

The Impact of the Belt and Road Initiative on China's Economy

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ABSTRACT

This article examines the impact of the Belt and Road Initiative (BRI) on the Chinese economy, particularly in certain provinces. After the 2008 global financial crisis, global economic growth slowed. President Xi Jinping introduced the BRI in 2013. The initiative's purpose is to energize and strengthen China's economic progress and advance cooperation between countries connected by it. This article considers the BRI's consequences and impacts on Gross Regional Product (GRP) development in some of the Chinese provinces most influenced by it. The data shows diminished GRP development in coming years. However, expanded highways, railways, and different components linked with framework projects demonstrate that the BRI will cast an optimistic effect on GRP development in the region.

Keywords: BRI, Economic growth, Chinese economy, Challenges, GRP.

INTRODUCTION

In the contemporary era, the important idea of globalization has greatly influenced the world economy, expanding trade throughout the world. Huwart and Verdier state that globalization is a structure of worldwide businesses, relocations, and globalized economics (2013). This article argues that globalization is a significant factor affecting the economic disasters of 2008. The world economy is still recovering from the 2008 economic disaster and the People's Republic of China has seen slowed development rates (Minghao, 2016). Even so, this economic growth has seen China become the world's second-largest economy, thanks to its aspiration to achieve global influence. President Xi Jinping presented the Belt and Road Initiative (BRI) policy in 2013 (Du, 2016). China is trying to achieve global influence through the BRI and its "21st-Century Maritime Silk Road" and "Silk Road Economic Belt". BRI is also aimed at increasing economic development in China and incorporating nations across Africa, Asia, and Europe. The size of this activity is unimaginable, with the venture being described as "China's Marshall Plan" (Minghao, 2016). Slow economic

growth and local economic decay are significant elements behind the BRI and China's new international strategies. Because of lower local utilization, increased worker expenditures, and an aging populace, resulting in higher social expenses, China is using BRI to invigorate development and stimulate sustainable economic advancement.

RESEARCH QUESTION

How will the BRI influence Gross Regional Product (GRP) development in the Chinese provinces affected by the policy and which components will affect GRP there?

THE PROSPECTS OF BRI

Working alongside neighboring nations is a preferred infrastructure for new economic activity. Clarke (2016) argues that an economic corridor between Central Asia and China would improve Xinjiang's situation because of border business with regional nations. The improvement of the framework venture will likewise fortify the region's position. Advances from the Asian Infrastructure Investment Bank (AIIB) could develop and improve the framework for economic activity between different nations of Asia, upgrading business designs. These opportunities provided by the BRI are associated with China's geopolitical objectives, which incorporate economic growth, stability, and increased collaboration with neighboring nations. An infrastructure of free trade zones, upgrading and broadening existing frameworks, will increase business, improve economic relations, expert social connections and political trust between nations. Minghao argues that Chinese leaders accept that cooperation between BRI nations may alleviate instability and tension in Central Asia (2016).

CHALLENGES TO BRI

Chinese President Xi Jinping says the BRI is incredible, but many troubles and dangers are linked with the project. While many countries will benefit from BRI, China will profit the most. One possible danger related to ocean trade routes is conflict between China and other nations in the Indian ocean, so these areas will stay out of the activity. Member nations of the Association of Southeast Asian Nations (ASEAN) are worried that China is trying to control the region, giving them pause about joining the initiative. Another danger observed by Rudolf (2015) is conflict and the Islamic State in the Middle East and Central Asia. Chinese leaders' take significant pains to show how different countries and partners would benefit from the BRI. Because of the evasion of unilateralism and increased ownership and responsibility, Yu (2016) believes in the significance of ensuring prospective BRI nations and actors have fuller understanding. One danger is that BRI actors might leave the entire initiative if displeased.

INFLUENCE OF BRI ON THE REGION

The BRI aimed to incorporate 65 nations across Europe, Africa, and Asia, which would affect 4.4 billion individuals (Xinhua, 2016). By 2016, more than 100 nations and global organizations were involved with it. The BRI influences an enormous portion of the population in China, which until 2023 was the largest in the world.

