All in the Bag? The Political Economy of China’s “One Belt and One Road” Initiative, the “Dual Circulation of the Global Value Chain” Theory, and Their Strategic Implications

Wei-chin Lee
Wake Forest University
leewei@wfu.edu

Abstract:

China has launched a variety of development projects and proposed new conceptual ideas to boost China’s international status and world ordering capacity. This study will examine and evaluate China’s “One Belt and One Road” (OBOR) Initiative or “Belt and Road Initiative” (BRI), which includes numerous infrastructure investments and projects to enhance cross-border connectivity for national and global economic development. China also has proclaimed the idea of “dual circulation of the global value chain” (shuanghuanliu lilun, DCGVC), with China playing an intermediate role to facilitate the interaction between core countries and peripheral countries in the design, production, marketing, and distribution of global goods and services. This paper aims to probe the subtleties, intricacies, and interlinkages of the OBOR Initiative and the DCGVS theory in international political economy. In the end, it intends to explore the impact of China's OBOR and DCGVC on the existing Western neo-liberal structural arrangement to see whether China's efforts would reconstruct a new geo-economic order with Chinese characteristics.

With a heightened level of confidence and the drive for global status advancement, China has implemented a variety of mega development projects and proposed new conceptual ideas to boost China’s international status and world ordering capacity. Chinese and international media commentators, policy analysts, and scholars have done extensive research about China’s “One Belt and One Road” (OBOR) Initiative, which includes numerous infrastructure investments and projects to enhance cross-border connectivity for national, regional, and global economic growth. In relative comparison, China’s proclamation of the “Dual Circulation of the Global Value Chain” theory (shuanghuanliu lilun, DCGVC) has not gained broad attention in reportage and

1 Paper presented for the 2019 American Association for Chinese Studies Meeting, Oct. 4-6, 2019, Chicago. Please do not cite or circulation without permission.
scholarly scrutiny. The DCGVC proposes that China would be the mediator in trade circulation to facilitate interactions between core/developed states and peripheral/developing economies in the design, production, marketing, and distribution of global goods and services.

This paper aims to probe the subtleties, intricacies, nuances, and interlinkages of the OBOR Initiative and the DCGVS theory from the perspective of international political economy. Moreover, it will explore whether the proposition of these initiatives represents China’s efforts to reproduce and refine the existing Western neo-liberal structural arrangement or its strategic scheme to reconstruct a new geo-economic order with Chinese characteristics. The findings show that China’s public announcement of a neo-liberalist mission in developmental assistance and collaboration, combined with its non-interference principle in the recipient state’s domestic affairs, might potentially consolidate the illiberal states’ power grip. Second, despite China’s liberalist wish to serve as the intermediate nexus of a firm-based approach to the global value chains between the developed north and the developing south, China remains incapable of playing a substantial role of equalizer to compensate the inherently asymmetric structure of states embedded in the global market system. Third, the execution of the OBOR initiative offers China an effective discourse through which to portray China’s beneficial role in the global geo-economic order to soften its realist intent of creating a China-friendly geo-strategic order for its power ascendancy.

China’s “Go Out” Strategy: The “One Belt and One Road” Initiative

During China’s transition of power in 2012-2013 from President Hu Jintao to President Xi Jinping, Hu’s proposition of the “China dream” became Xi’s main task to strengthen and substantiate China’s aspiration for economic modernization and global status. Success would
mean a nationalistic, mesmerizing testimony of China’s liberation from the past suffering and humiliation caused by Western imperialism (Ferdinand, 2016: 942). While Hu’s multiple domestic efforts and international policies in pursuit of the China dream caught the eyes of domestic and international audiences, it was Xi’s extravagant projects and forceful measures in economic and security sectors that provoked widespread attention and serious responses.

Xi’s grand plan after 2013 was to build a moderately prosperous society along with persistent efforts in market and financial reforms, socialist rule of law with Chinese characteristics, and tighter party disciplines (Garrick and Bennett, 2018). At the same time, China has emphasized “indigenous innovation” in the area of technological advancement, along with an ambitious “Made in China 2025” program as the spearhead in key industries and market expansion, like new-energy vehicles, high-end equipment manufacturing, biotechnology, and faster speed in information technology with State-owned enterprises (SOEs) (Saich, 2017:8-11).

In the international dimension, China has envisioned a “new type of great power relationship” with the US. China also has expected an important role in global governance in the UN and international financial institutions, i.e., the IMF and World Bank, and has expressed its willingness to contribute further in the management of global commons, such as climate change issues, conflict resolution mechanisms in peacekeeping and humanitarian aid, and institutional enforcement and regulations. Other than hardware improvements in advanced military systems and global demonstrations of its gears, China has displayed its technological breakthroughs, including Tiangong space stations for their orbiting rendezvous and docking capability with Shenzhou spacecraft and a submersible Jiaolong deep-sea research vehicle. Its 2018 near completion of the indigenous Beidou Navigation Satellite System for global service is comparable to the American GPS, Russian Glonass, and European Galileo systems. All these
are parts of China’s international priorities for the fulfillment of the “China Dream,” or the “rejuvenation of the Chinese nation.” Xi’s epic vision is to “make China great again” by nurturing it to be “the biggest player in the history of the world,” as Allison cited the words by Singapore’s Lee Kuan Yew in explaining the quest of the China dream (Allison, 2017). The dream is thus a conviction of the uniqueness and supremacy of China’s developmental model as better and beyond the western developmental trajectory.

