COMPETITIVE PRESSURES ON CHINESE INVESTMENTS IN ASIA: THE "ONE BELT, ONE ROAD"

Jane DU, KING Cheng & Sarah Y. TONG

EAI Background Brief No. 1139

Date of Publication: 18 May 2016

Executive Summary

1. After three decades of fast economic growth, China's nominal gross domestic product (GDP) exceeded that of Japan in 2010. Now the largest economy in Asia, China has steadily broadened its economic cooperation in Asia with the One Belt, One Road (OBOR) initiative as the most extensive.

2. If successful, in 10 years, OBOR's 22 countries may create an overseas market that is comparable with that of Shandong and slightly smaller than that of Jiangsu. By 2025, the overall volume of bilateral trade is expected to be equivalent to Sino-Korean trade.

3. China's outward capital flows however face great challenges. The implementation of OBOR largely depends on Asia's market recognition of Chinese capital.

4. China's outreach is located mostly in several neighbouring countries (e.g. Laos, Cambodia and Kazakhstan). The share of China in either foreign direct investment (FDI) or aid flows to developing countries in Asia is a mere 1%.

5. To raise China's overall amount of investment in and aid to Asia requires an exponential increase in the budget to facilitate OBOR investment and aid.

6. China would have to crowd out existing investors and donors in Asia to establish a foothold, a difficult task given that most OBOR countries have had long-term cooperative relations with other countries; China may need to provide OBOR countries with even more benefits to be attractive.

7. To establish a China-led Asian economic circle, China will inevitably face competition. In terms of trade volume, however, OBOR 22 countries could not replace the EU or the United States as China's major trading partner.

8. The scale of Chinese investment capacity is also unlikely to compete with OECD- and World Bank-led FDI and aid systems. Even in Asia, China is still unable to challenge the existing role of Japan in Asian economic cooperation.

9. In essence, China will face ever increasing competitive pressure in its pursuit of OBOR. To achieve its target, China has to face cooperation-based competition and integrate OBOR into the current framework of international economic cooperation.

10. While OBOR creates great prospects for China's future economic growth, the "road" ahead is uncertain. The race for investment has raised a set of unknowns for the initiative and for China. China needs to maintain a balance between its Asian economic strategy and global economic cooperation.