prosperity.”

negotiate[ing] cooperation-related issues, and jointly provid[ing] policy support for the implementation of practical cooperation and large-scale projects”⁴³.

Facility connectivity represents OBOR main “priority area”. On the basis of international law, it emphasizes on the improvement of infrastructures along the OBOR route in order to form “an efficient infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step”⁴⁴. Specifically, it focuses on improving port infrastructures, aviation infrastructures, and energy infrastructure as well as creating cross-border optical cables and other communications trunk line networks in order to facilitate transportation and expand information exchanges. Therefore, it aims to improve both traditional linkages such as highways, railways, aviation, shipping and pipelines and electricity, telecommunications, postal services, border-defense, customs, quality inspection and planning. At the same time, it also stresses the importance of promoting green and low-carbon infrastructure construction and operation management.

The promotion of unimpeded trade is considered as the “major task” within the OBOR framework. It consists in improving investment and trade facilitation, expanding trade areas, enhancing customs cooperation, and developing modern service trade and cross-border e-commerce. Specifically, it emphasizes the importance of removing investment barriers, expanding mutual investment areas and fostering cooperation in emerging industries. In addition, it encourages Chinese private enterprises and foreign companies to participate in the construction of infrastructures and promote investments in countries along the new Silk Road.

Financial integration represents a fundamental underpinning for the implementation of the OBOR Initiative. It stresses the significance of further deepening financial cooperation, creating a stable currency system, issuing Renminbi bonds and establishing a regional financial risk early warning system. It also recommends making joint efforts to establish the

⁴³ Ibid.

⁴⁴ Ibid.

Asian Investment Infrastructure Bank (AIIB) and BRICS New Development Bank and strengthen practical cooperation relations with financial partners such as the Shanghai Cooperation Organization (SCO) and China-ASEAN Interbank Association. Private actors with their financial capabilities are also encouraged in taking part in the construction of key projects.

People-to-people bond is a determinant social factor in gathering the public support required for the implementation of the initiative. As the action plan states, “friendly cooperation” consists in promoting cultural exchange among students, and expanding the scale of tourism by simplifying visa application procedures along the OBOR countries. Moreover, it aims to strengthen the cooperation of science and technology and encourage research and forums through the creation of think tanks⁴⁵.

Both the nature and the cooperation priorities of the OBOR initiative demonstrate the great economic potentials and the great impact it has on many different fields, ranging from economics to technology.

The OBOR Through a Chinese Perspective and a Western Perspective

The nature of the OBOR initiative along with its cooperation priorities entail promising effects in terms of economic growth and regional integration through infrastructure developments. Nevertheless, there are diverging perspectives addressing China’s motivations behind the OBOR initiative. Whereas the Chinese perspective stresses the peaceful rise of China and the willingness to create a community of common destiny, in which countries mutually benefit each other; the American perspective argues that the OBOR is a veiled attempt to advance China’s national interest and challenge the international system through the creation of new international organizations.

⁴⁵ “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”

Developing the Chinese perspective, Li Ziguó identifies three main motivations behind the OBOR. First, he underlines the importance of the OBOR initiative in fostering the development of China's less developed western provinces, connecting them to China's wealthy eastern provinces. As he argues, the OBOR initiative "will turn the western interior into the frontier in opening up to the world, development opportunities in the central and western regions will increase, and new growth points will emerge"⁴⁶. Similar to Li Ziguó's first goal, Zhong Sheng⁴⁷ argues that "a lack of balance among various sub-regions in Asia in terms of development" and an absence of "strong [economic] bonds" between these sub-regions" turns facility connectivity in terms of infrastructures developments into the main priority of the project⁴⁸. Through this achievement, China could better allocate energy resources and move core industries from the eastern part to the central and western provinces as well as to China's neighboring countries. Second, Li Ziguó argues that the OBOR initiative seeks to "enhance Asia's status in the industrial world"⁴⁹, by promoting economic development among Asian developing countries that are lagging behind Europe. Third, he holds that through the OBOR initiative China promotes a "community of destiny"⁵⁰ based on mutual growth and win-win cooperation with its bordering countries. Although Chinese-led infrastructure developments have geographic priorities mainly focused on Central Asia, South Asia and Southeast Asian countries, the OBOR initiative is inherently open and inclusive. As President Xi Jinping stated during the Boao Forum in March 2015:

China will follow the principle of wide consultation, joint contribution and shared benefits. The programs of development will be open and inclusive, not exclusive.

⁴⁶ Li Ziguó, Deputy Director of One Belt and One Road Studies Center of Ministry of Foreign Affairs Institute for International Studies, in Huangfu Pingli and Wang Jianjun, "How to Play Well the One Belt and One Road Symphony."

⁴⁷ Chinese scholar and journalist

⁴⁸ Zhong Sheng, "Epoch-Making Significance of 'Silk Road Economic Belt and 21st Century Maritime Silk Road' Proposal," *People's Daily*, February 25, 2014.

⁴⁹ *Ibid.*

⁵⁰ *Ibid.*

They will be a real chorus comprising all countries along the routes, not a solo for China itself. To develop the Belt and Road is not to replace existing mechanisms or initiatives for regional cooperation. Much to the contrary, we will build on the existing basis to help countries align their development strategies and form complementarity⁵¹.

Similar to President Xi Jinping, Foreign Minister Wang Yi⁵² holds that China seeks equal footed consultation and grants no interference in the decision-making of other countries. He further maintains that the initiative “is based on transparency and openness”, and it complements the existing regional cooperation mechanism⁵³. Zhong Sheng focuses on this concept, underlining that China’s OBOR does not aim to create a mechanism that is “closed, rigid, or anti-foreign” and does not aspire to dominate regional affairs establishing a sphere of influence. Importantly, he states, “the Silk Road Economic Belt is not a Chinese matter, but a joint undertaking of all the countries concerned. It is not China’s exclusive interests belt, but a belt where the nations share interests”⁵⁴.

Similarly, Wu Jianmin⁵⁵ argues that China needs to seek the so-called “three togethers” in order to realize the concept of openness and inclusiveness conceived in the OBOR initiative. Wu envisages this concept, holding that the first ‘together’ implies that parties involved in the initiative identify projects of cooperation aimed at producing mutual benefits. The second ‘together’ stresses the importance of realizing projects on the basis of common interest. And the third ‘together’ emphasizes the need of enjoying the benefits on the basis of equal allocations⁵⁶.

⁵¹ Xi Jinping, “Towards a Community of Common Destiny and A New Future for Asia.”

⁵² “Foreign Minister Wang Yi Meets the Press,” The Third Session of the Twelfth National People’s Congress, March 8, 2015.

⁵³ Xi Jinping, “Towards a Community of Common Destiny and A New Future for Asia.”

⁵⁴ Zhong Sheng, “Writing a New Chapter on the Silk Road,” *People’s Daily*, June 28, 2014.

⁵⁵ Wu Jianmin is a senior diplomat with 42 years experience. Now, he is a professor at China Foreign Affairs University and Chairman of the Shanghai Centre of International Studies.

⁵⁶ Wu Jianmin, “China to Play a Bigger Role as a World Contributor,” *China Daily*, April 20, 2015, http://usa.chinadaily.com.cn/opinion/2015-04/20/content_20481447.htm.

Summing up, the Chinese perspective recognizes three main motivations behind China's OBOR initiative: China's goal to promote economic growth in its less developed western provinces, connecting them with both its wealthy eastern provinces and its neighboring countries; China's desire to strengthen economic integration in the Asian region; and China's desire to create a community of shared interest based on win-win cooperation.

There are three main points in which the Chinese perspective and the Western assume a different position in analyzing the OBOR initiative: the extent to which the OBOR has significant security implications; whether or not the OBOR will challenge the existing global governance structure; and whether or not the OBOR is a Chinese version of the Marshal Plan

Security Implications of the One Belt One Road Initiative

The Chinese led-infrastructure developments under the OBOR initiative unavoidably involves military and security affairs as well, pointing out the wide-ranging implications of the OBOR initiative. While, the Chinese perspective argues that OBOR overseas facilities along the maritime routes are limited to guarantee a safety environment, the American perspective considers these overseas bases as a tool to increase China's influence in the region.

Supporting the Chinese perspective, Li Xiangyang⁵⁷ stresses the importance of creating a community of destiny in order to ensure cooperation in OBOR non-economic fields. Emphasizing on this aspect, Li Xiangyang recognizes the necessity of realizing the following "four links." The first link consists in ensuring the security transport routes with a special focus on the Maritime Silk Road. As Li Xiangyang argues, preserving sea-lane security implies non-traditional security cooperation such as "jointly combating piracy, joint sea rescue work, and multinational joint law enforcement". The second link regards the strengthening of antiterrorism cooperation at a regional level. As Li Xiangyang holds, "terrorism is the tumor in the political stability and economic development of many countries

⁵⁷ Director of CASS Asia-Pacific and Global Strategic Studies Institute

along the One Belt and One Road route, and is also the main obstacle to regional cooperation.” The third link emphasizes the need of establishing a settlement mechanism designed to resolve territorial disputes in the region. Lastly, the fourth link advocates the significance of creating a mechanism for joint exploitation of marine resources in light of unsettled territorial and sea disputes⁵⁸.

The realizations of OBOR overseas bases imply an increase in China’s military facilities along the maritime routes. As Liang Fang⁵⁹ argues, the security of sea-lanes envisaged in the OBOR initiative require significant military capabilities⁶⁰ that inevitably cause an increased level of Peoples’ Liberation Army (PLA) access to military support facilities.

The American perspective considers OBOR overseas bases as tool to enhance China’s sphere of influence and bring smaller countries under China’s sphere of influence. This perspective lies in Booz Allen Hamilton’s String of Pearls theory, arguing that China could turn its maritime infrastructure into military bases. The strategic position of these bases could expand China’s sphere of influence and encircle India, securing safe passages through the Strait of Malacca⁶¹.

By contrast, the Chinese perspective based on liberal assumptions demonstrates that China increased military presence in the region is limited to provide a safe endeavor for the Chinese-led construction maritime facilities. As a spokesperson for the PRC Defense Ministry openly stated, China “has not built any military bases overseas” and does not seek hegemony

⁵⁸ Huangfu Pingli and Wang Jianjun, “How to Play Well the One Belt and One Road Symphony.”

⁵⁹ National Defense University professor and strategist

⁶⁰ Including carrier battle groups on station

⁶¹ Virginia Marantidou, “Revisiting China’s ‘String of Pearls Strategy: Places ‘with Chinese Characteristics’ and their Security Implications,” *Issues and Insights* 14, no. 7 (2014): 8

or military expansion⁶². This statement is also supported by a study conducted by the National Defense University that demonstrate that all the Chinese-led overseas facilities along the maritime routes are not capable of supporting combat operations, showing that these maritime facilities are strictly for commercial use⁶³. Hence, unless China starts pouring significant financial resources into these facilities to increase their military capabilities, it's unlikely that these overseas bases are used for military operations.

As the Chinese perspective points out, China knows that establishing good relations with its neighboring countries along the sea routes is of key strategic importance for the creation of the OBOR initiative⁶⁴. China's OBOR initiative cannot be achieved without the support of its neighboring countries, refraining China from unreasonably increasing its military presence and expanding its sphere of influence in the region.

Challenge or Complement to the Global Governance

According to the Western perspective, China seeks to change the current international order through the establishment of new international organizations. In particular, the creation of the Asian Infrastructure Investment Bank (AIIB), as one of the main financial supporters of OBOR initiative, has raised concerns in the international community. Through the Western lens, the AIIB constitutes an attempt to challenge the preexisting Bretton Woods system and its main institutions: the World Bank (WB), the International Monetary Fund (IMF) and the Asian Development Bank (ADB).