One major part of the Dreamers’ ambitious project is Xi’s announcement of the “Silk Road Initiative” in September 2013 during his visit to Kazakhstan to link China with Europe through Central Asia, the Balkans, and Eastern Europe to reach Germany and the Netherlands. In October of the same year, Xi subsequently announced a “Maritime Silk Road” in Indonesia with a road map starting from China through Southeast Asia, South Asia, the Persian Gulf, Africa, the Mediterranean, and ultimately reaching the identical destination of the continental Silk Road—Germany and the Netherlands. In 2015, Chinese Premier Li Keqiang further elaborated the “One Belt and One Road” Initiative in detail (National Development and Reform Commission, et al., 2015). Since its inception in 2013, China has funded and invested a variety of projects in different regions and countries. A flurry of studies has publicized and elaborated the causes, processes, and consequences at various stages. Later the OBOR was also called the “Belt and Road Initiative” (BRI).

China designed the enormous OBOR project, to some extent, to stretch, substantiate, and sustain China’s economic profile and prosperity to serve the domestic and international needs of China’s critical development trajectory. It covers multiple dimensions, including huge investments and participatory efforts for infrastructure and transportation development, acceleration of trade and economic facility, and job creation for poverty elimination. Similar to
the idea of “transit-oriented-development” as the primary driver for urban development, the OBOR particularly focuses on transportation connectivity as a priority to link cities, ports, states, and regions to amplify its scope and densify the level of economic integrity (Han, 2017).

As Chinese media has portrayed, the OBOR is a goodwill attempt to assist developing states along the OBOR routes in infrastructure buildups, living standard improvement, and poverty reduction. Based on this novel mission, China has committed to the role of lender of the first financial and planning resort, if possible, for their development projects similar to the US Marshall Plan. Yet different from the Marshall plan, China’s OBOR does not place institutional conditionality of democracy or market economy on the recipient.

As a result, annual OBOR reports and assessments describe China’s kinder and gentler manner in its negotiated agreement for the construction of ports, railways, energy, power plants, and roads locally for ostensible benefits to host countries. As China claimed in 2019, 126 countries and 29 international organizations have signed up the OBOR initiative (Current Affairs Correspondent East Asia, 2019). With subtlety, China would maneuver those outward investments and development projects as much as possible in alignment with China’s national expansion in key strategic trade, industrial, and financial sectors for mutual win-win scenarios (Bremmer, 2015; Liu 2017: 165). Under such conditions, even US firms, like Caterpillar, Honeywell, GE, Citigroup, and Goldman Sachs have become eager participants in BRI projects in various forms (USCESC, 2018: 290-291).

Take the example of the trans-regional rail line, China had engaged in high-speed talks with 28 nations to cover more than 5,000 km of railway track by 2017 (Liu, 2017: 94). By 2019, major routes include the rail link from Kunming, Yunnan, to Singapore, the far northwestern Xinjiang down south to Gwadar port in Pakistan to reach the Indian Ocean, and the Sino-
European or Eurasian rail line of 12,000 km from Yiwu in the Zhejiang Province on China’s east coast to arrive at London in 18 days. Similarly, both Chengdu and Chongqing cities in the southwestern Sichuan province could use the same route for trade with Poland and Germany. Along the way, the rail network creates cross-boundary transport centers, like Kazakhstan's Khorgos Gateway dry port on the other side of China’s Horgos. The train from Khorgos can meet places of religious, cultural, and political significance, like Teheran in Iran (SCMP, undated; Yang, 2018; Shepard, 2017). Chinese OBOR even stretched to its “Polar Silk Road” strategy in January 2018 for economic and geo-strategic advantages through the Arctic, including lofty investments in Greenland, and provoked the US counter-move in 2019 (Agence France-Presse, 2019). The connectivity through the OBOR’s “zouchuqu” (go out) strategy has offered ample investment opportunities, and the railway deals have presented an impression of China as a community builder and helper to recipients. Simultaneously, it has relieved domestic labor pressures caused by increasingly rising labor costs in the 2010s, and has sped up China’s long-term “xibu da kaifa” (big development of the west) development to pump up economic growth in China’s own inner land since 2000 (HKTDC, 2016). As the northwestern Xinjiang Uygur autonomous region becomes the gateway of the OBOR to the Great Islamic Circle, the southwestern Yunnan province now connects the regions of Southeast Asia and South Asia. Numerous provinces and cities have joined the OBOR’s long stretched railway links for fast and speedy delivery of exports and have thereby reinforced the trade and production network spatially and temporally.

Put simply, the OBOR encompasses not only a concerted effort directed by the central government but also multiple competitive endeavors by China’s regional and provincial governments. On assessment, southern coastal China has done a better job than the inner land of
the southwestern region in policy implementation of the OBOR due to the developmental maturity, rich marketing experience, and ample capital resources of the coastal areas.

In trade, its trans-regional network connecting China and more than 60 countries accounted for one third of global GDP, valued at US$ 21 trillion, and 63% of world population, approximately 4.4 billion, in the OBOR area in its 2016 report (Jiao, 2017). Especially, the OBOR corridors possess an estimated 75% of global energy resource supply as China has relentlessly constructed pipelines to feed its huge appetite for oil and natural gas from countries in Central Asia, primarily Kazakhstan, Turkmenistan, Uzbekistan (SCMP, non-dated). Should the connectivity be strong and successful, China would benefit vastly from the OBOR in energy supply for economic growth (World Bank, 2018). During the period between 2013 and 2017, China’s import and export trade value dipped and climbed back to reach a total of US$ 4.1 trillion with a surplus of US$ 422.51 billion (Ministry of Commerce, 2017; World Integrated Trade Solution, 2019). The trade value in 2017 alone included imports from those OBOR countries at $666 billion, an annual increase of 20%, and exports to OBOR countries at $774.26 billion, an annual increase of 8.5%. The combined trade figured at $1.44 trillion, a 13.4% increase from 2016. It was also the first time that the growth rate of imports exceeded exports since the inception of the OBOR project in 2013 (Xinhua, 2018; Zhang, 2018). Especially, Chinese private enterprises played a major role to claim 43% of China’s OBOR total trade volume in 2017, though state-owned enterprises also saw a leap of 24.5% growth from their performance in 2016 (Zhang, 2018). Such trade growth momentum was also visible in the recent report of China’s regional trade with Africa. The total China-African trade value has increased from to US$170 billion in 2017 to US$ 204.19 billion in 2018 (Ministry of Commerce, 2019).
Correspondingly, besides $28 billion in investment and construction deals, China generously pledged $23 billion in loans and aid to Arab countries (The Economist, 2019d).

