

# The Impact of China's OBOR Initiative on Australia's Geopolitical Realities

Written by Andrew Allsopp

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ANDREW ALLSOPP, APR 19 2018

The announcements made by China's President Xi Jinping in 2013, collectively known as the One Belt, One Road (OBOR) initiative, has garnered the world's attention and produced much speculation about its impact. Committing up to US\$1 trillion, Xi's ambitious plan seeks to potentially involve 60 countries in a series of projects that will recreate the silk road and permanently connect markets across Eurasia (Ferdinand 2016, 950). More than just a simple infrastructure building exercise, the initiative pursues better regional cooperation on such issues as policy coordination, trade, finance, and people interactions (Summers 2016, 1630). While some commentators view Xi's motivations in purely economic terms, others warn of its geopolitical implications and its impact on declining US hegemony (Clarke 2013, 71-2). To understand its impact on international relations, an analytical model, such as international political economy (IPE), which considers the role of economics on geopolitics is required. This paper will first explain the significance of IPE, then explores how China seeks to use OBOR to achieve geopolitical and economic objectives. Finally, this paper explains OBOR's implications on Australia's geopolitical relationship with China. Although Xi's OBOR initiative also includes technology, information, and communication, this paper's scope is limited to infrastructure and economic factors.

### The Significance of IPE

International Political Economy is a field of study that integrates the theories of economics and politics in international relations. Due to the increasing complexities of international interactions, disciplines that operate in isolation struggle to explain global events (Gilpin 1987, 3). The Cold War, for example, was often seen in hard-power terms between two superpowers, yet the collapse of the Soviet Union was caused by economic and social failures (Lebow 1994; Schweizer 1994). IPE recognises this failure and builds an alternative, interdisciplinary model that uses different theoretical tools and perspectives (Veseth 2015).

The relationship between the state (political) and the market (economics) is central to IPE. They both exist independently and interdependently and are driven by different forces (Gilpin 1987, 10). There are three main ideologies that attempt to explain this relationship. Economic liberals believe that market forces promote peace and cooperation within the political system, while economic nationalists claim that international trade is disruptive and a source of conflict (Gilpin 1987, 12-4). Marxists are split between those who believe markets are inherently conflictual and those who believe that powerful markets cooperate to exploit weaker economies (Gilpin 1987, 12-3). Whether markets are a source of conflict or cooperation, states' security policies must consider economic outcomes to be effective (Falkner 2011, 10).

The current debates within IPE focus on issues of globalisation, interdependence, and declining American hegemony (O'Brien and Williams 2010, 45). The interdependence of economic security and foreign policy means economic resources can be used for political gains. Often, states will act for domestic gains rather than from systemic pressures, however interdependence from globalisation makes that increasingly difficult (Chaudoin, Milner and Pang. 2015, 276). Stronger states can use aid and investment to entice weaker states towards political compliance and use the threat of sanctions to coerce conformity (O'Brien and Williams 2010, 415). While friendly states are rewarded with economic access to a state's markets, unfriendly states are denied. When used by a hegemon, this sticks-and-

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carrots strategy enables them to maintain leadership in global governance and world markets (Gilpin 1987, 76).

American military superiority strengthens the hegemon's geopolitical order and allows the enforcement of its preferred economic system and secure access to vital resources (Brink 2014, 211-2). The 2003 US invasion of Iraq, for example, not only punished a weaker state for non-compliance and expand the geopolitical order, its conquest and control of its oil reserves granted the hegemon a strategic advantage over would-be rivals (Zune 2009, 103). However, policy failures like the Iraq invasion has resulted in hegemonic overreach contributing to declining American hegemony as other states are repulsed by US hard-power strategies (Florig 2010, 1105). This decline is exacerbated by weakening domestic social cohesion and the growing economic challenge from rising Asian powers (Frank 2016, 531-2). As China's economy overtakes the US in becoming the world's largest economy, it will have achieved an important condition in achieving global hegemony (Florig 2010, 1104).

## **How China Uses OBOR to Achieve Geopolitical Objectives**

Since the collapse of the Soviet Union, US relations have been pivotal to Beijing's strategic outlook. The Tiananmen Square incident was a wake-up call for China's leaders who blamed the US for meddling in their internal affairs (Nathan 2001). Since the primary objective of the Chinese Communist Party (CCP) is to retain power, the threat from US interference to continued CCP rule is central to their strategic calculations (Varrell 2015, 3; Ferdinand 2016, 953). Despite an impressive economic rise and increasing expectations of global leadership, Beijing believes the US is jealously protecting its hegemonic role and is trying to contain China (Beeson and Li 2016, 492). The US' hub-and-spoke alliance system combined with their reluctance to allow rising powers a greater stake in international institutions, such as the World Bank, is viewed as evidence of US attempts to contain and isolate China (Liff 2017; Rolland 2017, 133). This view is exacerbated by the Trans-Pacific Partnership (TPP) and the US pivot to Asia (Wang 2016, 458). To reset the US dominated international system, OBOR seeks to build alternative institutions that excludes the US and provides China a platform to implement its preferences and gain greater regional influence (Beeson and Li 2016, 492).