Differently, the Chinese perspective argues that criticisms on the AIIB are “just [a] pretext to oppose the AIIB and...to refrain other developed economies from joining it.” As

⁶² China Hasn't Any Overseas Military Bases: Spokesperson,” English.news.cn, May 05, 2015, http://china.org.cn/china/2015-05/26/content_35664216.htm.

⁶³ Christopher D. Yung et al., ““Not an Idea We Have to Shun””: Chinese Overseas Basing Requirements in the 21st Century,” *China Strategic Perspectives*, no. 7 (National Defense University, 2014), 37.

⁶⁴ Morgan Clemens, “The Maritime Silk Road and the PLA: Part Two,” *China Brief* 15, no. 7 (April 8, 2015)

professor Lu Feng argues⁶⁵, the United States is “the only major Western power to question the establishment of the AIIB,” and the decision of some European countries to take part in the AIIB further proves that China does not seek to change the global system⁶⁶. Similar to Lu Feng, Liu Xiaoming⁶⁷ maintains that the AIIB is not “a supplement to existing multilateral development institutions. It will operate within the global economic and financial framework, and follow established international practices”⁶⁸. Adopting this view, he further argues that the OBOR undertaking does not aim to challenge US pivot to Asia and that the “Chinese mind is never programmed around geopolitical or geoeconomic theories”⁶⁹. In line with the same view, Pang Zhongying holds that China does not aim to challenge the international order through the creation of the AIIB, stressing the fact that western countries have the possibility of joining the bank so as to reduce the Chinese decision-making power. Therefore, it is more convenient to become active participant in the designed project rather than adopting a confrontational position.⁷⁰

Through the Chinese lens, the AIIB is both a complement and a competitor to the obsolete Bretton Wood system, in particular to the World Bank and the Asian Development Bank. On one hand, it is a complement since it is designed to cooperate with existing multilateral development banks by providing sufficient financial support for Asian countries. While the WB and the ADB mainly provide financial funds to eradicate poverty, the AIIB

⁶⁵ Professor of Economics at Peking University

⁶⁶ Lu Feng, “Harbingers of a Fairer Global Financial System,” *China Daily*, April 18, 2015, http://usa.chinadaily.com.cn/opinion/2015-04/18/content_20466038.htm.

⁶⁷ Chinese Ambassador to the United Kingdom

⁶⁸ Liu Xiaoming, “New Silk Road is an opportunity not a threat,” *Financial Times*, May 24, 2015, <http://www.ft.com/intl/cms/s/0/c8f58a7c-ffd6-11e4-bc30-00144feabdc0.html#axzz3bH6GePCA>.

⁶⁹ *Ibid.*

⁷⁰ Pang Zhongying, “What Does Europe’s AIIB Entry Mean for China and U.S.?” *China-US Focus*, April 1, 2015, <http://www.chinausfocus.com/foreign-policy/what-does-europes-aiib-entry-mean-for-china-and-u-s/>.

specifically focuses on allocating financial funds for infrastructure projects. On the other hand, it is also a competitor since the AIIB encourages reforms in the stalemate over voting shares.

Is the OBOR Initiative a Chinese Version of the Marshall Plan?

The American perspective has also drawn a comparison between the OBOR initiative and the U.S. funded Marshall plan. In the time of being created, many observers labeled the One Belt One Road initiative as the U.S. Marshall Plan.⁷¹

Through the Marshall Plan the United States succeeded in forming win-win cooperation between United States and West European countries in the postwar period, creating the conditions for the establishment of the Bretton Woods system. Although China tries to enhance its global image and expand its influence in the international order through the OBOR initiative as the United States successfully did with the auxiliary help of the Marshall plan, there are evident differences between the OBOR initiative and the Marshall plan in terms of background, content, and aim.

Starting from the background, the Marshall Plan unleashed the ideological confrontation between the United States and the Soviet Union, preventing communist parties in West Europe from getting into power during the postwar period. Differently, the OBOR initiative does not entail this ideological aspect, originating from a global need to promote growth and establishing peace and security.

As far as the content concerns, the Marshall Plan was primarily a recovery program aimed at providing West European economies with financial supports. Differently, the OBOR aims to share production capacity of high quality among the parties involved in the project. While the Marshall plan was as a “one-way export”, the OBOR consists in “jointly discussing investment projects, building infrastructure, and sharing the achievements of cooperation”⁷².

⁷¹ On January 5, 2009, the *New York Times* called China’s ‘going out’ strategy the “Beijing Marshall Plan”

⁷² Wang Yiwei, “China’s New Silk Road: A Case Study in EU-China Relations”. *ISPI*, Milano 2015

Focusing on the designed goals of both initiatives, the Marshal Plan mainly worked as a strategic tool to keep the European market under its influence. The Marshal plan was based on strict political conditions that excluded all those countries in favor of the Soviet Union. Therefore, West European countries involved in the U.S. recovery program had to respect specific conditions that clearly contributed to the division of Europe and the creation of a bipolar system. By comparison, the OBOR undertaking does not carry any strategic intent and does not place any political condition on countries tacking part in the initiative. China seeks to share its development opportunities, establishing a new model of regional cooperation.

China's OBOR clearly differs from U.S. Marshal plan in several ways. First, the OBOR is open and inclusive, welcoming all countries to take part in the project. In line with this, the initiative does not possess any ideological background and does not impose any political restrictions. Second, China does not seek hegemony in the international system (as the U.S. did through the creation of the Bretton Woods system), calling for "multi-polarization and equal consultations on all international matters"⁷³. Last, the OBOR⁷⁴ is designed to be a long-term initiative rather than a contingent fiscal plan such as the Marshal Plan⁷⁵.

Although the Chinese perspective stresses the nature of the OBOR initiative demonstrating China's ambition of creating an open and inclusive endeavor in which countries participate in chore, the American perspective point at China's geostrategic interests behind OBOR initiative. One hand the Chinese perspective identifies in the initiative three main goals: China's need to develop its lagged-behind western provinces, China's aim to promote economic integration in the region, and China's goal to encourage reforms in the

⁷³ Wang Shang, "Chinese Marshall Plan Analogy Reveals Ignorance, Ulterior Intentions," Xinhua, March 11, 2015.

⁷⁴ The Marshal plan endured four fiscal years and allocated \$ 13 billion in different forms among West European countries through the Organization for Economic Cooperation and Development (OECD)

⁷⁵ The Marshal plan (European Recovery Program, ERP) lasted four years from 1948-1952

international order. On the other hand, the American perspective considers the OBOR as a strategy to advance only China's national interests, expand China's influence in the region and challenge the international order.

Internal and External Challenges of the One Belt One Road Initiative

The One Belt One Road initiative represents a very ambitious program with a huge potential in terms of economic growth and political stability. This great potential also contains internal and external challenges that could backfire, provoking "blind development" and political destabilization⁷⁶.

Starting from the internal challenges, there are three main challenges related to projects management, financial supports and policy implications. The first challenge lies in a lack of project coordination under the OBOR initiative. The risk is that Chinese local and provincial governments attracted by OBOR economic opportunities start pouring substantial subsidies into new initiatives without coordinating themselves. The rush to implement these initiatives could dangerously lead to "duplication and wastage"⁷⁷. As previous initiatives show, there are many international railway projects that overlap themselves and there are a number of provinces that poured subsidies into projects that are not economically viable. In addition, as Guoji Jinrong Bao argues, "many local officials have developed plans for cooperation with Central Asian countries that are focused on their own narrow regional interests rather than on achieving the larger national strategy."

The second problem consists in the risk of dealing with private funding companies that face financial distress under OBOR initiatives. For example, private funding companies such as the "Maritime Silk Road Investment Fund Management Centre"⁷⁸ could constitute a

⁷⁶ Zhang Yunling, "Analysis says One Belt One Road Faces Five Challenges," *Xiaotang Caizhi*, 23 March 2015.³²

⁷⁷ Ibid.

⁷⁸ The "Maritime Silk Road Investment Fund Management Centre", a private capital company, is planning to set up a "Maritime Silk Road Bank" with \$100 billion in assets to invest in projects in countries, regions, and cities along the routes.

risk as “private companies could require public support if [they] should find itself in financial distress”⁷⁹.

The third challenge is related to China’s domestic policies towards its less-developed western provinces. As Mao did in the late 1950s⁸⁰, the OBOR initiative could shape China’s policy main trends of recent decades, shifting the attention on westward continental overture at the expense of coastal China. This risks lies in the unpredictability of promoting westward policies in light of a strong interdependence between coastal China and the global economy.

As far as the external challenges concern, the most serious external challenge concerns the political consequences that the OBOR initiative could unleash in China’s neighboring countries. Even though the OBOR nature is based on the principle of non-interference and sovereign integrity as in line with the United Nations Charter, the OBOR will increase China’s presence in the region affecting the economies of neighboring countries. Opposition parties of neighboring countries could stir up opposition against current authorities, using Chinese influence in their region as a pretext.

The OBOR initiative faces great challenges that need to be assessed in order to avoid negative impacts on China’s domestic economy and foreign policy. In the economic field, the risk lies in the provision of huge amount of financial resources to low-return projects and high-risk countries, causing excessive reliance on public financing and state-owned enterprises; whereas, in the foreign policy field, the risk is that opposition parties in China’s neighboring countries could use the OBOR initiative as mean to stir up protests, pointing at China’s interferences in their domestic affairs.

Conclusion

The OBOR initiative is a very ambitious economic international initiative that could create “the world’s longest economic and trade corridor with the greatest development

⁷⁹ Tang Yiru, “Where does the money come from for the One Belt One Road? Geopolitical risks cannot be ignored,” *Guoji Jinrong Bao*, 9 February 2015.33

⁸⁰ Mao rebalanced growth away from the coast with massive investments inland

potential”⁸¹. As explained in the chapter, the nature of the OBOR is based on the concepts of openness, inclusiveness, harmony, rule of law, and mutual benefit. In line with these concepts, the OBOR seeks to promote policy coordination, facility connectivity, unimpeded trade, financial support, and people-to-people bonds.

According to the Chinese perspective, the OBOR initiative aims to promote mutual economic growth increase economic integration and promote reforms in the international order. The Chinese perspective assesses China’s motivations behind the OBOR, underling China’s promotion of mutual economic growth, China’s efforts to promote regional integration, and China’s aim to encourage reforms in the international order.

By contrast, the American perspective considers the OBOR initiative as an unveiled geostrategic strategy to expand Chinese interests in Asia and challenge the current international order. The American perspective assesses the China’s motivations behind the OBOR initiative, emphasizing on China’s national interest, China’s geostrategic expansion in the region and China’s hegemonic challenge to the international order.

Tacking into account both perspectives, the Chinese perspective based on liberal assumptions is more consistent in analyzing China’s motivations behind the creation of the OBOR initiative. Evidences analyzed throughout the chapter demonstrate the following points. First, the OBOR aims to promote growth in China’s western provinces connecting them to China’s neighboring countries. Second, the OBRO infrastructure developments along the along the maritime routes are bases for commercial use endowed with limited military capabilities, discrediting the String of Pearls theory. Last, the OBOR through its multilateral financial institutions seeks to complement the international order, encouraging reforms designed to adapt the growing influence of developing countries to the international system.

⁸¹ Ibid.

Regardless of these evidences, it is clear that China's needs to further display its peaceful intentions in the region, confirming the liberal perspective in analyzing China's motivations behind the OBOR initiative.