Financially, the OBOR has called upon several financial institutions to funnel monetary resources. Other than China’s domestic financial institutions, the financial pool includes the Silk Road Fund announced by Xi at the 2014 APEC meeting with a pocketbook of $40 billion and the Asian Infrastructure Bank (AIIB) established in 2014 with a startup reserve of $100 billion. It also includes the New Development Bank (NDB), an institution proposed by the five BRICS states (Brazil, Russia, India, China, and South Africa) in 2012. The NDB became operational in 2015 with a capital investment of $100 billion. Additionally, the Shanghai Cooperation Organization (SCO) composed of China, Russia, and Central Asian countries initiated a development bank in 2013 to facilitate the OBOR mega project (Belt and Road Portal, 2016; SCO Development Bank, 2018). Such a massive financial coffer certainly encounters the competitive investment offer of $65 billion pledged by the US- and Japan-dominated Asian Development Bank for projects in recipient regions of the OBOR.

Chinese corporations took advantage of the OBOR to launch a series of mergers and acquisitions in countries officially linked to the OBOR. Their financial investments totaled $33 billion by August 2017, an increase from $31 billion in 2016, though China’s overall outbound mergers and acquisitions dropped 42% year-on-year. The number of corporate deals with OBOR states have steadily increased from 134 in 2015 and 175 in 2016. And it dropped to 109 by August 2017, when the Chinese government started to scrutinize overseas acquisitions to ensure financial discipline, particularly with respect to state-owned enterprises (Reuters staff, 2017).

In 2018, the WTO reported (WTO, 2018: 55-57) that 14,950 of China’s majority-owned foreign affiliates (MOFA), roughly 12.1% of all MOFAs, and around half of them from Hong
Kong, China, registered a total amount of US$ 691.1 billion, an increase of 21% from 2015. They participated substantially in four categories in ascending monetary value: business service and leasing; construction; wholesale and retail trade; and information technology and computers. The same report indicated that China’s service and construction sectors engaged extensively in areas along the OBOR routes with sale values reaching US$ 134.5 billion in 2016, a 19.4% increase from last year. Four of China’s top ten partner economies along the OBOR showed Chinese MOFAs’ amazing growth in sales by over 30% with Singapore and Saudi Arabia, by more than 60% with Pakistan, and by 46% with Kazakhstan.

Firms, including state-owned enterprises, such as China Railway Group and China Energy Engineering, became champions of China’s state-orchestrated OBOR project. In reality, most OBOR ventures are commercial in nature in contrast to the official presentation of humanitarian aid programs (Deloitte, 2018: 7, 13). To all outward appearances, these private firms and SOEs have presented an identity of low political sensitivity and have ingrained themselves easily in a market environment. In this case, the logic of economics surely concurs and coordinates well with the logic of politics.

So far, China’s OBOR plans to fulfill its connectivity in five areas—policy connectivity, facilities connectivity, smooth flow of trade, ample financial availability, and people-to-people bonds. And the Chinese government, thinktanks, and university research centers employ data analysis to measure and assess these five areas of connectivity for improvement. For example, a 2018 report on the “five connectivity index” by the Taihe Institute, a Beijing-based thinktank, and the OBOR Research Group of Peking University has given a general thumbs up mark to the project’s remarkable achievements after a survey of 94 countries associated with China’s endeavor (Taihe Institute, 2018; Peking University, 2018). While the survey displayed a normal
distribution with 30 countries at the middle, countries with a relatively lower development level have been the majority crowd in the category of “nations of potential for cooperation” and “nations of weak cooperation” (Peking University, 2018).

One major concern was that 49 out of 94 countries surveyed lacked sufficient financial capability or facilities on their own to collaborate fully with China (Voice of America, 2018). The inter-regional and inter-state gap in development capability has shown a wide range of variation and difficulty for China to compensate sufficiently and satisfactorily for commendable performance. Bloomberg even reported that out of the 68 OBOR partner countries, the sovereign debt of 27 countries has been rated as “junk” or below investment grade, not to mention that another 14 countries have no rating at all (Bloomberg, 2017). The result could drag both the OBOR’s external and China’s domestic lenders to weigh down bad loans or to be cautious about new lending in order to make projects stay afloat and manageable. Either way would stymie the OBOR’s dynamics in expansion.

Some high-profile cases even generated profound concerns and doubts by the collaborators’ domestic critics and regional powers about the legitimacy and worthiness of the OBOR project. The known cases include Sri Lanka’s inability to repay its debt to China’s approximately $8 billion infrastructure and development contracts with 6.3% interest since the mid-2000s. The bilateral debt renegotiation talks sealed with the Sri Lankan government permitting China Merchants Port Holdings Co., a Chinese SOE, to operate the Hambantota Port with a 70% profit share and the use of the surrounding 15,000 acres of land in a 99-year lease agreement. While the project is claimed to be a joint effort, the Hambantota Port case in Sri Lanka worried domestic elites of a potential effect of the debt trap. Since the port has hardly drawn a substantial number of ships to dock in recent years, the deal immediately fueled strategic
speculation because of the port’s proximity to India, China’s persistent commercial competitor and historical rival, and its availability and support for Chinese naval operations to counter US Indo-Pacific strategy as well as its potential as a commercial stronghold to facilitate the OBOR’s transport connectivity (Abi-Habib, 2018; Hillman, 2018).