The BRI Economic Belt will begin in Xi'an and extend to Gansu, Ningxia, Qinghai, and the cities of Korgas and Urumqi in Xinjiang. These regions have slower economic development than the coastline regions, which have the nation's most noteworthy Gross Domestic Product (GDP) growth rates. From 1992 to 2006, average western GDP development rates included: Shaanxi, 10.2 per cent, Gansu, 9.4 per cent, Ningxia, 9.9 per cent, Qinghai, 8.5 per cent, and Xinjiang, 10.4 per cent, while coastline provinces had faster economic development. The coast incorporates four regions, with annual economic growth rates of roughly 13 per cent from 1992-2006. There, the BRI Maritime Silk Road begins in Fujian's Quanzhou and extends to Guangzhou, Beihai, and Hainan. With the new activity of the Economic Belt, western regions will gain influence, in all probability resulting in economic growth there (Ferdinand, 2016).

ECONOMIC REFORMS

In 1978 Deng Xiaoping initiated the economic policies known as "Reform and Opening Up", transforming the country's planned economy, which was completely controlled by authorities, into a market-based one (Qian, 1999). Rural areas came first; giving farmers more autonomy and responsibility. This meant higher pay for laborers and expanded profitability and markets in rural regions. Deng Xiaoping opened the nation up to the world. The authorities used well-ordered procedures to change China, a noteworthy achievement (McMillan & Naughton, 1992). These well-ordered procedures helped identify mistakes, which could then be revised. Competing ideas about the economic reconstruction meant an absence of timetables for changing state-owned companies and the state's limited infrastructure towards private, market-led frameworks. As indicated by Naughton (1996), the dismantlement of state-owned monopolies is associated with solid economic development, and was key to the development achieved by China. This development was spread among segments incorporating individuals from various salary groups. The change toward a market economy needed well-run organizations, which were improved by changes in the late 1970s. As indicated by Fang and Gary (2004), three elements were critical to economic development in China: expanded non-government enterprises and sectors, expanded openness to foreign trade and investment, and human capital growth.

THE MODERN CHINESE ECONOMY

Reform and Opening Up and its Special Economic Zones (SEZs) have been critical for fast economic development in China, influencing the worldwide economy

and especially other economies in Eastern Asia. As De Grauwe & Zhang (2016) discussed, these policies turned China into the world's largest exporting country. Trade between China and different nations only expanded when China joined the World Trade Organization (WTO). Lam et al. (2017) claim that joining the WTO was indispensable for China, who made extensive promises to open up its economy even further in order to join. These include the creation of a tariff rate quota system that reduces the tariff rate for important farm products, such as wheat, up to near zero for sizable imports; the steady removal of all quotas and licenses confining the transfer of some imports; and a dramatic drop in the use of nation trading as a tool to manage the volume. Significant reductions in tariffs reduced the average amount to under 10 per cent in 2005. Additionally, the protocol guiding its accession outlines China's commitment to upholding global norms for the safeguarding of intellectual property and to recognize the use of a number of novel mechanisms in its trade deals that may be used to lessen the transfer of Chinese products into international markets (Lardy, 2001).

Global trade improves global economic development and relations between nations. Annual GDP growth in China has been roughly 10 per cent for the last three decades. As of late, GDP growth has reduced, and in 2015 GDP grew by 6.9 per cent. As shown by the United Nations Conference on Trade and Development (UNCTAD) and Lam et al. (2017) China's GDP development rate was 6.7 per cent throughout 2016. Urban unemployment appears to have decreased since more than 13 million new urban jobs were created in 2016. Chinese authorities claimed 11 million new jobs would be created in urban regions in 2017.