Chapter Two: China's Economic Development Through the OBOR Initiative

Introduction

The One Belt One Road initiative is definitely Chinese boldest attempt at “playing a leadership role in international investment and trade” in the next decade. The Silk Road Economic Belt and the 21st century Maritime Silk Road along with their main financial vehicles such as the Asian Infrastructure Investment Bank will have a great impact on the international order⁸². The establishment of the OBOR initiative originates from the “Chinese Dream” of turning China into a fully developed country through the means of the New Normal mode, “shar[ing] the prospects of prosperity and stability within the entire Asia-Pacific region and beyond”.

China's economic situation assessed through three economic indicators trade, oversees direct investment, and financial aid, support the liberal perspective in analyzing China's motivations behind the OBOR initiative. Dividing the assessment into three levels of analyses, national, regional, international, evidences point out that China is launching the OBOR initiative in order to revitalize its saturating domestic market, improve both value and supply chains in the Asia, and provide additional financial pools to the international order.

This chapter analyzes the presence of China as a “global economic powerhouse”⁸³, underlining the Chinese footprint in in the international economy through trade, oversees direct investment, and financial aid. Second, it goes through the concept of Chinese Dream and the New Normal mode in the context of the OBOR initiative. Third, it assesses the position of the AIIB and in promoting infrastructure developments.

⁸² The Belt structure envisions closer economic ties between China and economies ranging from Central Asia (through the Middle East) to Europe; whereas, the Road scheme envisages the creation of sea-lanes, going from the South China Sea to the Adriatic Sea

⁸³ David, Shambaugh. *China Goes Global: The Partial Power*. United States: Oxford University, 2013, p.156.

Chinese Economic Footprint: Trade

China experienced an incredible growth and development on the wake of two crucial policy decisions: Deng Xiaoping's opening up of Special Economic Zones (SEZs) in the early 1980s and Premier Zhao Ziyang's promotion of the coastal development strategy in 1988. China's coastal provinces turned themselves into big export platform increasing China's share of world trade, by placing foreign trade as a priority. In 1980, China's trade flows accounted roughly 1 percent. Today, China's trade is around 8 percent, surpassing Germany as the world largest exporter in 2009 (9 percent of global exports). China continuous to enjoy enormous surpluses with the United States and the European Union, even though this surplus is reduced compared to the 155\$ billion in 2011⁸⁴.

China's main trading partners have nearly been the same in the last decade, but they are likely to change through the realization of the OBOR initiative. As statistics show, China's exports prioritize developed countries, establishing the United States as its first top trade partner with \$385 billions of trade volume, followed by Japan (\$297 billion) and Hong Kong (\$230), respectively⁸⁵. However, exports directed to developing countries are rapidly increasing due to a growing dependence on developing countries for imports of raw materials and natural resources that are fundamental inputs to Chinese economy. As data demonstrate, Malaysia as a developing country represents the 8th top trade partner of China, accounting for \$74.2 billion of trade volume⁸⁶.

Taking into consideration regional areas, the European Union is China's greatest trading partner, accounting for E 395.129 billion of trade volume in 2010⁸⁷. However, China and ASEAN countries have also experienced significant economic growth in terms of trade

⁸⁴ U.S.-China Business Council, "China's Trade with the United States, 2001-2010"

⁸⁵ PRC General Administration of Customs, *China's Customs Statistics* "China's Top Trade Partners," 2010.

⁸⁶ Ibid.

⁸⁷ EUROSTAT, June 2011. The IMF Direction of Trade Statistics (2011) places the total at E363.224 billion.

volume in the last years. In 2010, China-ASEAN increased from 37.5 percent to \$292.78 billion due to an increasing number of Free Trade Agreements (FTAs) and bilateral investments⁸⁸ that significantly promoted trade.

In addition to FTAs agreements, China Market Economy Status (MES)⁸⁹ recognition by more countries of the international community has further promoted trade. This status is designated by the World Trade Organization (WTO), but conferred upon by single states. As statistics report, China “was the object of 40 percent of total antidumping investigation and 75 percent of countervailing duties in the World”⁹⁰. Today, ninety-seven countries have recognized China MES status so far. However, among these, there are no major developed countries. This has especially undermined China-Europe trade relations, despite the great amount of trade volume occurred between each other. Similar to the European Union, the United States has not recognized the MES status to China yet.

Another aspect that has facilitated trade and promoted exports lies in the state subsidies and trade promotion given to State Owned Enterprises (SOEs). The Chinese government provides SOEs with substantial incentives in the form of loans with very low interest rates. SOEs are therefore among the most active enterprises abroad, in particular China’s state oil companies and commodity firms.

The renminbi (RMB) has also played a fundamental role in fostering trade. Differently from developed economies, China does not have a market-based floating exchange rate, maintaining the rate artificially depressed by interfering in the currency market. As David Shambaugh argues, “China subsidiz[es] its exports through keeping an artificially low

⁸⁸ PRC General Administration of Customs, *China’s Customs Statistics* “China’s Top Trade Partners,” 2010.

⁸⁹ MES establishes a method of protection against imposition of antidumping obligations

⁹⁰ Wang Chao, “China Investments Meet Bottleneck Overseas,” *China Daily*, December 21, 2010.

currency”⁹¹. In addition, China has increased the number of firms allowed to carry out international transactions in RMB with the aim to internationalize the RMB. Some economic analysts estimate that in few years China’s total trade in RMB will account for 20-30 percent⁹².

China’s trade volume increased tremendously on the wake of China’s opening up policies. This significant increase of trade is the result of FTA agreements, the recognition of China MES status by more countries, government subsidies to Chinese companies and the internationalization of the RMB. Trends also show that China is increasing trade with its ASEAN neighboring countries. The OBOR initiative furthers promote trade with ASEAN countries, encouraging companies to invest into these countries through infrastructure developments. As a result, the development of these infrastructures could strengthen regional economic integration by improving value and supply chains in the region.

Aside from the significant trade volume involved between China and its main trade partners and the reasons behind this economic growth, China is becoming a fundamental provider of Overseas Direct Investment (ODI). For more than 60 years, China had been one of the world’s top recipients of foreign direct investments, “absorbing a total utilized FDI of more than \$1 trillion between 1979 and 2010”⁹³. Today, China holds \$3.2 trillion in foreign reserves, and many Chinese companies either private or public are encouraged to go abroad and invest.

China’s Going Out Policy: Overseas Direct Investment

Jiang Zemin was the pioneer of the “going out” policy, laying the foundations for international economic initiatives such as the OBOR initiative. During the Fourteenth Party Congress of 1992, Jiang Zemin stressed the importance of grating enterprises and research

⁹¹ David, Shambaugh. *China Goes Global: The Partial Power*. United States: Oxford University, 2013.

⁹² Lingling Wei, “China shows its Growing Might- New Move to Make Yuan a Global Currency,” *Wall Street Journal*, January 12, 2011.

⁹³ Xinhua, “Full text of White Paper on China’s Peaceful Development,” September 6, 2011.

institutes the means to participate in foreign trade, encouraging them to invest abroad through transnational operations⁹⁴. Five years later, in front of the Fifteen Party Congress, he reformulated this policy, underling the necessity of attracting investments and investing abroad taking advantage of both markets. In addition, he emphasized on the need of developing internationally competitive companies and establishing coherent policy guidelines⁹⁵.

On the wake of China's accession to the WTO in 2001, in the annual report to the National Congress, Premier Zhu Rongji officially launched the policy of "going out". He pointed out the need of setting up specific rules regulating Chinese enterprises interested in investing abroad. Since that policy initiative, China started issuing many decrees aimed at encouraging enterprises to go abroad.

The Ministry of Commerce (MOFCOM) and by the State Council's National Development and Reform Commission (NDRC) became responsible for reviewing and approving the investments abroad. In addition, the MOFCOM in harmony with the Ministry of Foreign Affairs delivered the first Guidelines for Investments in Overseas Countries Industries and the Overseas Investment Guidance Catalogue of 2004. This original guideline came under reform in 2011, simplifying the process of carrying out international investments and expanding the range of investments.

As China's ODI increase demonstrated, China encouraged enterprises to engage foreign trade, expanding the range of potential investments abroad. During the period going from 1979 to 1985, the Chinese government approved 189 foreign investment projects accounting around \$200 million. In 2010, MOFCOM reported that ODI accounted for \$68.81

⁹⁴ Full Text of Jiang Zemin's Report, "Report on Developing the "Going Out Policy" to the 14th Party Congress," 1992.

⁹⁵ "Full Text of Jiang Zemin's Report to the 15th Party Congress," 1997.

billion and that 12,000 domestic entities had established 13,000 overseas enterprises in 177 countries⁹⁶.

Coastal Provinces Liaoning, Zhejiang, Shandong, Guangdong and Shanghai are commonly regarded as the top five investors abroad. However, MOFCO statistics demonstrate that China's total ODI are mostly carried out by state-owned companies (SOEs), accounting for \$42.4 billion out of \$68.81 billion. This demonstrates the role of the government in guiding investments abroad, mirroring China's business to government approach.

China's ODI significant growth during the last decade will continue to increase rapidly. Although China's amount of ODI lags behind the United States and other major developed countries⁹⁷, analysts estimate that China will invest between 1 and 2 trillion overseas by 2020, catching up with developed countries' trends⁹⁸. Official assessments by MOFCOM forecast a modest 17 percent annual growth during the period of 2011-2015, accumulating a stock of roughly 1 \$trillion by the end of 2020⁹⁹.

Chinese companies have carried out significant investments on different fields, ranging from the financial sector through mergers and acquisitions (M&As) to the energy sector. In particular, companies are investing significantly on foreign oil and mining due to China's increasing dependence on raw materials and natural resources. This trend predicts that China will establish more production factories abroad, "tapping into existing logistics and supply chains or establishing new ones"¹⁰⁰. The creation of Chinese factories abroad will also promote labor mobility, demonstrating China's tendency to dislocate workers abroad. As

⁹⁶ Wen Jiabao, Report on the Work of the Government, National People's Congress, March 5, 2012, p.7.

⁹⁷ In 2011, American companies conducted investments accounting for 328.9 billion, approximately five time more than China's

⁹⁸ Jamil Anderlini, "China Investment in Europe Triples," *Financial Time*, June 6,2012.

⁹⁹ Ding Qingfen, Li Jiabao, and Oswald Chen, "Ministry Predicts New Surge in ODI," *China Daily*, January 5, 2012.

¹⁰⁰ David, Shambaugh. *China Goes Global: The Partial Power*, p. 179.

statistics show, China has dispatched a total of 4.91 million of workers¹⁰¹ since the promotion of its going out policy (1978). Roughly 71 percent of these workers were dispatched in Asian countries¹⁰². The increase of Chinese-led factories abroad and the high percentage of Chinese workers dispatched in Asian countries are trends that also demonstrate China's aim to strengthen regional integration through the infrastructure developments of OBOR initiative.

As these trend suggest, the geographical dispersion of China's ODI mainly flows into Asian's countries. The top four destinations of China's ODI (Hong Kong, British Virgin Islands, Grand Cayman Islands, Luxemburg) are tax havens that China uses as pass-through channels to invest in Asia. The OBOR Chinese-led developments aimed at strengthening regional economic integration through improved supply and value chains consolidate this increased ODI flow into Asian countries. As Shambaugh predicts, Asian countries will remain China's ODI main recipients in the next decade, followed by the United States and Europe¹⁰³, respectively.

Foreign Aid: A Tool to Persuade Countries

China has started to provide financial aids in substantial ways, despite being a developing country and a big beneficiary of foreign aid itself. In 2011, China released its first White Paper on Foreign Aid, providing a framework to China's foreign aid schemes. Nonetheless, the Organization of Economic Cooperation and Development (OECD) accused China for not being transparent in allocating financial aids. On the basis of OECD's criteria, China's approach tends to blur the line between aid and overseas investments. In addition, China was accused of providing financial aid to countries that do not have good domestic governance, overruling policy restrictions to financial aids. Despite these criticisms, China

¹⁰¹ No Author, "Cheapness Alone Won't Cut It for China' Overseas Workers: Interview with Diao Chunhe," *Global Times*, November 20, 2009.