Likewise, strategic anxiety and fear was unveiled in Pakistan’s collaboration with China by expanding the formerly inconspicuous Gwadar Port with funding from the AIIB and Chinese government loans. It is part of the China-Pakistan Economic Corridor (CPEC) project, which comprises transport infrastructure, oil pipelines, an oil refinery, power plants, and industrial zones, with an estimated worth of nearly $62 billion. In return, the Hong-Kong-based China Overseas Ports Holding Company Pakistan (COPHC-Pakistan), established in 2014, would receive 91% shares of harbor and terminal operation and 85% of revenue from the free zone (BR research, 2018; Kanwal, 2018; Pauley and Shad, 2018). Such a huge inflow of Chinese investment heightened domestic demand, real estate value, import needs, and currency value. This has raised the percentage of the current-account deficit in Pakistan’s GDP from 1% in 2015 to 5% in 2018 and has led to the shrinking of foreign currency reserve (The Economist, 2019a).

Besides, Gwadar Port as a Chinese offshore naval port on the Arabian Sea would permit China to fulfill its Mahanian logic for the pursuit of command of the sea “with Chinese characteristics” (Yoshihara and Holmes, 2010: 16).

Equivalently in Southeast Asia, China plans to build 28 hydroelectric dams in the upper stream of the 3,100 mile-long Mekong River. China has positioned the Mekong plan as a project for the “community of shared future” by creating a new governing body on the river by following other transnational rivers’ governance institutions (Bernstein, 2017). The project financed by the AIIB and the Silk Road Fund would greatly affect lives and the environment of
Southeast Asian countries—Myanmar, Thailand, Laos, Cambodia, and Vietnam—beyond China’s territorial domain and would strain China’s relations with the Southeast Asian countries.

Several similar predicaments have occurred; in the case of Maldives, which has negotiated with China for the resolution of its $1.4 billion debt to China, even with India’s generous counter-offer of the same amount to aid the newly elected Maldives president in December 2018. India would like to prevent China from holding a key post in this island country, which is only 500km away from India (Kawase, 2018). Likewise, China received a $9 billion contract for the buildup of Myanmar’s Kyaukpyu port, and the Myanmar government had second thoughts and renegotiated to scale down to a $1.3 billion project (Mundy and Hille, 2019). Upon stepping into the position of political authority, Mahathir Mohamad, Malaysia’s newly elected prime minister, also shocked political supporters and analysts by manifesting a strong sovereign move to cancel, suspend, and review several key OBOR projects agreed by his predecessor in 2018 with China, (Mundy and Hille, 2019). Later, both sided resolved the dispute by including and engaging more local shareholders in the project (Zheng, 2019). In sum, China vision of a strategic “string of pearls” in the Indian Ocean and the Southeast Asian region for military necessity, commercial advantages, and energy security has generated uneasy feeling among counterparts.

China’s unprecedented charm offensive in Africa surely scored big for China’s OBOR. However, analysts are alarmed by the development of Djibouti, which controls the gateway to the Suez Canal and several African countries and houses China’s first overseas base only miles away from the US base. Unfortunately, Djibouti has encountered mounting debt distress because of its partnership with China Merchants Port Holdings, which completed the Doraleh Multipurpose Port in 2017. Through the partnership with China, Djibouti planned to set up a $3.5 billion free trade zone. Djibouti’s debt estimate in 2018 was close to $1.5 billion, worth
around 87\% of the country’s GDP (Cheng, 2018). A similar debt scenario may play out in the case of Djibouti, where China could use the debt leverage to bargain for an expansion of its current solid military presence (Oladipo, 2015).

In sum, a glimpse of those countries at risk of debt distress from the OBOR in comparison to their GDP shares in 2016 would show alarming figures in Djibouti (87\%), Kyrgyzstan (62\%), Laos (68\%), Maldives (66\%), Mongolia (88\%), Montenegro (78\%), Pakistan (70\%), and Tjikistan (42\%) (USCESC, 2018: 280; also The Economist, 2019e). It is, therefore, fair to say that China is fully aware of the dilemma of debts owed by recipients. Should the Chinese state intervene to write off those unperforming loans, it would be a huge financial burden for the government to bear. On the contrary, China’s decision to not intervene by standing on the sideline will provoke criticisms from within and without. Internal constituencies would complain of China’s overzealous development assistance efforts abroad with its head turned away from the needs of the domestic front, especially when China’s local debts have reportedly bloated from 1.1 trillion RMB in 2015 to 20 trillion RMB in 2019, along with other hidden debts (Zhijing Yang, 2019). The international community would doubt and mock China’s sincerity and altruism in light of China’s bold proclamation of a “fair and equitable world” by mitigating poverty and development fatigue in the developing world, particularly as some recipients have not had stellar records in transparency and good governance as measured by Transparency International Corruption Perception Index, the World Governance Indicates on the rule of Law, or the Transformation Index BTI (e.g., Stiftung, 2018). China’s lending hand has only reinforced the trend of authoritarian resilience in the developing world. However, the fallout of the OBOR in one particular case may generate a snowball effect on others, affect the dynamics of moving the project forward, and undermine the wisdom and legitimacy of the Xi regime. China’s
investments in riskier assets and aid-financed infrastructure projects in developing countries with weak credit ratings and feeble democratic institutions might not be able to pave a solid path to dominance and reputable alliance networks (Chemawat and Hout, 2016; OECD, 2018, 21).

Accordingly, Chinese policy commentators and scholars alike have asked for a thorough risk assessment, judicious cost-benefit analysis, and appropriate narrative construction to ward off sharp criticisms (Guangdong guoji zhanglue yanjiu yuan, 2017). Even Sha Zukang, China’s seasoned diplomat with heart-on-sleeve patriotism and a former ambassador to the UN Office at Geneva, called for a re-examination of the OBOR policy because corruption, opaque financial exchanges, environmental degradation, income inequality, and social unrest related to the OBOR appeared frequently in news topics, commentaries, and controversies in host countries or internationally (Dillon, 216). Interestingly, besides the PLA’s development of expeditionary forces for contingencies along the OBOR route (Gunning, 2019), Chinese private security companies were even contracted to be part of the OBOR project for duties of peace and stability in some countries lacking sufficient domestic law and order capability domestically (Zi, 2018; Arduino, 2019). Without careful management and data analysis, Sha worried that the “One Belt” and the “One Road” could become two tightropes to “strangulate” the stellar Chinese record of diplomatic achievements in the past (Yi, 2017).