As indicated by UNCTAD, slower GDP growth in China is identified with less requests from other nations and actors. Overcapacity has decreased along with a shift towards the trade of services. As reviewed by the Development Research Center (Scott, et al. 2020) , despite the reduction in unskilled workers in China, demand for value and abilities among laborers in a few areas is required. With a lower proportion of unskilled laborers, salaries rise along with workers' costs. Henceforth, previous competitive advantages like low salaries and cheap items will actually diminish exports from China. The changes in China since the late 1970s have lifted the nation out of poverty into a middle-income country. However, China now urgently needs transformation and reforms for GDP growth to avoid the middle-income trap.

The advancement of the Chinese economy also affects the global economy and Asian nations. A reduction in Chinese GDP development of one percentage point negatively affects other Asian nations by around 0.3 per cent (Furceri et al., 2016). Quick GDP growth in China has expanded the import of consumer products, which has positively affected export-led nations. This shift to consumer product imports will over the long period positively affect the global economy, and guarantee sustainable GDP growth in China. As per the International Monetary Fund (2016), the worldwide economy needs to keep being open to new trade activities to encourage regions and nations.

Some researchers and specialists indicate that China needs to plan to revive its domestic economy. Reform and Opening Up and the following high GDP growth made the nation familiar with a changing economy. At the start of the procedure, China had cheap labor and exported labor-intensive products. As labor costs in

China have risen, neighboring nations have become more competitive for such exports. The ability to adjust the economy away from exporting labor-intensive products is crucial for China's further advancement. China may face economic instability or GDP stagnation otherwise. Haggai (2016) indicates that investment in infrastructure is critical for sustainable economic development. China's infrastructure improvements will undoubtedly energize less developed areas, and lower economic and social imbalances. Aschauer (1990) demonstrated that infrastructure investment positively affects economic performance. Just as elsewhere, organizations and businesspeople in China are likely to profit from BRI. The work rate should rise as BRI activity grows, growing economic development. The BRI should advance markets and regions incorporating through well-created infrastructure. As per Haggai (2016), BRI activity may increase trade, which could create jobs in China. To support development over a long period, it is imperative to move toward wide-based development.

METHODOLOGY

This article is positivist rather than interpretative, using primary and secondary resources such as official websites, newspapers, and books.

EMPIRICAL EXAMINATION

INLAND AREAS

Economic information for Chinese provinces from 2006 to 2015 can be used to compute estimates for the following ten years (2016-2025). The development rates for Shaanxi, Xinjiang, Ningxia, Gansu, and Qinghai over this time are similar. In 2008, three locales had yearly development rates of more than 20 per cent. However, in 2009, there was a huge drop in GDP in each of the five regions. They recuperated in 2010, and provinces saw GRP development rates of over 20 per cent. As indicated by the information recovered from the National Bureau of China (Wayne, 2019), GRP did not rise as much in 2015 as in earlier years, with rates of under 10 per cent. Additionally, gauges in all areas express that yearly GRP is expanding in all territories, and yet, development rates are falling. In 2016, percentage development rates showed a sharp increase compared to 2015. Xinjiang and Shaanxi had lower rates in 2015, while Gansu's change was negligible. In 2016, as indicated by the estimates, each of the five areas had development rates of more than 10 per cent. But the development rates are slowing, and all regions pursued a similar path for the following five years. As indicated by the outcomes, the annual growth rates for 2020 are around six per cent for each of the five territories.

COASTAL AREAS

Economic growth in the four areas of Fujian, Guangxi, Guangdong, and Hainan dropped severely in 2009; nonetheless, all territories rebounded in 2010. The yearly GRP percentage development rates dropped after 2010. The drop from 2010 to 2012 is huge; however, after 2012, the downturn was slower in each of the four

provinces. Hainan had the worst development rate in 2007; yet from 2010 to 2015, the yearly development rate for Hainan was the largest of the four coastal provinces under consideration. Hainan continues to have the highest percentage of development rates from 2016 to 2020. The determined percentage development rate in 2016 was estimated at 12.7 per cent for Guangxi, which is moderately bigger than in other regions. Although, in the coming years, the development rates in Guangxi will slow.