¹⁰² Ed Wong, "China's Export of Labor Faces Scorn," *New York Times*, December 20, 2009. China had 772,000 workers working in 190 countries abroad by the end of 2009; of these, 71.2 percent were employed in Asian countries

¹⁰³ David, Shambaugh. *China Goes Global: The Partial Power*, p. 181

financial aid provides significant contributions to global governance. As statistics demonstrate, China is the sixth greatest contributor of financial aid and its contribution will continue to increase in the following years. Most of these financial aids flow into Asian and African countries, also demonstrating how China uses financial aids as a tool to strengthen relations with countries along the OBOR economic routes.

China is become a fundamental economic power in the international arena since its first opening up policy and is likely to become the first economic power in the world by 2030. China's trade volume is significantly increased, becoming top trade partner with major countries and its neighboring countries; China's ODI are exponentially increased through the large amount of foreign reserves; and China's financial aid provision is rapidly increased as a tool to persuade countries to take part in its initiative. Tacking into consideration these economic indicators, China's motivations behind the OBOR initiative aim to address the domestic market saturation by encouraging countries to invest abroad, improve the regional value and supply chains by creating Chinese-led infrastructure abroad, and create new financial institutions such as the AIIB by granting financial loans to these projects.

Chinese Dream

In December 2012, two days after the entry of the fifth generation of Chinese leaders, President Xi Jinping coined the term "Chinese dream" in a speech at "the Road to Revival" exhibition at the National Museum¹⁰⁴. Since that moment, the concept of the Chinese Dream has taken shape in China's major policy decisions such as the OBOR initiative.

There are two main interpretations around the concept of the Chinese Dream. The first interpretation refers to the promise of improving people's living standards through economic prosperity. Since Deng Xiaoping termed the idea of creating a relatively well-off society, Chinese leaders have significantly emphasized on the concept of promoting a prosperous

¹⁰⁴ Zha Daojiong, "China's Economic Diplomacy: Focusing on the Asia-Pacific Region," *China Quarterly of International Strategic Studies*, Vol.1, No.1, 87. Ibid., 87.

society. Therefore, the fifth generation of Chinese leaders seeks to turn China into a well-off society and a fully developed country by the 100th anniversary of the founding of People's Republic of China in 2049.

The second interpretation considers the Chinese Dream as a new guiding principle for Chinese economic development and role in the international community, seeking the idea of creating a “harmonious society” and a “harmonious world”. In 2002, the 16th Party Congress adopted this notion, establishing the concept of harmony as a guiding principle for global politics¹⁰⁵ affairs. China's concept of creating a harmonious society and a harmonious world has become fundamental since the global financial crisis of 2008.

President Xi Jinping developed the Chinese dream into an Asia-Pacific dream. At the Asia Pacific Economic Cooperation (APEC) held in Beijing in 2014, he stated that leaders of the region “are duty-bound to create and fulfill an Asia-Pacific dream for our people”¹⁰⁶. He also argued that the Asia-Pacific dream envisions the idea of staying ahead of global development and contributing to the well being of mankind. As Zha Daojiong similarly holds, “through having higher levels of economic vibrancy, free trade and investment facilitation, better roads, and closer people-to-people exchanges, countries and peoples of the region can develop a better sense of shared destiny”¹⁰⁷. These aspects are fundamental underpinnings for the realization of the OBOR initiative and its desired infrastructure developments, demonstrating China's peaceful rise in the international order.

Despite China's intention of promoting harmony in the world, major western powers covering a dominant position in global economic governance haven't yet endorsed China's Dream of sharing wealth and power. The clearest example is U.S. Congress decline of

¹⁰⁵ Hu Jintao, “Strive to Construct a Harmonious World of Long-lasting Peace and Common Prosperity,” China.com.cn, September 15, 2005

¹⁰⁶ Xi Jinping, “Seek Sustained Development and Fulfill the Asia-Pacific Dream,” APEC-China, November 13, 2014

¹⁰⁷ Zha Daojiong, 88.

enabling voting reform of the International Monetary Fund (IMF). Despite this lack of trust, China continues to win support abroad and create positive expectations in the international community.

New Normal Mode

China envisioned a new economic policy aimed at improving China's economic structure by promoting the tertiary industry, consumption demand, and technological innovations. At the last APEC meeting in Beijing, President Xi Jinping unveiled the 'New Normal policy', recognizing that Chinese economic pace shifted from a high speed to a medium high-speed growth. As the percentage of the GDP growth decreased from 9.6 percent to 7.8 percent in one year (2011-2012), Chinese officials considered the slowdown "as much as structural in nature as cyclical"¹⁰⁸. In light of this, Chinese economists pointed out the importance of tolerating slow growth in order to improve growth sustainability. In addition, they emphasized the need of stabilizing the economy, rather than trying to boost the economy with massive investment programs that could jeopardize both the Chinese economy and the international economies.

Today, China's economic structure is improved: its tertiary industry and consumption demand are gradually replacing investment as the main source of growth, urban and-rural and regional disparities are narrowing; and the benefits of development are reaching more and more people.

Therefore, while the Chinese dream seeks to share wealth and power through a domestic and international inclusion, the new normal mode aims to establish a balanced economic growth through managing expectations from the society and the market¹⁰⁹.

China's Moves Towards the OBOR Initiative

¹⁰⁸ Zha Daojiong, 90.

¹⁰⁹ Ibid.

China is taking concrete actions in promoting trade, establishing unilateral liberalizations, free trade agreements, and new international organizations. On the wake of ongoing multilateral deadlocks, China decided to unilaterally carry out liberalizations in trade and investment regimes. Even though geographically limited, the Shanghai Free Trade Zone (FTZ) represented China's ambitious commitment to reduce restrictions on investments, open up China's financial system, and further internationalize its currency.

The major policy change of the FTZ is in the removal of government's approval on investments. Foreign investors receive the same treatment of Chinese companies, establishing the conditions for fair competitions in the economic zone. Some international observers considered the FTZ experiment as "a significant milestone for the country's economic reform and its strategy of opening up its domestic markets for foreign investors"¹¹⁰. Even though FTZ are still limited and under examination, China is definitely moving towards a proactive liberalization approach, becoming a source of motivation for other countries.

Free Trade Agreements are also a valid alternative to multilateral trade liberalization deadlocks under the WTO. China has established 12 FTAs so far and has 20 FTAs under negotiation¹¹¹. China's FTAs are mainly established with small countries that do not have either large trade volumes or natural resources for Chinese economy, pointing out China's aim to increase economic integration with smaller countries. A good example is the China-ASEAN Free Trade Agreement (CAFTA). This FTA covers the world largest trade territory in terms of population and it constitutes the third largest in terms of nominal GDP after the European Union (EU) and North American Free Trade Agreement. The FTA seeks to reduce tariffs on 90 percent of imported goods between China and ASEAN countries by 2016, opening the way to increased trade between China and ASEAN countries.

¹¹⁰ Ibid., 90.

¹¹¹ Ibid., 92.

The AIIB: A Victory in Public Diplomacy

In addition to the promotion of FTZs and FTAs, the creation of the AIIB represents China's boldest effort to play a leadership role in trade and investment. The multilateral bank membership consists of 37 Asian countries, 18 European countries, 2 African countries, Australia, New Zealand, and Brazil. China represents the single largest stockholder with 30% shares that translate themselves into 26% of voting rights. The authorized capital of the Bank accounts for \$100 billion, allocated for infrastructure projects in Asia.

The creation of the AIIB under the OBOR initiative originates from four main aspects. First, the AIIB is a financial tool to invest China's \$3.9 trillion of foreign reserves. Second, the AIIB further promotes the internationalization of the Renminbi. Third, the AIIB safeguard Chinese firms going abroad, guaranteeing secure contracts and labour protection. Fourth, the AIIB act as mean to prevent malpractices by its own companies in unstable environements¹¹².

The AIIB is of key importance in promoting infrastructure developments under the OBOR initiative. This ambitious initiative will face various challenges. First, AIIB's founding members are very different in terms of development, culture, and expectations. China concept of harmony in the world recognizes the importance of creating win-win cooperation.

Second, the governance structure of the AIIB faces the issue of the veto power. The AIIB voting power depends on countries economic weight and since the United States and Japan have not adhered to bank yet, China exercises a form of veto power. China is aware of the fact that "veto power mechanism in a multilateral organization is quite backward"¹¹³, representing the main cause of multilateral deadlocks. Therefore, China guaranteed that the bank would use consensus as much as possible, in particular for strategic decisions. Moreover,

¹¹² Zha Daojiong, p 101.

¹¹³ Du Dawei a former representative of China at the WB, see Francois Godement, "One Belt, One Road: Chiana's Great Leap Outward," *European Council On Foreign Relations*, June 2015, p.16.

the bank would prioritize qualified majority voting, allowing countries to overcome a potential veto power through interest-invested alliances.

Third, The United States perceptive considers the AIIB as a mean to challenge global governance norms. In response to this criticism, China conceived a type of dual-track policy that simultaneously aims to financially support new and old institutions. As statistic show, China allocated substantial financial resources to the BRICS contingency fund in 2014 (\$43 billion) and in the International Monetary Fund in 2012 (\$41 billion)¹¹⁴.

In addition, the lack of financial funds for infrastructure developments throughout Asia supports the liberal idea that considers AIIB as a beneficial financial complement to the Bretton Woods-shaped international order. According to Asian Development Bank (ADB) valuations, Asian countries require for their national infrastructural developments \$8 trillion funds per year from in the next four years. The ADB is capable of lending about 1.5 percent of this amount¹¹⁵. Therefore, the AIIB becomes fundamental in providing an additional investment-pooling mechanism in the region.

Conclusion

In the last years, China's economy is decelerated, facing a period of economic transition from a fast speed growth to a medium speed growth. China has responded to this expected slowdown through the New Normal mode that aims to readjust the economy through structural improvements. While the New Normal mode aims to establish a balanced economic growth, Chinese dream seeks to share wealth and power through a domestic and international inclusion. The OBOR initiative is the practical realization of the Chinese Dream idea of creating a harmonious community of shared interest.

¹¹⁴ Feigenbaum, Evan A, "The New Asian Order: And How the United States Fits In" *Foreign Council*, Febraury 2015. p. 5-12.

¹¹⁵ Gene Marvin Tidrick, *China: An Evaluation of World Bank Assistance*. Washington D.C: World Bank, 2005.

Tacking into account three economic factors, trade, overseas direct investment, financial aid, evidences demonstrate that China's motivations behind the OBOR initiative are the following three. First, The OBOR infrastructure developments encourage companies to invest abroad in light of China's saturating domestic market. Second, the OBOR infrastructure development aims to strengthen regional economic integration, by improving value and supply chains in the region. Third, the OBOR through the creation of the AIIB seeks to provide additional financial pools to developments infrastructures.

These three motivations support the liberal perspective in analyzing China's OBOR initiative. On the national level, China is seeking to adjust its economic situation through the New Normal mode and promote investment abroad through the means of the OBOR initiative. On the regional level, China is aiming to strengthen regional economic integration by improving the supply and value chains through the OBOR infrastructure developments. On the global level, China is focusing on providing financial funds to infrastructures developments through the creation of new financial institutions.