In a nutshell, China’s String of Pearls strategy depends upon the connectivity of ports and rails to link energy supply by employing checkbook diplomacy to woo desperate borrowers for development. If the project proceeds as planned, China will cultivate and consolidate close ties and friendship with recipients when other lenders in the west are reluctant to invest. If the loan leads to default, the debt trap scenario rolls in for debt renegotiation to serve China’s commercial and strategic advantages. It is usually a sequence of winning plays for China commercially,
though not always positive Western media coverage. Rather than putting the state at the center of the financial game play, the firm, particularly the state-owned enterprises, has assumed an active role to avoid the complication of sovereignty disputes. The lease of land and percentage of liquid equity tone down the likelihood of territorial concessions or any slight discursive implication of extraterritoriality. The liberalist phrases and narratives of commodity supply and demand, monetary lending and payment, and the fulfillment of contractual obligations familiar to the market economy become convenient expressions and practices for the subtle establishment of spheres of influence and power domination.

**China’s Dual Circulation of the “Global Value Chain” theory (shuanghuanliu lilun, DCGVC)**

While China constantly reminds the world of its peaceful and non-provocative mission in assisting OBOR recipients’ economic growth and infrastructure development, its additional agenda is to preach the key role China could play as an intermediary in trade to lubricate and mediate two asymmetric markets—the developed world and the developing world. Here, China adds the theory of global value chains (GVC) to its OBOR discourse. Following this logic, China’s OBOR efforts facilitate these two worlds by building up multiple links of firms, factories, and workers in the production process in the 21st century.

Associated with the globalization trend, the liberal concepts of the cross-border distribution of labor and comparative advantage have won broad supports in recent years by focusing more on industries and firms rather than countries (Gereffi, 2018: 3-4). According to the WTO, more and more developed countries took advantage of increasingly lower labor and trade costs in their interactions with developing countries and improved communication and transportation facilities
within GVCs in the period of 1995-2011. Countries tend to put emphasis on vertical specialization by focusing on particular stages of a good’s production. The obvious result was that world trade and services that took place within GVCs increased from 36% in 1995 to 49% in 2011 (WTO, 2015). One IMF study shows the magnifying effect that GVCs played in China as an intermediate axle, mediator, or transmitter of global demands in various commodities through GVCs overtime. For example, China’s domestic value-added products had exported through 35 different sectoral GVCs. In some key GVCs, China accounted for 5 to 12% of the world total with the implication that any disruption would affect China and others (Hong, et al., 2016: 8)

In fact, the conceptual analysis and management of the global market have evolved along with the sociotropic shift in international political economy. The initial emphasis on the international economic and financial institutions, such as the WTO and IMF, and their interactions with regional and national governance systems has seen a paradigm shift to a critical review of the relationship between the global capitalist system and various economic actors by teasing out the functionality of actors in the global market system to illustrate the asymmetric interactions between actors. The purpose is to understand how effective, fair, and representative the global capitalist market has performed in wealth accumulation and distribution to market participants in the core-periphery categorization. However, the GVC approach turns a different page by moving away from the previous core-periphery world system level to the firm-oriented conceptualization. Firms become the unit of analysis as the mover and shaker in organizing the international production network for favorable gains through the rules and regulations set up by international organizations (Gereffi, 2018; Gibbon, Bair and Ponte, 2009: 316-317). Instead of distinguishing products as made in one particular country like “made in China” or “made in Thailand,” the augmentation of GVC in the the utilization of each firm’s specialty and
advantage, natural flow of capital exchanges and financial redistribution, and production through sectorial division of labor make sovereign boundaries less relevant than before with a proclamation of “made in the world” commodities.

This is where the Chinese idea of *shuanghuanliu lilun* (dual circulation of GVC, DCGVC) has come in to play in the strategic calculation of the OBOR (Figure 1). First, believing that China’s economic performance has reached a stable plateau of stability and sustainability—a “new normal” referenced by Xi in May 2014 and afterwards (China Daily, 2017), the DCGVC proposition has become an economic narrative to convince domestic actors and external players of the significance and validity of the OBOR to all with respect to material rewards and normative value in spreading China’s technological knowhow and sharing China’s experiences with others in joint collaboration.

Second, by dissecting the traditional uni-cycle interactions between the “core” (developed countries) and the “periphery” (developing countries), the DCGVC inserts China in between these two economic categories to lubricate the transaction between them. On the one hand, long being a self-claimed friend and helper of developing countries, China thinks that it could ease developing countries of their anxieties, doubts, fears, and pains of exploitation imposed by the imperialist West for a better market future of social and economic equity. China’s technological assistance and capital contribution would interest and benefit developing countries, including those away from OBOR corridors as long as they have connectivities with any OBOR countries. On the other hand, as its rapid acceleration in market economy and global wealth accumulation demonstrate, China feels that its status elevation, financial strength, and technological innovation have put itself nearly on par with some Western “core” states in co-sharing the global market in trade and finance, and co-governing the geo-economic order. Under the circumstances, China
would be able to mediate the core-periphery discrepancies and connect both worlds in the circulation of finance, goods, and services. With time and effort, China plans to break the tightly boxed in “core-periphery” relations (Wang and Wu, 2018).