ECONOMIC GROWTH AND SEZs

China's SEZs and their proximity to ASEAN nations may explain the positive effect of exports in coastal areas and the negative outcomes in inland areas. It could be accepted that exports are not as significant for inland areas. Nations' neighboring the inland regions in China are still less advanced than nations near China's coastal areas. Poorer nations will import less than richer nations. But as China cooperates more with Central Asian nations, for example Kazakhstan, the inland provinces can increase their exports, increasing GRP in these areas. In any case, the inland regions are still far behind the GRP levels of China's coastal provinces. Economic growth is lowering in China and elsewhere. China's yearly GDP growth rate was assessed at 6.7 per cent in 2016, which is lower than in the provinces aforementioned.

But if the BRI continues as arranged, development rates will be higher than anticipated. In any case, these rates are much lower than those experienced in the SEZs since the 1980s. At the start of the 1980s, China's SEZs were new and uncommon, attracting investment. Businesses were offered lower taxes and put enormous cash into the SEZs, quickly developing them. The extraordinary yearly development rate of 58 per cent in Shenzhen gives an inaccurate image of the development rate of the whole region. The estimated development rates of provinces in this examination are lower than some of the particular cities within them. However, these wider areas can gain from growth in their SEZs.

The Reform and Opening period in China needed competent organizations and significant work to advance its goals. One of the real objectives identified with the BRI is strategic direction, which means the strategy changes made in association with the infrastructure of SEZs. Because of the BRI, strategic coordination is important to diminish the danger of political emergencies. Henceforth, well-developed arrangements and competent organizations in BRI-affected provinces are important. Strategy coordination with the BRI will indirectly affect GRP development since provincial authorities may analyze how to improve strategies associated with the new "Silk Roads".

The infrastructure of the SEZs restricts associations with other countries. The difference in going from total disconnection to a substantial concentration on Foreign Direct Investment (FDI) and exports brought about a critical increase in economic growth. Framework advancement in the relevant zones was urgent to attract foreign investment. FDI was behind the fast economic growth in SEZs; but it was likewise significant that foreign firms had great association with Chinese organizations.

Henceforth, the BRI's objectives as identified from individual to individual may be associated with the significance of good associations and combinations in

SEZs. When BRI advances a new framework, it may incorporate outside firms in certain activities. China is improving but generally has cheap labor; skills and quality workers are still behind other advanced nations. Consequently, infrastructure activities may advantage foreign organizations working within framework improvement divisions. Progressively talented labor can be associated with adjustable Labor Productivity in relapses. If foreign organizations can expand and support the quality of labor, profitability may increase and, in this manner, raise GRPs. The unskilled workforce may proceed with worker-concentrated production and increase the number of items that can be exported – accordingly, the conceivable outcomes are unrestricted trade increases. After agricultural change farmers, like local authorities in SEZs, experienced expanded power and responsibilities. The agribusiness division experienced fast economic advancement after Reform and Opening Up, like the growth experienced in SEZs. Improvement in the SEZs, just as in agriculture, is part of the reason for BRI. Consequently, Chinese authorities may increase the power and responsibility of provincial authorities to ensure the success of the BRI.

SUSTAINABLE DEVELOPMENT

Highways and railways have constructive effects on GRP, but the concomitant advancement of growth requires time. The significance of actualizing infrastructure may have a vital role in expanding highways and railways in the provinces associated with BRI. The connection infrastructure presumes that the factors incorporated into the regression examinations add to GRP. The general public can add to improved GRP; however, ventures that spread over various areas are useful for development and improvement. If one area in a province faces troubles one year, another can make up for it with an improved GRP. Because of the extensive development exchange, one interesting factor has been how ethnic diversity influences GRP. As certain inland areas are ethnically diverse, integrating these groups into the BRI may positively influence GRP.

As mentioned, when growth in China reduces by one per cent, different nations can expect a similar decrease in GDP by around 0.3 per cent. Since the BRI intends to build unrestricted trade, more than 100 nations, areas, and associations are associated with the activity and may profit from it. Since China has enormous influence, the potential achievements of the BRI could benefit many different nations and associations. Infrastructure and exports benefit GRP; thus, BRI will advance trade in the region. This article concerns several Chinese provinces, but the BRI could benefit other provinces and nations.