Surrounded by US allies, military bases, and seas that allow free US naval access, going west through Central Asia is a simpler land-based strategy that plays to China's geographical strength. By building land-based infrastructure, China circumnavigates its maritime weakness and helps secure access to resources. This strategy confluences Beijing's Uyghur separatists concerns in Xinjiang province in western China with OBOR initiatives that integrates Xinjiang into China-Central Asia trade routes (Clarke 2010, 215-6). By building infrastructure to permanently connect Central Asian states to China, Beijing hopes to gain greater influence in the region and reduce the threat from separatists (Rolland 2017, 132-3; Summers 2016, 1633). Since authoritarian states are less likely to criticise Beijing over their human rights record, the CCP seeks strategic gains by supporting friendlier authoritarian governments along their periphery (Rolland 2017, 132). By building closer relationships through investments, Beijing's political clout restricts the policy choices of other states which Beijing can use to resist US pressure (Summers 2016, 1628; Wang 2016, 458). This soft-power approach reduces the risk of an overreaction from competing powers (Clarke 2017, 72). Beijing can claim moral superiority by building win-win relationships, while the US is stuck in its cold war mentality (Callahan 2016, 232).

Since 82% of China's oil imports transit through the Malacca Straits, China's maritime vulnerability is of major concern to Beijing (Brewster 2015, 49). The CCP views the maritime environment through Mahanian terms of sea power and is troubled by India's geographical dominance in the Indian Ocean. Beijing seeks to challenge India's advantage and break through US encirclement in the Pacific (Yoshihara 2012, 492). By building ports in states surrounding India and connecting them to China via road, rail, and pipeline, China seeks to solve its "Malacca dilemma" and undermine India's vision of becoming the undisputed regional hegemon (Brewster 2017). These ports could also serve as a "places not bases" strategy that could provide China's naval vessels logistical support in times of war, while avoiding the political cost of maintaining a permanent military base (Brewster 2015, 52). China can maintain a defensive military presence within the Indian Ocean while protecting its access to vital economic resources.

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With the collapse of international economic growth resulting from the global financial crisis, the emerging loss of confidence in the US-led financial order created an opportunity for China to acquire greater regional influence (Godement et al. 2015, 14). Continuing with and expanding on existing infrastructure projects, OBOR seeks to create a coherent set of policies to achieve several goals (Clarke 2017, 75). Domestically, Beijing seeks to increase economic growth and develop the restive and underdeveloped western provinces to maintain political stability (Rolland 2017, 132-3; Summers 2016, 1633). Developing infrastructure projects would produce demand for an oversupply of construction materials manufactured by State Owned Enterprises (SOEs) and therefore avoid social unrest from job losses. Through greater connectivity to neighbouring states, Beijing hopes to secure its restive regions by creating direct provincial access to foreign markets and secure access to resources to invigorate economic growth (Clarke 2017, 73-4).

To solve China's problems of overcapacity, excess foreign reserves, and a slowing economy, alternative markets are needed. SOEs, faced with increasingly limited domestic opportunities, now seek regional markets for investments. A China-led construction boom abroad also softens domestic difficulties as China transforms from an investment to a consumption-based economy (Ferdinand 2016, 951). Through greater connectivity to regional states, China seeks to stimulate economic booms across the region to create demand for its exports (Godement et al. 2015, 9). Beijing also intends to develop regional production and distribution chains to increase integration into China's economy (Brewster 2017, 281). Due to a reduction in China's comparative advantages in manufacturing, China intends to transfer low-end manufacturing to regional states and encourage Chinese businesses to innovate and become world leaders in new technologies (Cai 2017, 8).

Infrastructure development is crucial in achieving Beijing's economic goals. By offering loans and aid to partner states China adds financial power to its existing trade power (Godement et al. 2015, 2). Combined with creating financial institutions, such as the Asian Infrastructure Investment Bank (AIIB), China seeks to claim its stake in an integrated financial system and internationalise the renminbi (Clarke 2017, 75). To improve efficiencies and reduce the cost of trade, Beijing pursues greater policy coordination between participating states to reduce the obstacles to cross-border trade along OBOR routes. This includes developing free-trade zones, coordinate customs procedures, balance trade flows, and cooperation in developing new innovations (National Development and Reform Commission 2015). If successful, OBOR will enable the transformation of China's economic development and deeply integrate regional economies centred on its own.