In the next years, China needs to come up with more evidences showing that the OBOR aims to promote mutual benefits rather than advancing China's sole national interest, strengthen regional economic integration rather than seeking regional hegemony, complement the preexisting international organizations rather than challenge the international order.

Chapter Three: The OBOR impact on the Regional Order

Introduction

The creation of the Maritime Silk Road constitutes one of the greatest challenges for the OBOR overarching initiative. The designed marine routes cover a vast geographical area that crosses unstable environments and disputed territories. Mainly focusing on the South China Sea situation, China and the South Asian countries have been continuously disputing over territorial claims. Multilateral organizations such as the Association of South East Asian countries (ASEAN) have worked towards the promotion of peaceful solutions; however, no mutually binding agreement has been reached yet.

In light of this multilateral decision-making inconsistency, liberal scholars believe that OBOR initiative could pave the way to peaceful solutions in the South China Sea, fostering political stability and national security through the promotion of new economic corridors. By contrast, the realist approach argues that China is trying to expand its sphere of influence in the South China Sea and beyond, considering the OBOR a veiled strategy to build military bases along the maritime lanes. Evidence demonstrating that the OBOR promotes economic growth and regional stability suggest that the liberal view is more consistent in explaining China's motivations behind the OBOR initiative.

Focusing mainly on the liberal perspective, the chapter tries to assess the impact of the Maritime Silk Road on the South China Sea, understanding whether it improves or not the territorial disputes in the region and how the United States perceive this maritime line. Next, the chapter goes through the development of East Asian Multilateralism, assessing the lack of a strong regional multilateral framework in South Asia.

The structure of the chapter is divided into two main parts. The first part provides the historical background of the South China Sea sovereignty and assesses the implementation of the Maritime Silk Road initiative through liberalism. The second part instead analyses the

development of East Asian Multilateralism and the potential benefits of implementing the OBOR initiative.

Historical Background of the South China Sea Disputes

The South China Sea has staged on-going territorial disputes between China and some ASEAN countries over islands, reefs, exclusive economic zones (EEZs) and maritime resources¹¹⁶. Although territorial disputes have never escalated into wars, risks of getting involved in a military conflict are still tangible. Until the 1960s, ASEAN countries had never raised any objections in terms of sovereignty, recognizing China's nine-dash line¹¹⁷ conceived in the aftermath of World War II. After a period of relatively peaceful coexistence, the implementation of international laws of the sea and the discovery of rich natural resources of oil and gas through technologically advanced tools unleashed competing sovereignty disputes between China and ASEAN countries. The fragile situation in the South China Sea further exacerbated due to an increasing demand for gas and oil required for boosting national economies of developing countries. Vietnam, the Philippines, and Malaysia intensified claims over contending reefs, islands, and natural resources on the basis of international law. China instead unilaterally carried out its Law on Territorial Sea and Contiguous Zone of 1992 in order to protect its claimed territories and interests. Two years later, relations between China and the Philippines inevitably worsened due to the contended Meiji Jiao¹¹⁸, attracting the attention of the international community as well. Since then on, China and some ASEAN countries have mainly focused on putting efforts into the advancement of peaceful solutions despite the reluctance of giving up rich natural resources and geostrategic islands. The first official proposal of peacefully shelving disputes came up during the China-ASEAN Foreign

¹¹⁶ According to some studies, the geological reserves of oil in the South China Sea are between 23 billion and 30 billion tons. While natural gasses are 325.5 million cubic meters. Fishery resources are also very rich.

¹¹⁷ The nine dash line was drawn by China in 1947, establishing chinese maritime claims in the South China Sea

¹¹⁸ Called Mischief reef in the Philippines

Ministries Dialogue in 1994. China came to the front, proposing a peaceful solution of territorial disputes in the South China Sea on basis of international law and the principles of the UN convention on the Law of the Sea. On the wake of this growing cooperation, China and ASEAN countries signed the Declaration on the Conduct of Parties in the South China Sea in 2002, making a significant step towards the promotion of peaceful solutions and joint development engagements. Despite these improvements, frictions among countries kept arising, turning multilateral cooperation into decision-making stalemates. In July 2010, the situation entangled itself when the United States decided to interfere in the maritime disputes, turning the regional dispute into a global issue. Despite the risk of further destabilizing the region and, the U.S. involvement eventually produced positive outcomes by promoting cohesive consultations over Asia-Pacific affairs. Even though tensions have eased, China and ASEAN countries have struggled in resuming collaboration to implement the Guidelines of the signed Declaration on the Conduct of Parties¹¹⁹. In this context, it is important to understand why the Maritime Silk Road under the open and inclusive nature of the OBOR initiative could further strengthen economic integration and promote stability in the region by overcoming multilateral deadlocks.

Establishing Regional Stability Through Economic Initiatives

Despite long-lasting sovereignty disputes unleashed by the discovery of rich natural reserves of oil and gas, China and ASEAN countries have managed to create a relatively stable environment in the region. Liberal scholars argue that the main reasons behind the relatively peaceful situation of the South China Sea lies in three main factors. First, although sovereignty disputes came several times close to break out into military conflicts, China and ASEAN countries have always focused on further improving economic and political relations. As the liberal view points out, China and ASEAN countries have prioritized soft power

¹¹⁹ More specifically, China, Vietnam and the Philippines pledged to seek peaceful means with the goal to safeguard regional stability.

policies based on dialogue, consultation and confidence-building over hard power military measures. Second, China, as the largest country in terms of economic capabilities and political influence in the Asian region, has pursued “self-restraint” policies aimed at solving disputes peacefully and establishing joint developments on the basis of international norms, showing its commitment to the international community. As Zhang Tuosheng holds¹²⁰, China has sought to turn the South China Sea into a “sea of peace cooperation, and friendship” further outlining the need of creating a stable environment aimed at stimulating economic growth. Third, although relations between China and ASEAN countries experienced stalemates in particular over sovereignty disputes, the relationship between China and ASEAN countries has gradually turned into a strategic relationship that aims to avoid territorial disputes through the implementation of long-term economic policies. This gradual accomplishment has clearly provided the conditions for ultimately shelving disputes and strengthening regional integration, confirming China’s peaceful intentions. Despite this significant progress, however, China and ASEAN countries still have to implement the Declaration on the Conduct of Parties in the South China Sea in order to formally establish a code of conduct.

According to liberal scholars, the sovereign disputes between China and ASEAN countries in the South China Sea point out the importance of economic cooperation in preventing conflict and promoting peaceful resolutions to territorial disputes. In particular, the institutionalization of strong economic ties is a fundamental driving force for the creation of a safe and peaceful regional environment. As the South China Sea case shows, when political relations over territorial disputes are ‘cold’ but economic relations are ‘warm’, concerned parties tend to prioritize peaceful resolutions in order to avoid disruption of economic cooperation. In this view, the institutionalization of strong economic ties based on multilateral

¹²⁰ Zhang Tuosheng “Disputes over Territories and Maritime Rights and Interests.”

frameworks have become vital in mitigating disputes and promoting stability for the sake of economic benefits. In light of this trend, the liberal view considers the OBOR and its maritime road as a tool to overcome territorial disputes and establish regional stability through economic initiatives.

The liberal approach that argues that regional stability in Asia originated from regional prosperity, in particular, from economic activities among Asian countries mirrors the great potentiality behind the OBOR initiative in creating regional stability. The logic of this liberal theory lies in the concept that interdependence between trade partners establishes economic benefits that refrain countries from getting involved in military conflicts. The active participation in multilateral organizations and the institutionalization of economic ties become of key importance in socializing elites, promoting transnational perspectives that create the right conditions for a stable regional environment, as in the case of the South China Sea¹²¹.

The Maritime Silk Road Analysed through a Liberal Perspective

The Maritime Silk Road has significantly changed China's foreign policy in the South China Sea, refraining China from claiming additional territories in the region. The overarching goal to create a community of destiny in which countries promote win-win cooperation established economic cooperation over territorial claims. Liberal scholars consider the Maritime Silk Road as an initiative to shelve disputes through the establishment of new economic corridors and multilateral cooperation. On the other hand, realists hold that the OBOR maritime route is a veiled attempt to build military bases along the maritime lines. China's policy shift towards the sovereignty disputes in the South China Sea, ASEAN countries participation in the Chinese-led AIIB and China's overseas bases features along the Maritime Silk Road suggest that the liberal view is more consistent than the realist one.

¹²¹ Goldstein Avery and Mansfield Edward. *The Nexus of Economics, Security and International Relations in East Asia*. California: Stanford University Press, 2012.

China's shift towards a conciliatory approach lies in the importance of promoting good relationship with ASEAN countries that are key actors in the realization of the Maritime Silk Road. Since China's last dispute with Vietnam and the Philippines (famous for being under U.S. influence) in 2013¹²², China has refrained itself from further claiming territories, adopting a peaceful attitude towards the disputed territories. Liberal scholars argue that China has learned from the negative responses provoked by territorial disputes and island buildings in the South China Sea. As professor Feng Zhang¹²³ precisely argues, "China has learned how land reclamation on the current scale and pace is threatening the policy priority of building a maritime Silk Road through Southeast Asia."

In addition, China has recognized the importance of keeping a safe regional environment in the South China Sea in order to avoid external interferences by external actors such as the United States. China is concerned that ASEAN countries could form an anti-China¹²⁴ alliance under the umbrella of the United States, distorting the direction of Chinese foreign policy. In view of this risk, maintaining the region reasonably stable would not give to the United States the pretext to interfere in the region. As professor Zhang holds "this would doom the maritime leg of OBOR, which must pass through the South China Sea and obtain support from key ASEAN countries like Indonesia, Malaysia, and Singapore. It would also be

¹²² As a result of Beijing's 2012-2013 standoff with Manila over the contested Scarborough Shoal and Second Thomas Shoal, and the violent tensions caused with Hanoi by placing an oil rig near the contested Paracel islands in May 2014, China's relationships with the Philippines and Vietnam were at their lowest points in recent history. See: Xue Li and Xu Yanzhuo, "China Should Adjust Its South China Sea Policy"

¹²³ Feng Zhang, "Beijing's Master Plan for the South China Sea: China has far greater ambitions for the region than just reclaiming some tiny islands," *Foreign Policy*, 23 June 2015. Retrieved from:

http://foreignpolicy.com/2015/06/23/south_china_sea_beijing_retreat_new_strategy/

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¹²⁴ Beijing fears an anti-China alliance formed among the United States, ASEAN, and perhaps also Japan, Australia, and India, in a united opposition to its South China Sea policy. See: Xue Li and Xu Yanzhuo, "China Should Adjust Its South China Sea Policy"

a huge setback to Chinese security interests in maritime Asia, making its policy options more constrained and costly.” In light of these potentially negative effects, China has devoted many efforts to preserve and display with concrete actions the open and inclusive nature of the OBOR initiative.

Nearly all ASEAN countries have started to actively participate in the OBOR initiative, recognizing the beneficial aspects of the initiative. Noticeably, all 10 members of ASEAN countries adhered to the multilateral Asian Infrastructure Investment Bank (AIIB), further showing their interest in taking part in the China’s economic initiative. Nonetheless, the persistent risks of sovereignty disputes and China’s growing military presence in the region still disposes some ASEAN countries to conceive the OBOR initiative as a geopolitical strategy to expand China’s sphere of influence and build military facilities along the maritime routes, as the realist perspective argues. In light of this, China has pledged to avoid detrimental sovereignty disputes, committing itself to create a stable environment through the creation of new economic corridors under the diplomatic strategy of the OBOR initiative. By launching the OBOR and its financial institutions, China has put a lot of efforts in displaying itself as a great economic opportunity rather than a regional threat.