As examined in some of the provinces in question, the travel industry can positively affect GRP. The BRI's infrastructure improvement will build GRP and improve access for tourists in China. The travel industry can utilize an enormous number of individuals to add to GDP. Since environmental pollution remains a problem in China, ventures that decrease fossil fuel emissions may bear favor with local authorities. One proposal is therefore for policymakers to concentrate on tasks that will decrease environmental contamination. If China, as the main country in BRI, focuses on decreasing pollution, different nations may focus on it also, which would incredibly benefit the world's environment.

As examined by Xi Jinping, China needs to plan something collaborative to stimulate economic development. GDP growth will only diminish, which could push China into the middle-income trap. The expanding ageing populace will increase social spending requirements. Thus, public schemes in the BRI could expand tax incomes and help take care of some of the issues identified in the middle-income trap. In this way, infrastructure tasks and businesses will be incredibly important for economic advancement in China, with potential overflow impacts on neighboring nations and regions.

The Chinese authorities are studying the Zedillo Report (David, 2015) tasked with creating the AIIB for potential ideas. An AIIB non-resident board will have monthly meetings in Beijing and through videoconference. Given its infancy, a settlement among the signatory nations is expected on its board approving most projects and later handing over greater decision-making authority to management. The Zedillo Report acknowledges the need for social and environmental protections but contends that the World Bank has grown so risk-averse that enforcing these regulations unnecessarily burdens borrowing nations. Because the organizations are so cumbersome and slow, developing nations have stopped utilizing the current Multilateral Development Banks to fund infrastructure.

Some Western analysis raises concerns that China will use the AIIB for specific economic or political goals. But it still might be challenging for China to utilize the AIIB to fund projects in preferred nations. Furthermore, it makes no sense that this would aid China's overcapacity issues. If the AIIB is effective in five years, it may lend US \$20 billion annually, comparable to the World Bank's International Bank for Reconstruction and Development financing. But for China to absorb surplus capacity in the steel sector alone, an additional demand of US \$60 billion would be required annually. The BRI is bigger than the AIIB, but capacity for investment is constrained by the small size of Central Asian economies. Land transportation will continue to be costly compared to cargo moving by sea. China added the concept of a maritime road as a result, which entails the development of infrastructure along sea routes that extend from the Chinese coast to Southeast Asia and Europe. Already, a significant portion of global commerce travels this way (Lardy, 2001).

CONCLUSION

China has recently seen slower GDP growth than it had in its boom years, but after 2010, China became the second-biggest economy on the planet. The global economic crisis of 2008 appears to be the turning point for the downturn in GDP for China's economy. Because of this, and an interest in gaining power over global economic affairs, Chinese President Xi Jinping pushed the BRI. The BRI intends to invigorate the local and global economy and increase collaboration between nations. The BRI will affect most Chinese provinces; in any case, the Silk Road Economic Belt and the 21st-Century Maritime Silk Road directly affect nine different provinces. This examination considers the effect of BRI and its consequences on GRP development in these provinces. This examination has examined development rates in China and variables that affect GRP. It finds projects identified with the BRI will have positive effects on GRP and influence GRP development rates in China's

provinces. The estimates demonstrate slowed GRP growth for the next few years; but the estimates are determined from historical information without yet taking into account the full extent of the BRI.

To demonstrate that the BRI will positively affect GRP, regression examinations were undertaken. A few elements affect GRP; in any case, this investigation concentrated on the different factors identified with the BRI and infrastructure ventures. Expressways, labor efficiency, and exports have a positive effect on GRP, but not as noteworthy as the coastal and railway areas. The unemployment rate adversely corresponds with every other variable, which may be clarified by higher GRP growth in coastal areas than inland areas. Because of the empirical outcomes of this investigation, China should concentrate on growing the railroad arrangements since it highly affects GRP, rather than highway developments, as it also better impacts the environment. BRI is still in its opening phase, which makes it hard to provide an accurate insight into the future improvement of this incredible activity.

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