Third, in the ideal situation of DCGVC, China could rely on the developing countries along the OBOR for labor-intensive manufacturing works and upgrade its skilled labor force for more sophisticated manufacturing sectors based on indigenous technological developments and the transfer of knowhow from the developed countries, as the US claimed (O’Connor, 2019). It would allow Chinese firms to capture more value-added products from the GVC based on China’s experience. According to a 2017 World Bank report on GVCs, the expansion of Chinese GVCs in combination with lower trade cost had generated a tremendous redistribution effect for ordinary workers’ wage increase from 50% for low-skilled labor to 80% for medium-skilled workers during the period 1995-2009 (World Bank, 2017: 3-6). At the same time, China emerged as a powerhouse of “Factory Asia” in the period of 1995-2015 by exporting more intermediate manufactured goods to other low-income downstream countries to support their access to the global market (World Bank, 40). In China’s estimation, developing countries could count on China’s past experiences in GVC and collaborate with China in trade, division of labor, and transportation infrastructure to ensure a smooth, speedy, and timely delivery to foster a win-win situation for better productivity and profitability for all.

Actually, in 2011 prior to the launch of OBOR, China still relied on foreign value added content of exports in the so-called “backward participation” in GVCs with 40.7% in the high tech sector on computer and electronic goods, as the WTO recorded recently (WTO, 2013). That means, in dealing with the developed world, China’s ample financial resources and enhanced manufacturing technology would be powerful instruments of persuasion to broker deals with
developing countries. In particular, the long OBOR routes end with European economies and industrial hubs, which are essential to balance the risk and uncertainty of US pressures, should US-China bilateral trade disputes become severe. Here, Chinese SOEs are practically handy as gatekeepers with financial clout to screen and select potential partners in key industrial sectors for collaboration. Their gigantic size, state-sponsored finance, and undeniable market shares might make it difficult for foreign multinational corporation to reject their lucrative offer of cooperation in exchange for technological transfer (Branstetter, 2018: 3). For example, although China’s tech industry in 2018 has overtaken the US in e-commerce and mobile payment and caught up quickly in “venture capital funding” and “AI research findings cited by third parties” from 2013, China still remains behind in other sectors (The Economist, 2018). The connectivity with the developed countries is essential in industrial learning and innovation, though China’s spending in R&D has witnessed a tenfold growth between 2000 and 2016. China also initiated the “Thousand Talents” programs in 2008 to recruit top-notch researchers abroad to return for scientific discovery at home (The Economist, 2019b).

Fourth, one notable feature is that so far, contrary to the US usual employment of economic leverages in developmental assistance, aid, and investment for political and economic transformation of the recipient country, China’s practice of economic “engagement without transformation” in its GVC plan has given itself substantial market access and notable presence in areas beyond its immediate neighboring countries without much noise in international politics (Boustany and Friedberg, 2019). Therefore, China has gained a better appraisal of its intent in pushing forward DCGVC.

The DVGVC could generate ripple effects beyond the realm of economics. Just take the usage of Chinese currency, Renminbi (RMB), to illuminate its influence in international financial
transactions. The OBOR relies heavily on the backing of Chinese banks and the AIIB for various projects (Garrick and Bennett, 2018: 101; Hameiri and Jones, 2018). A widespread circulation and transaction of Chinese RMB in GVC and OBOR projects offers an opportunity to the RMB to play a large role in international finance. Equivalently, China’s trade and investment endeavors could carry tints of populism and draw a blueprint for a credible “RMB zone” analogous to Japan’s creation of a Yen zone in the 1980s in the international currency reserve. After all, numerous recipients of OBOR do not have abundant financing for development but have unutilized natural and human resources to meet with China’s infrastructure and industrialization development offers (Islam, 2018: 13).

China also could take advantage of the DCGVC to boost the prospect for the fulfillment of its “Made in China 2025” plan (Figure 2) by improving its productivity and renovation in its connectivity with the developed countries. In this case, China could sustain its economic growth by lessening the potential negativity of the “middle income trap” (Wang, 2018), which generally occurs to previously lower income states climbing rapidly initially in growth, later failing to maintain momentum to a higher income economy, and eventually “trapping” the country at the middle income level. When Chinese firms from multiple industrial sectors at various levels “went out” to create economies of scale abroad, China’s Standardization Administration wanted to establish a distinctive “China standard” through the OBOR. The standardization plan would simply be a measurement of parts and equipment in engineering, operational practice, commodity branding, financial transaction, railway and construction codes, and digital infrastructure, like 5G technology (Yang J., 2018; USCESC, 2018: 269). Once it is completed, it would change the global competitive landscape and become a hurdle for some Western firms to compete for market shares in those OBOR countries. Consequently, the urge for DCGVC is not
just exchanges and delivery of goods and services but also a manifestation and augmentation of China’s market and technological domain.

Nevertheless, the reality might not match well with the ideal of DCGVC. First, China’s top-down ambition to claim a prominent status in international GVC may face backlash from the developed countries. Even the usually China-friendly German manufacturers which have tended to request that the government stay clear of their business interaction with China have became aware of and alarmed by Chinese firms climbing up the supply chain with the backing of state subsidies. Simply put, German manufacturers who once eyed lucrative profits in the Chinese market have had their reservations and now consider China as a “systematic competitor” in the global value chain (The Economist, 2019c). The recent US-China trade disputes reflected similar anxieties, fears, and concerns.

Second, China and some OBOR countries have been in competition in all three industrial sectors—the primary sector, the secondary sector, and the tertiary sector. However, China’s colossal market and manufacturing capability could play the role of matchmaker to combine and converge production facilities spatially across sectors, countries, and regions to upgrade production efficiency and uplift financial benefits collectively (Zhang Shouying, 2017). In fact, China’s industrial profile has gradually shifted from labor-intensive industries to capital-intensive sectors, skill-demanded, and high-value added goods. In the assessment of all OBOR countries in the 2016 report of industrial competitiveness, China estimated that only 14 countries listed were ahead of China’s level, and the other 44 were behind (Jiao, 2017). Take the example of the Southeast Asian region, China concluded that most economies in this area, except Singapore, rely on agricultural products, minerals, and low-end products for their economic vitality (Jiao, 2017). Consequently, trade with China could benefit OBOR countries in sectorial
GVCs unevenly. China's scheme of equalization between the core and the periphery is unable to change the competitive and predatory nature of the market system.