It is evident that the Maritime Silk Road will substantially increase China’s presence along the sea-lines. Therefore, it is fundamental to understand “the degree to which China’s increasing economic activity along these sea-lanes will translate into increased military activity and what form any increased military presence might take, especially in terms of permanent installations and support bases”¹²⁵. This requires analyzing both China’s reasons for an increased military presence along the Maritime Silk Route as well as the different constraints China will experience in expanding its military presence in the region.

¹²⁵ Clemens Morgan, “The Maritime Silk Road and the PLA: Part One”, *China Brief Volume: 15 Issue: 6*, 19 March 2015. Retrieved from: http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=43676&no_cache=1#.VwC3aShxtCZ

According to Morgan Clemens's¹²⁶ inquiry, Chinese analysts argue that Chinese naval force will conduct "small-scale" and "low-intensity" action and that China's use of force along the Maritime Silk Route will be focused on fighting "terrorism, piracy, drug smuggling and other international crime and be multilateral in nature." More specifically, according to a fellow of the PLA's Academy of Military Science, "China has only two purposes in the Indian Ocean [and in the South China Sea]: economic gains and the security of sea lines of communication"¹²⁷. As Clemens underlines, China's emphasis on security and on fighting low-grade threats shows that it will not seek to dominate the South China Sea and, more importantly, it will not put itself in competition with the U.S. Navy¹²⁸ given its military superiority. As far as the construction of military facilities concerns, liberal scholars hold that China's interest is mainly based on getting access to necessary military facilities rather than building such facilities themselves¹²⁹. According to view this, Chinese military facilities along the Maritime Silk Road will be limited to the extent of providing connectivity and security in the region. As Liu Cigui bluntly states¹³⁰, "Sea lane security is critical to sustaining the stable development of the 21st Century Maritime Silk Road, while port facilities are the foundation of sea lane security." More precisely, Liu underlines the importance of creating sea posts that could resupply ships and ensure security through the sea-lanes and that these sea posts could be build either by China or by individual countries involved in the project. Hence, despite some isolated and maximalist views¹³¹ that advocate the need of securing sea-lanes through

¹²⁶ Morgan Clemens is a Research Associate at DGI, where his work focuses on the Chinese armed forces and defense industry

¹²⁷ Clemens Morgan, "The Maritime Silk Road and the PLA: Part One"

¹²⁸ According to statistics, in 2030 the PLA's naval force will be equal to U.S. naval force in 2000.

¹²⁹ Daniel J. Kostecka, "Places and Bases: The Chinese Navy's Emerging Support Network in the Indian Ocean," *Naval War College Review*, 2011, Vol. 64, No. 1.

¹³⁰ Director of the State Oceanic Administration

¹³¹ National Defense University professor and strategist Liang Fang argued that sea lane security can only be assured by carrier battle groups on station (National Defense Reference, February 11). Retrieved from: http://www.81.cn/jwgd/2015-02/11/content_6351319.htm

carrier battle groups on station, it is substantially evident that in the next decade China's increased military presence through the creation of military support facilities will be limited to the extent of creating infrastructure connectivity and security along the Maritime Silk Road.

Even though China's increased presence in the region is limited to the need of guaranteeing safe sea lines along the Maritime Silk Road, it will be inevitably constrained by internal and external factors. The main internal factor lies in the capacity of keeping a stable economy that could sustain the weight of military expenditures abroad. Eventually, these expenditures need to be justified on economic grounds, showing the importance of keeping a secure regional environment for the sake of trade benefits. Instead, the main external factor concerns the possible reluctance of states to allow the construction of overseas facilities along the Maritime Silk Road despite China's persuasive economic aids. Asian countries are post-colonial in nature and therefore very sensitive to national sovereignty issues¹³².

The South China Sea constitutes a great challenge for the implementation of the OBOR road initiative and its Maritime Silk Road. In the last two years, China has gradually reshaped its foreign policy towards the South China Sea, refraining itself from claiming territorial disputes over disputed areas, promoting multilateral cooperation through new financial institutions, and developing overseas bases as replenishing facilities along the Maritime Silk Road.

Nonetheless, ASEAN countries are still doubtful about China's intentions and the United States remains vigilant on China's military expansion. Since small countries, as in the case of ASEAN countries, are extremely cautious of big emerging powers, they tend to "seek security from external powers unless their big neighboring can ensure that it will not

¹³² Clemens Morgan, "The Maritime Silk Road and the PLA: Part Two", *China Brief Volume: 15 Issue: 7*, 3 April 2015. Retrieved from: [http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=43748&tx_ttnews\[backPid\]=789&no_cache=1#.VwC3aShxtCb](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=43748&tx_ttnews[backPid]=789&no_cache=1#.VwC3aShxtCb)

challenge their security¹³³”. Therefore, in the next years China needs to further come up with evidences that demonstrate that China seeks reconciliatory policies in the South China Sea, the AIIB promotes mutual growth through infrastructure developments, and that China’s overseas bases do not equal military facilities. So far, evidences suggest that the liberal view is more consistent than the realist one in addressing China’s motivations behind the OBOR initiative.

The Development of East Asian Multilateralism

East Asian Multilateralism has not come up yet with a legally binding agreement for the disputed territories of the South China Sea. Both on a global level through United Nations and on a regional level through the ASEAN organization, the decision-making process with regard to the South China Sea sovereignty disputes has fallen into a stalemate. Although China and ASEAN countries have committed themselves to cooperate towards regional integration and political stability, no fully binding agreement such as the proposed Code of Conduct of Parties of the South Sea has been ratified yet. In view of this stalemate, the OBOR initiative, in this particular case, its Maritime Silk Road could constitute an economic and political incentive for the ratification of a fully binding agreement with regard to territorial disputes in the South China Sea.

On a theoretical level, this hypothesis roots in a recently conceived theoretical approach known as “New Regionalism”¹³⁴. As multilateralism frameworks stalled¹³⁵, regional initiative such as the OBOR undertaking spread out as a response to international organization

¹³³ Xue Li and Xu Yanzhuo, “China Should Adjust Its South China Sea Policy: China needs to change its South China Sea policy or risk damaging the ‘One Belt, One Road’ strategy,” *The Diplomat*, 8 June, 2015.

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¹³⁴ Callens Stéphane and Cherfi, “The intensive flows about a New Regionalism: OBOR,” Proceedings of the 9th International Management Conference, 5 November 2015, Romania.

¹³⁵ For example, the Doha Round multilateral negotiations have been delayed because of India’s veto

deadlocks. As explained before, the OBOR initiative aims to facilitate trade and create economic corridors through the Eurasian segment¹³⁶ on the basis of respecting the United Nations charter. Based on this assumption, the OBOR could prompt current international multilateral organization to disentangle ongoing deadlocks. Precisely focusing on the unresolved disputes of the South China Sea, China's Maritime Silk Road could overcome divergent positions between China and ASEAN countries in a multilateral framework, promoting the implementation of a binding agreement as conceived in the Code of Conduct of Parties of the South China Sea.

The second part of the chapter goes through the development of East Asian multilateralism from the US hub-and-spoke system to China's peaceful rise in the region. Then, it analyzes the regional cooperation carried out between China and ASEAN countries and the need to implement a code of conduct for the successful realization of China's Maritime Silk Road.

From U.S. Hub-and-Spokes System to a New East Asian Order?

Before experiencing economic growth and integration, East Asian countries struggled with creating a strong multilateral organization that could promote intraregional economic ties. Differently from Europe's process of economic integration that was promoted by the spillover effect of multilateral institutions, such as the Coal and Steel Organization of 1952¹³⁷, East Asia lacked a strong multilateral framework that could fully express the capabilities of East Asian countries¹³⁸. After a long period of US geostrategic interferences in the region, China is currently in the condition to shape East Asian Multilateralism through the OBOR infrastructure developments.

¹³⁶ Eurasian segment is the largest in volume of trade

¹³⁷ The founding organization that gradually evolved into the European Union

¹³⁸ The organization gap prevented East Asian countries from turning economic influence into geopolitical influences

In the aftermath of World War II, the United States took advantage of the East Asian organization gap, establishing a ‘hub-and-spokes’ system of bilateral security. Victor Chan explains that this system consisted in “bilateral security alliances between the United States and other individual East Asian countries”¹³⁹. Whereas there was a strong alliance between the hub (the United States) and the spokes (East Asian countries) there were no established relations between the spokes themselves¹⁴⁰. This system inevitably created a hierarchical system of regional security under the United States umbrella, discouraging the promotion of intraregional relations among East Asian countries¹⁴¹. Therefore, some countries such as Indonesia and Malaysia started detaching themselves from the American strategy, choosing a nonalignment position instead of committing themselves to bilateral security alliances with the United States. In addition to the strong US influence in the region, territorial disputes between Asian countries as well as between Asian countries and external powers hampered the creation a multilateral framework¹⁴².

In the 1960s, East Asian countries attempted to promote regional cooperation between each other, trying to reduce U.S strategic interferences in the region. In 1961, Malaysia along with the Philippines and Thailand initiated the Association of South East Asia. Two years later, this initiative created a loose confederation of the Malay peoples, including Indonesia instead of Thailand in order to prevent the creation of Malaysia. Eventually, the creation of

¹³⁹ Chan, Victor. "Powerplay: Origins of the U.S. Alliance System in Asia". *International Security*. 34 (3): 158–196. 2010.

¹⁴⁰ This system was famously inspired by John Foster Dallas, who served as US Secretary of State under the Eisenhower administration from 1953 to 1959. He addressed this term twice in Tokyo and once at the San Francisco peace treaty of September 1951

¹⁴¹ Calder, Kent E. and Francis Fukuyama. *East Asian Multilateralism: Prospects for Regional Stability*, p 4

¹⁴² The Korean crisis and the creation of its demilitarized zone, the Taiwan sovereignty question, the dispute between Japan and Russia over northern territories, the contention between Japan and China in the East Asian Sea, and other territorial and ideological disputes further inhibited the emergence of a cohesive East Asian regionalism.

Malaysia¹⁴³ disrupted the association, laying the foundations for a stronger regional cooperation, the Association of Southeast Asian Nations (ASEAN). This intergovernmental organization included Thailand, Singapore, Malaysia, Indonesia, and the Philippines, and it served as a “non provocative display of solidarity against communist expansion in Vietnam”¹⁴⁴. By establishing its cardinal principle of non-intervention, ASEAN manage to survive during the turbulent environment that followed. After the end of the Cold War, the organization gradually expanded to include Vietnam, Cambodia, Laos, Myanmar and Brunei, dealing with social, economic, and political issues affecting the region. Today, ASEAN membership comprises a population of over 550 million people and a GDP of U.S. \$2trillion.

In addition to the promotion of regional initiatives in the Southeast Asia, Northeast Asia promoted some regional initiatives mostly under the influence of Japan and the United States. The most noteworthy initiative was the creation of the Asian Development Bank (ADB) with headquarters in in Manila¹⁴⁵ in 1966. The ADB modeled closely to the World Bank constituted the first regional development bank aimed at promoting social and economic development in Asia. Currently, the ADB is one of the most influential banks in Asia composed of 67 members, of which 48 are from within Asia and the Pacific and 19 from elsewhere. According to institutional statistics, Japan holds the largest proportion of shares at 15.7%, the United States holds 15.6%, China holds 6.5%, India holds 6.4%, and Australia holds 6.4%¹⁴⁶.

As far as the regional architecture of East Asia concerned, Asia-Pacific Economic Cooperation (APEC) establishment represented the first concrete step towards the creation of

¹⁴³ (1963)

¹⁴⁴ Calder, Kent E. and Francis Fukuyama. *East Asian Multilateralism: Prospects for Regional Stability*, p 7

¹⁴⁵ The decision of establishing headquarters in Manila derived from the idea of strenghtening ties between South and North Asian countries.