Thus, a glimpse of trade intensity index between China and OBOR countries would show room for improvement, with China’s trade intensity remaining higher than one in its exports to OBOR states during the period of 2011-2016, while the trade intensity indexes shown by the OBOR countries’ exports to China had hovered between 0.736-0.826 (Figure 3). Many factors other than trade policy could affect the change over time. While these indexes have indicated stable bilateral relations and a promising trend of steady growth since the OBOR inception in 2013, China’s 2018 Blue Book of Industry repeated a message that China needs to strengthen the trade competitiveness of medium and high-end manufactured goods because these products have been the main driving force of China’s export volume (Zhang Q. 2018). The connection with the core/developed remains a higher priority for China's industrial upgrade and competitiveness.

**OBOR Concerns and Implications**

From a constructive perspective, the OBOR is thus a bold endeavor historically mesmerized to rekindle China’s past imperial glory for globalization and contemporarily modified to be malleable as a convenient, but non-sovereign, frontier for the spread of Chinese ideational influence and power extension. To some critics, the Chinese government has set up a “rhetoric trap” as stipulated in President Xi’s 2017 proclamation of the “Silk Road Spirit,” which stands for “peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit” (Xinhua, 2017). Since the Chinese government initiated the project and possesses the authority to interpret the contents of the spirit, critics of China’s OBOR would be easily trapped on the opposite side of the divide drawn by China as the representation of non-liberal economic
thinking with “un-peaceful, exclusiveness, and zero-sum mindset” characteristics (Nordin and Weissmann, 2018: 240-241). Despite China’s defensive avowal of no interest in forming security alliances with OBOR beneficiaries and no intent to create “debt traps” for recipients, other major powers have disagreed. Therefore, there are several concerns, controversies, and implications of China’s program.

First, on the backdrop of the initiation and execution of the OBRO is China’s modification of strategic vision. In the historical and ideological perspective, the lengthy experience of China’s weakness and humiliation by Western challenges and a strong motivation for Sino-centrism to resume China’s glorious past and to restore its legitimate regional role have molded China’s strategic mindset since the early 2010s. Moreover, its regime characteristics of socialism have handicapped its full compatibility with the US-led neo-liberal international rules and order in meddling with the domestic affairs of other countries, mostly in the developing world (Rozman, 2010: 263). Thus, different from the US and its Western aid packages with numerous political strings attached for the promotion of human rights and structural economic adjustments, China’s insistence on non-interference in domestic affairs and the treatment of its development assistance packages as largely market transactions surely have opened a new frontier for China’s external relations. China’s offering has come at an opportune time when other Western lenders have been reluctant to take the financial risk to help those needy developing countries.

With China’s economic growth in the international system, its rapid rise momentum, national pride, and leadership vision naturally have prompted China to “serve the people”—the people in the world—to highlight its resilience, amazing capability, and willingness to help others. The OBOR is not just a gesture to hop on the development wagon of assisting the global south but also an act of self-gratification of its own achievement. It is an evolutionary development in
compliance with Deng’s 1992 strategic stricture of “taoguang yanghui” (hide one’s capabilities and bide one’s time). In its official justification, China wished to transfer its economic development experiences with developing countries through the implementation of OBOR without much deviation from Deng’s doctrine (Duowei News, 2018). Nevertheless, Xi’s assertive policy acts in the South China Sea dispute, the Taiwan issue, and trade disputes with the US have alarmed Western powers, particularly the US, and even domestic opponents, including Deng Pufang, Deng’s son, joining the debate to remind China to know its place, “not overbearing it” (Jun, 2018).

Simply put, while China’s OBOR focuses on market liberalization for development assistance, its prerogative of non-interference in the recipients’ domestic matters would become a liability in the setup and execution of collaborative ventures. China has rated prospective partners’ levels of enthusiasm in participation and attractiveness to China’s commercial and strategic interests highly without seriously ascertaining much about the recipient country’s capability in policy transparency, public scrutiny, and effective governance. Such neglect of the recipient’s institutional deficiency in governance without a shred of democratic lining, as well as the claim that this is “unproblematic,” naturally has raised international skepticism and speculation about China’s political and strategic motives in the OBOR scheme (Paris, 2006: 435-436). It is, therefore, unsurprising to expect that some OBOR projects would produce perverse results. China’s flow of huge investment capital inevitably reinforces the underlying corruption and cronyism of its partner. Hence, when China’s OBOR collaborators face regime changes or credit crunches, China’s expectation to collect debts owed by its partner would instantly challenge the sovereign debt, unlike a simple private bank default, and provoke broad political
conjectures. These do not help China’s wishful image of peaceful rise and harmonious development through the OBOR.

Second, the desire for collaboration and complementary effects in the OBOR and DCGVC may still end up a relationship with most OBOR developing states being “dependent” on China’s capital funding, “penetrated” subtly by China’s economic influence, and “quasi-integrated” in a China-orchestrated OBOR web. Given time, in its pursuit of power and self-interest, China increasingly resembles the core states in a complex, globalized, and de-territorialized capitalist economy of networked connections and global value chains. As much as China would like to stress fairness and legitimacy, a capitalist world order still distinctively features economic inequality and class stratification in operation. As the market economy progresses over years, China’s prominence in economic ranking and power influence will have deflated, if not defeated, its self-claimed “equalizer” role and its altruistic tone and rhetoric in bridging and narrowing the core-periphery divide.

In essence, China has benefited from the neo-liberal economic order by uplifting its global economic status and sensing a commensurately greater responsibility to help developing countries as pledged in its OBOR and DCGVC mission in contrast to peer countries in the global north. Despite that, the global capitalist market system has proceeded with transnational and inter-regional division of labor, competition for profits and sustainability, market uncertainties, losses, and risks as described, for example, in works by Schumpeter (1942) Hopkins and Wallerstein (1982), and Lindblom (1977). China’s power shift in the world economy has signified a profound awareness of its involvement in the highly competitive and contentious market with greater risks, fragilities, and vulnerabilities for not playing by the rules in full part for economic sustainability. Hereby, the thorough incorporation of China in a capitalist order
would inch it closer to the mindset of “core states” for economic self-preservation and make it harder for China to take the lead to champion a full structural reform agenda for an equitable international economic order through the OBOR. Furthermore, China has also encountered pluralist interest articulation and demands inherent in its own domestic market economy (Buzan and Lawson, 2014: 84).

Third, firms have been the key actor in China’s OBOR outreach or the primary player on the front of DCGVC. The phenomenal scale of the OBOR with firms on the front is to convince its partners of China’s neoliberal mission in façade and prospect (Wu, 2018). They built up networks and performed transnational and inter-regional economic interaction without the heavy baggage of sovereignty. Even so, the role of state remains visible and vital in China because its SOEs have stood ahead in major OBOR projects related to construction and expansion of ports and transportation facilities. Rather than the employment of hard geo-economic means based on the zero-sum market competition, China’s OBOR implementation is a skillful maneuver of soft geo-economic policy tools with a mix of a zero-sum game to elbow out developed countries and a positive sum game to woo developing countries for collaboration. In essence, it has been a geo-economic competition for the resettlement of a new geo-political order (Luttwak, 1990; Buzan and Lawson, 2014: 85).

Additionally, the OBOR’s “go out” move is in some way a strategic response to the US rebalancing move or pivot to Asia policy in East Asia in 2011. In strategic practicality, it offers China a large hinterland to cushion against US pressures on the Western Pacific front (Jin, 2019). Thus, one should not view the OBOR simply as a competition of varieties of capitalism but a plan to reconstruct a world order with China as an aspiring candidate to modify the rules of the game in inter-state interactions.
Fourth, as Summers (2016:1639) emphatically claimed, China is attempting to construct a “new geopolitics of global capitalism” in areas across regions that might have previously been peripheral to China on favorable terms to cultivate better relations. Surpassing the previous Flying Geese model in regional integration based on the division of labor and tiers of specialty in product cycles (Akamatsu, 1962; Cumings, 1984), China has visualized a “Chinese-centered radial network” to build up a “community of common destiny” through the OBOR and DCGVC (Tu and Lyu, 2018: 30). The liberalist vision of interdependence in trade, finance, manufacturing, and technology based on voluntary cooperation and reciprocal collaboration in various formats and intensity could result in a hierarchical and interactive neo-liberal geo-economic order with China as the center. Here, China has adopted a dual-pronged approach to the international economic order—one approach with a bandwagoning game to join the post-1945 US-orchestrated economic order and another one being a gradual modification of the existing system by biding the time and opportunity for a favorable China-centric system (Layne, 2018: 106, 109).

Consequently, the OBOR initiative has encountered resistance and skepticism from the US and its regional allies about China’s grand scheme since its inception. Power, interests, sovereignty, nationalism, and territoriality all remain strong in international politics. Ways for the US to meet China’s challenges include the enhancement of an offshore balancing strategy in re-confirming US commitments to mitigating the political impact of OBOR or to advance an economic nationalist policy with threats of tariffs, tight scrutiny of China’s business practices, and other protectionist measures. The purpose is to harm or slow down China’s economic momentum and capability in order to weaken the domestic core of the OBOR’s financial availability (Schweller, 2018: 135; Mearsheimer and Walt, 2016). To skeptics, China’s quiet
and unprovocative acceleration of its influence with its usual claim of peaceful development or rise is intended, through charming extension of economic power, to lay the groundwork for strategic and political aims (Mastro, 2019). However, without delicate, sensible, and thoughtful application, the soft power embedded in the OBOR programs may turn into a negative interpretation as “sharp power” tools (Nye, 2018) by using information, distraction, and manipulation to mold public sentiment to undercut the democratic elements in the recipient countries and hurt China’s peaceful rise image without substantially challenging the US hegemony.
References:


SCMP (South China Morning Post) (non-dated), Belt and Road initiative, various topics, a visual explainer. Available at: https://multimedia.scmp.com/news/china/article/One-Belt-One-Road/ (accessed February 10, 2019).


The Economist (2019d) Middle Kingdom meets Middle East. April 20, pp. 44-45.


Yi, Xing (2017) “Yidai yilun” yanjiu buhao, kande wo jisile (the research of OBOR is not good. I am very worried about it). Fenghuang Zixun, July 18. Available at: (accessed February 26, 2019).


Figure 1: China’s View of Dual Circulation of Global Value Chains

Figure 2: Various “Made in China 2025” Domestic Sector Goals

Note: Dates for domestic content goals range from 2020 to 2030. The Chinese government set up these content goals in the “Made in China 2025 Key Area Technology Road Map” in September 2015.
Figure 3. Trade Intensity Index, 2011-2016: Bilateral Trade between China and OBOR Countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China toward OBOR countries</td>
<td>1.037</td>
<td>1.086</td>
<td>1.033</td>
<td>1.095</td>
<td>1.044</td>
<td>1.142</td>
</tr>
<tr>
<td>OBOR countries toward China</td>
<td>0.736</td>
<td>0.763</td>
<td>0.783</td>
<td>0.767</td>
<td>0.813</td>
<td>0.826</td>
</tr>
</tbody>
</table>

Source: Data from the UN commodity trade database and compiled by Wang and Wu (2018).