¹⁴⁶ ADB Shareholders , *Asian Development Bank*. adb.org. March 31, 2016.

Retrieved from <http://www.adb.org/site/investors/credit-fundamentals/shareholders>

strong regional network. Created under the auspices of Japan and Australia, the first APEC meeting was held in 1993 when U.S president Bill Clinton invited the leaders of the member countries to Blake Island¹⁴⁷ in order to disentangle the decision-making stalemate of the Uruguay Rounds¹⁴⁸. Since then regular summits occurred, mirroring APEC uneven success in providing solid foundations for policy coordination and regional cooperation. Despite ambitious programs of reducing tariffs¹⁴⁹, observers argue that APEC lost momentum in the late 1990s, turning into a high-level networking forum¹⁵⁰.

In the late 1990s, the increasing economic interdependence and the relatively stable situation among East Asian countries unleashed the desire of developing a solid regional architecture that would no longer rely on U.S. ‘hub-and-spokes’ system. In view of this, former Malaysian Prime Minister Mohamed Mahathir proposed the creation of an intra-Asian organization¹⁵¹ in the form of an East Asian Economic Grouping aimed at establishing an Asian monetary fund. The Mahathir proposal failed as Indonesia, Japan and other countries refused the initiative under heavy pressures of the United States. Despite its initial failure, Mahathir’s idea took shape as Japanese Vice Minister of Finance for International Affairs, Eisuke Sakakibara conceived the project of creating “an interlocking set of swap quota arrangement”¹⁵² that was implemented through the Chiang Mai Agreement (CMI)¹⁵³ on the wake of the Asian Financial Crisis (1997-1998).

¹⁴⁷ Washington

¹⁴⁸ Bill Clinton’s strategy to solve multilaterale deadlocks through regional frameworks could constitute a valid example of how regional initiatives could efficiently promote global solutions to global issues.

¹⁴⁹ The 1994 Bogor Summit established the reduction of tariffs to between 0 to 5 for % for developed economies by 2010 and for developing economies by 2020. The 1996 ensured the abolishment of most information industry tariffs.

¹⁵⁰ Calder, Kent E. and Francis Fukuyama. *East Asian Multilateralism: Prospects for Regional Stability*, p 7

¹⁵¹ not involving the United States

¹⁵² Calder, Kent E. and Francis Fukuyama. *East Asian Multilateralism: Prospects for Regional Stability*, p 8

Event though the development of a regional framework has not fully developed on a macro level, many important steps towards a solid multilateral architecture have been carried out in specific fields. The multilateral currency swap arrangement that originated from the Chiang Mai agreement demonstrated the great progress undertaken in the financial field. As statistics show, the multilateral currency swap arrangement has already traded \$75 Billion¹⁵⁴. Similarly, the ASEAN organization and the further conceived summit mechanism of the ASEAN Plus Three (China, Japan, and South Korea)¹⁵⁵ countries have also promoted economic and financial integration, fostering the development of an Asian Bond Fund as well.

In the security field, ASEAN has also strongly emphasized the principles of non-interference and the necessity of promoting consensus building and preventive diplomacy. It specifically devoted a lot of efforts in solving territorial disputes in the South China Sea, despite the difficulties of reaching a binding agreement among concerned parties. The Declaration of Conduct of the Parties involved in the South China Sea sovereignty disputes and the set goal of achieving a binding code of conduct with enforcement capabilities have outlined the inclination of creating regional stability through economic interdependence.

In the attempt of creating a multilateral architecture, China has gradually moved from a period of international isolation to a proactive role in the regional and international order. China's multilateralism emerged only by the end of the 1990s. Before that period, China neglected multilateral approaches, dealing major foreign relation issues through bilateral and unilateral approaches.

China's interest in taking part in multilateral polices emerged by the end of the 1990s, recognizing the potential benefits in actively participating in multilateral frameworks.

¹⁵³ The Chiang Mai Initiative (CMI) is a multilateral currency swap arrangement among the ten members of ASEAN, the People's Republic of China (including Hong Kong, Japan and South Korea) ratified in May 2000.

¹⁵⁴ Japan's Ministry of Finance Affairs. Retrieved from: www.mofa.go.jp/mofa/area/asiakeza/asean_3ci.html.

¹⁵⁵ The ASEAN Plus Three summit mechanism was established in 1997 in Kuala Lumpur

Specifically in the ASEAN Regional Forum (ARF), China moved from a watchful and suspicious attitude especially with regard to sovereignty disputes in the South China Sea to a stronger interaction in the ASEAN multilateral framework. Indeed, China recognized that these kind of forums based on a “consultative mode of interaction” could not constitute any harm to its national interest, but rather it could further promote Chinese foreign policies in the region. Furthermore, China was less concerned with external influences such as the one exercised by the United States since these forums were merely composed of ASEAN countries (110).

On the basis of these reassurances, China’s participation in multilateral frameworks increased noticeably especially on a regional level. This multilateral attitude led to the promotion and the active participation in the APEC (1991), in the ARF (1994), in the ASEAN-China political consultation (1995), the Asia Europe-Meeting (1995), the ASEAN-China and APT summits (1997), the Shanghai Cooperation Organization (2001), and in many other regional frameworks. Since then, China established itself as proactive player in the regional international arena, playing a central role in many multilateral organizations and promoting several other multilateral initiatives.

Currently, China’s position assumes the characteristics of a policy-shaper in East Asian multilateralism, establishing multilateral diplomacy as its key foreign policy tool. China has strived for the promotion of a clear regional architecture in Asia, grasping the unprecedented opportunity of influencing the organizational design of newly conceived regional initiatives. The OBOR initiative along with its financial institutions has manifested China’s aim to have a greater governance role in Asia and in the international arena. Despite the features of a classic power transition as the realist view foresees, China has repeatedly reassured the international community, in particular the United States, that the OBOR through the creation of new financial institution such as the AIIB does not seek to change the

preexisting international order, but rather it aims to complement the international system attempting to overcome decision-making stalemates, confirming China's liberal motivations behind the OBOR. Noticeably, China is aware of the importance of keeping good relations with its neighboring countries and with the international community, creating the right environment for the implementation of the OBOR initiative.

The Maritime Silk Road: an Incentive for a Mutually Binding Code of Conduct

The status of policy-shaper gives China the opportunity to improve East Asian multilateral framework by promoting mutual growth and political stability through the OBOR initiative. Taking into account the South China Sea case, the OBOR could have a significant impact on the territorial sovereignty disputes. On the one hand the realist perspective holds that the Maritime Silk Road would negatively affect the situation since China's overseas bases are perceived as a tool to increase China's sphere of influence in the region. On the other hand, the liberal view argues that the Maritime Silk Road overseas bases increase economic interdependence among countries, would promote mutual growth and political stability. By adopting a liberal perspective in addressing China's motivations behind the OBOR initiative, the realization of the Maritime Silk Road could promote a mutually binding code of conduct in the South China Sea between China and the ASEAN countries.

Since the 1990s, China and the ASEAN countries have collaborated to reach an agreement over sovereignty disputes in the South China Sea. After a series of negotiations that lasted more than a decade, China and the ASEAN countries succeeded in signing the Declaration on the Conduct of Parties (DOC) of 2002, establishing that “ [t]he parties concerned undertake to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly consultations and negotiations

by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea”¹⁵⁶.

Despite the success of the DOC in promoting economic integration and political stability, China and ASEAN countries have not created yet a legally binding dispute settlement mechanism as envisaged in the declaration. As article ten of the DOC explicitly points out, “[t]he Parties concerned reaffirm that the adoption of a code of conduct in the South China Sea would further promote peace and stability in the region and agree to work, on the basis of consensus, towards the eventual attainment of this objective”¹⁵⁷.

The realization of the Maritime Silk Road would encourage China to direct its foreign policy towards the implementation of a mutually binding Code of Conduct with the ASEAN countries, recognizing that a “mutually agreeable compromise” with no legal obligations is not sufficient to create a stable environment¹⁵⁸ for the Maritime Silk Road. The implementation of a code of conduct that envisages a dispute-settlement mechanism would refrain China from claiming further disputed territories as well as reassure ASEAN countries about China’s overseas bases. Therefore, the realization of the Maritime Silk Road could promote the creation of a dispute-settlement mechanism aimed at overcoming South China Sea territorial disputes for the sake of mutual economic growth and political stability.

Conclusion

The Maritime Silk Road represents the greatest challenge for the implementation of the OBOR initiative due to the South China Seas territorial disputes and China’s overseas bases along the maritime line. The realist perspective considers the Maritime Silk Road and

¹⁵⁶ 2002 Declaration on the Conduct of Parties in the South China Sea. Adopted by the Foreign Ministers of ASEAN and the People’s Republic of China at the 8th ASEAN Summit in Phnom Penh, Cambodia on 4 November 2002 [<http://www.aseansec.org/13163.htm>]

¹⁵⁷ Ibid.

¹⁵⁸ Wu Shicun, “The South China Sea Arbitration Case Could Exacerbate Disputes in the South China Sea” *The Diplomat*, 27 January, 2016. Wu Shicun is President and Senior Fellow of the National Institute for South China Sea Studies.

its overseas bases as strategy to increase China's influence in the region. By contrast, the liberal view argues that the Maritime Silk Road and its oversea bases promote economic integration and political stability. By adopting the liberal perspective that assesses China's motivations behind the maritime route of the OBOR initiative, evidences suggest that the OBOR has reshaped China's foreign; OBOR's financial institution, AIIB, has succeeded in convincing ASEAN countries to take part in the initiative; and China's overseas bases are endowed with very limited military capabilities.

As far as East Asian Multilateralism concerns, after a long period of US strong influences, China turned itself into a policy shaper, seizing the opportunity to establish a multilateral architecture aimed at creating mutual growth as well as political growth. Through a liberal lens, the OBOR initiative, in this particular case the Maritime Silk Road, could promote the implementation of a code of conduct in the South China Sea, disentangling decision-making stalemates in East Asian multilateral organizations.

In the next years, China need to provide further evidences that confirm the liberal perspective over the realist one, demonstrating that the OBOR infrastructure developments along the sea lines aim to promote economic growth, regional integration, and political stability.

Conclusion: What is Behind the OBOR Initiative?

The thesis tries to assess China's motivations behind the OBOR initiative through a realist and liberal perspective. The following three questions set out the framework for analysing China's motivations: does the OBOR only benefit China's national interest? Does the China seek regional hegemony through the OBOR? Does China challenge the international order through its new financial institutions?

Tacking into account the political and economic implications of these questions, the thesis reaches the conclusion that the liberal view is more consistent in analyzing China's reasons behind the OBOR initiative. Political and Economic evidences suggest that

- Chinese-led development infrastructures produce mutual economic growth in Asia, demonstrating that OBOR infrastructure investments in the region has the potential to further promote mutual growth and win-win cooperation between China and its neighboring countries
- The OBOR initiative does not aim to bring smaller countries under China's sphere of influence by creating market dependencies and establishing Chinese overseas bases along the economic routes
- The OBOR along with its newly conceived financial institutions does not aim to challenge the international order but rather it tries to adapt the growing influence of developing countries to the international order, encouraging reforms in the shares of voting powers

Therefore, through a liberal view, the thesis conceives tree main reasons behind China's decision of launching the OBOR initiative:

- First, China's economic shift from a developing country to a developed country requires China to establish and secure new economic corridors between China's

eastern provinces and China's neighbouring countries through the development of its western lagging provinces.

- Second, China seeks to strengthen regional integration by improving the supply and the value chains of South East Asian countries through infrastructure developments.
- Third, China seeks to provide additional financial pools to the international order with the aim to improve regional multilateralism as well as political stability through the promotion of infrastructure developments.

In the next years, in order to see the OBOR initiative achieved, China needs to further show its peaceful rise in the international order, demonstrating with concrete facts that the OBOR initiative produces mutual growth on equal bases and create political stability under the assumption that institutionalized economic ties promote political stability. In practical terms, this means that China's GDP growth rate rather should be proportional to China's neighboring countries GDP growth and that China's growing leadership in the international order beneficially complements the Bretton Woods system, demonstrating its peaceful and enterprising commitment to the multipolar international system of the World.

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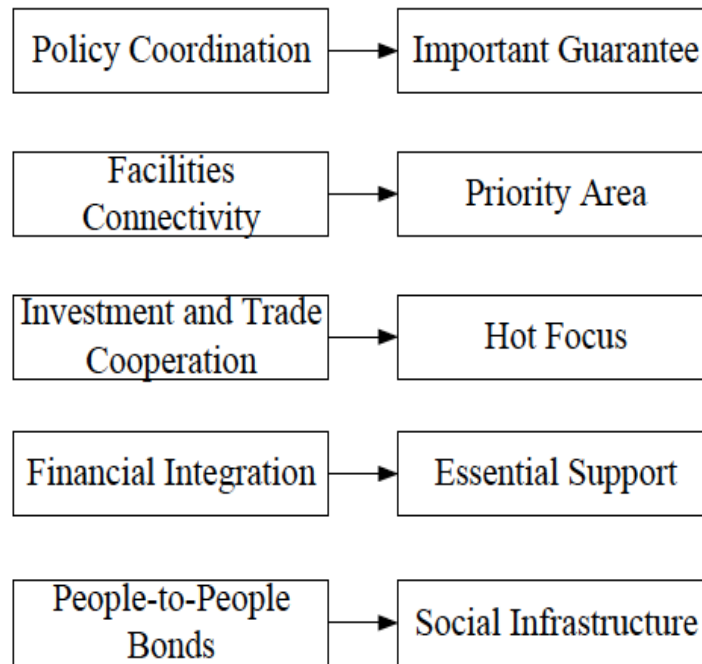
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Appendix A: OBOR Key Principles and Its Land-based and Maritime Routes



ABSTRACT

The One Belt One Road initiative represents China's greatest initiative to promote economic growth in the world through infrastructure developments. The initiative specifically aims to strengthen China's economic ties with South Asian countries by bringing Chinese-led infrastructures developments in the region under the umbrella of the New Silk Economic Belt and the 21st Century Maritime Silk Road.

The nature of this economic initiative emphasizes on creating a community of shared destiny, in which countries can share mutual benefits and coexist peacefully along the trade routes. Despite these favorable goals, some countries are suspicious of China's economic initiative, considering the OBOR undertaking as an unveiled strategy aimed at expanding Chinese influence.

These different interpretations can be analyzed through two IR schools of thoughts: realism and liberalism. On one hand, the liberal view holds that China is aiming to establish a positive sum game in which all countries can mutually benefit through stronger infrastructure connectivity, enhanced trade, and new financial institutions. On the other hand, realists argue that China's OBOR is a veiled attempt to establish regional dominance, create opportunities to convert harbors into overseas bases along the Indian Ocean, and challenge the international order.

Developing the theoretical background, realism is based on the idea that countries compete each other in an anarchical state of affairs, striving for power. As Stephan M. Waltz bluntly considers, "realism depicts international affairs as a struggle for power among self-interested states and is generally pessimistic about the prospects for eliminating conflict and war"¹⁵⁹. Differently from realism, liberalism is based on the assumption that economic exchanges, international organizations and societal norms increase beneficial

¹⁵⁹ Stephen M. Walt, "International Relations: One World, Many Theories," *Foreign Policy*, no. 110 (Spring 1998), pp. 31.

interdependences, promoting positive-sum interactions between states. As Robert O. Keohane and Joseph Nye argue “interdependence affects world politics and the behaviour of states...by creating or accepting procedures, rules or institution for certain kinds of activity, governments regulate and control transnational and interstate relations”¹⁶⁰. Therefore, states interact each other under the assumption that increased interdependence produces mutual growth and international cooperation.

Establishing a realist and a liberal lens, China’s motivations behind the OBOR are assessed through a framework based on three questions: Does the OBOR only benefit China’s national interest? Does China seek regional hegemony through the OBOR? And does China challenge the international order? All these questions try to assess China’s intentions by taking into account the political, economic, and security issues surrounding the OBOR. The thesis concludes that the liberal perspective is more consistent in analyzing China’s motivations behind the OBOR initiative.

Taking into account a liberal and a realist lens in assessing China’s motivations behind OBOR initiative, the OBOR presents two different perspectives: the Chinese perspective and the American perspective on the OBOR initiative. While the Chinese perspective is shaped around liberal assumptions, the American perspective emphasizes on realist assumptions. There are three main points in which the Chinese perspective and the American view have divergent positions: the extent to which the OBOR has significant security implications; whether or not the OBOR challenges the existing global governance structure; and whether or not the OBOR is a Chinese version of the Marshal Plan.

Tacking into account these diverging perspectives, the Chinese perspective based on liberal assumptions is more consistent in analyzing China’s motivations behind the creation of the OBOR initiative. Evidences analyzed demonstrate that the OBOR aims to promote growth

¹⁶⁰ Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence*, 4th ed. (Boston: Longman, 2012), 5.

in China's western provinces connecting them to China's neighboring countries. Second, the OBRO infrastructure developments along the along the maritime routes are bases for commercial use endowed with limited military capabilities, discrediting the String of Pearls theory. Third, the OBOR through its multilateral financial institutions seeks to complement the international order, encouraging reforms designed to adapt the growing influence of developing countries to the international system.

In the last years, China's economy is decelerated, facing a period of economic transition from a fast speed growth to a medium speed growth. China has responded to this expected slowdown through the New Normal mode that aims to readjust the economy through structural improvements. While the New Normal mode aims to establish a balanced economic growth, Chinese dream seeks to share wealth and power through a domestic and international inclusion. The OBOR initiative is the practical realization of the Chinese Dream idea of creating a harmonious community of shared interest

Tacking into account three economic factors, trade, overseas direct investment, financial aid, evidences demonstrate that China's motivations behind the OBOR initiative are the following three. First, The OBOR infrastructure developments encourage companies to invest abroad in light of China's saturating domestic market. Second, the OBOR infrastructure development aims to strengthen regional economic integration, by improving value and supply chains in the region. Third, the OBOR through the creation of the AIIB seeks to provide additional financial pools to developments infrastructures.

These three motivations support the liberal perspective in analyzing China's OBOR initiative. On the national level, China is seeking to adjust its economic situation through the New Normal mode and promote investment abroad through the means of the OBOR initiative. On the regional level, China is aiming to strengthen regional economic integration by improving the supply and value chains through the OBOR infrastructure developments. On

the global level, China is focusing on providing financial funds to infrastructures developments through the creation of new financial institutions.

The Maritime Silk Road represents the greatest challenge for the implementation of the OBOR initiative due to the South China Seas territorial disputes and China's overseas bases along the maritime line. The realist perspective considers the Maritime Silk Road and its overseas bases as strategy to increase China's influence in the region. By contrast, the liberal view argues that the Maritime Silk Road and its overseas bases promote economic integration and political stability. By adopting the liberal perspective that assesses China's motivations behind the maritime route of the OBOR initiative, evidences suggest that the OBOR has reshaped China's foreign; OBOR's financial institution, AIIB, has succeeded in convincing ASEAN countries to take part in the initiative; and China's overseas bases are endowed with very limited military capabilities.

In light of this multilateral decision-making inconsistency, liberal scholars believe that OBOR initiative could pave the way to peaceful solutions in the South China Sea, fostering political stability and national security through the promotion of new economic corridors. By contrast, the realist approach argues that China is trying to expand its sphere of influence in the South China Sea and beyond, considering the OBOR a veiled strategy to build military bases along the maritime lanes. Evidence demonstrating that the OBOR promotes economic growth and regional stability suggest that the liberal view is more consistent in explaining China's motivations behind the OBOR initiative.

As far as East Asian Multilateralism concerns, after a long period of US strong influences, China turned itself into a policy shaper, seizing the opportunity to establish a multilateral architecture aimed at creating mutual growth as well as political stability. Through a liberal lens, the OBOR initiative, in this particular case the Maritime Silk Road,

could promote the implementation of a code of conduct in the South China Sea, disentangling decision-making stalemates in East Asian multilateral organizations.

Throughout the thesis, three questions were addressed to understand China's motivations behind the OBOR initiative, analyzing in each single question the economic and political implications through two schools of thought: realism and liberalism. Tacking into account all the evidences, the chapter draws the conclusion that the liberal perspective seems more consistent in understanding China's motivations behind the OBOR initiative.

Starting from the first question, evidences favor the liberal perspective suggesting that China through the OBOR and its previous infrastructures is seeking to promote win-win cooperation and providing economic opportunities to its neighboring countries. These evidences are shown in the significant rise in trade between China and its neighboring countries. Although China's investments have also produced negative effects, there are no clear evidences demonstrating that China is responsible for the high-debt levels of some countries such as Sri Lanka and that all the economic benefits from Chinese-led initiatives flow into China's market.

In the second question, evidence also supports the liberal view over the realist one, showing that China's investments in the region create opportunities through multilateral economic corridors. Despite realist scholars hold that the OBOR aims to gather countries under its influence in order to challenge India's position in the region, evidences favoring the liberal view point to the inclusive nature of the OBOR nature, accepting all states, including India, into the OBOR project and its multilateral institutions. In addition, China's investment in countries opposing India's sphere of influence demonstrates through liberal lenses that China is concerned to secure good relationship in light of its own economic needs, rather than for the desire of challenging India's position in the region.

In the last question, evidences confirm the liberal perspective on China's intentions behind the OBOR initiative, holding that the OBOR and its newly conceived financial institutions aim to modernize the system, beneficially complementing the changing international order. Although the realist view considers the OBOR and its financial institutions as strategy to diminish the US-shaped Bretton Wood system, evidences demonstrate that China is seeking to overcome voting shares disparities originated from preexisting financial institutional such as the IMF. In addition, evidences further supporting the liberal perspective show how China is committing itself to the international community through the creation of new institutions that do not envisage veto powers. Therefore, the realist view that considers the OBOR and its financial framework as tools to advance a Sino-centric agenda that directs projects and challenges the international order fail in presenting evidences.

Finally, evidences in the research suggest that the liberal perspective is more coherent in assessing China's motivations behind the OBOR initiative. By adopting a liberal lens, the research reaches the conclusion that China is launching the OBOR for three main reasons:

- First, China's economic shift from a production based market to a service based market as in line with the New Normal mode highlights China's need to create additional economic routes for goods and resources by connecting its western lagging provinces to China's neighbouring countries and China's wealthy costal provinces.
- Second and strictly related to the first reason, China seeks to strengthen regional integration by increasing the supply and value chains of South East Asian countries through infrastructure developments.
- Third, China seeks to provide additional financial pools to the international order with the aim to improve regional multilateralism and political stability through the promotion of infrastructure developments.

In the next years, China needs to come up with more evidences showing that the OBOR aims to promote mutual benefits rather than advancing China's sole national interest, strengthen regional economic integration rather than seeking regional hegemony, complement the preexisting international organizations rather than challenge the international order. In particular, China need to provide further evidences that confirm the liberal perspective over the realist one, demonstrating that the OBOR infrastructure developments along the sea lines aim to promote economic growth, regional integration, and political stability.