## Implications for the Australia-China Relationship

The importance of the link between politics and economics is not lost on China's leaders. They believe, and arguably have proven, that economic growth is essential to quell domestic dissent and maintain power (Clark 2017, 73). With CCP legitimacy under threat from a slowing economy and perceived US belligerence, Beijing seeks to counter this trend by expanding its successful domestic policies into the region. Through investments and greater interconnectivity, Beijing hopes to create a regional boom that is centered on China (Godement et al. 2015, 9). With increased regional dependencies on China markets for economic growth and leadership, Beijing can reward its friends with greater access to its markets and punish unfriendly states with isolation (Callahan 2016, 232). To maintain friendly relations, regional states will need to accept Beijing's new institutions and norms of conduct. If successful, OBOR will remodel the geopolitical reality and place China as the regional hegemon (Rolland 2017, 127).

Critics believe that OBOR projects only serve China's interests, and that projects pay little attention to return on investment (Deboonme 2016; Godement et al. 2016, 10). The geopolitical tilt of infrastructure projects has meant that Beijing is willing to lose money to achieve longer term goals. Competition with Japan over high-speed rail projects in South-East Asia has allowed these countries to demand extraordinary deals, but at what cost (Wihtol 2017)? Chinese projects have seen Sri Lanka fall victim to Beijing's "debt-trap diplomacy" by accepting large debts for infrastructure that lay largely unused. Unable to repay the loans, China increased its influence in the country and has bought an 80% control in Hambantota port, which could be used for naval vessels (Chellaney 2017). Australia's decision to not sign up to OBOR and judge each project on its merits seems like a responsible choice, but this is not without political risks ("Australia receptive to China's One Belt, One Road" 2017).

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Australia's strategy of keeping China as its biggest trading partner and the US as its security guarantor evidently antagonises Beijing. Chiding Australia for its redundant Cold War thinking, Chinese delegates at the Australia-China Forum in 2013 warned that the US-Australia alliance was now affecting Beijing's core interests (Hartcher 2013). Despite reassurances by Prime Minister Turnbull that Australia and the US are "joined at the hip" regarding the ANZAS Treaty, this national identity may be tested (Murphy 2017). China frequently plays divide-and-conquer tactics to cause dissent amongst allies. In Europe, OBOR investments has caused cash-poor Greece to block an EU statement to criticise Beijing's crackdown on political dissent, and now openly supports China's claims in the South China Sea (Bremmer 2017). Greece's European identity and US military might are evidently no match for China's money.

As OBOR investments and institutions continue to attract international support and challenge US hegemony, Australia will face increasing pressure to accept China's demands. In response to Australia's support of US efforts in the South China Sea, one Chinese commentator suggests that China should seek alternative sources of raw materials to better secure supplies and teach Australia a lesson about national interests (Kai 2012, 45). Beijing wants to maximise its regional influence while maintaining stability, so is unlikely to risk war (White 2010, 20). However, if Canberra continues to view China as a military threat and oppose China's national and international interests, it is likely China will punish Australia with sanctions and isolation as its regional influence increases (Callahan 2016, 232). US firepower will not save Australia from sanctions. If OBOR is successful, to avoid isolation Australia will need to defer to Beijing's values, rules, and norms and support an authoritarian regime that is ideationally different (Rolland 2017, 137). Australia's own values will come under threat as Beijing's crackdown on human rights and freedom of information will extend to within Australian borders (Varrall 2015, 15). OBOR is more than a giant infrastructure project, it sets to rebuild the regional order in Beijing's image.

## Conclusion

Using IPE to understand Beijing's motives, China's OBOR initiative is clearly a sophisticated strategy that potentially solves several of China's economic and political dilemmas. Geopolitically, China seeks to undermine US hegemony and reorder the region according to Beijing's preferences and norms. While circumnavigating the Malacca Straits to secure access to resources, China stabilises friendly authoritarian regimes and challenges European democracies through greater interconnectivity and economic reliance on China's investments. Economically, China uses its comparative advantages in infrastructure construction that creates demands for its products and excess capacity, to boost its own economic growth and secure the CCP's survival. The construction and financing of infrastructure, as well as building regional production and distribution supply chains, integrates regional economies into China's own markets and opens opportunities for greater political influence as other states become reliant on China for economic growth. For Australia, choices come with risk. Choosing to participate in OBOR risks exposure to Beijing's coercion tactics to accept illiberal rules, while keeping out of OBOR risks becoming isolated within the new regional architecture. Since US hard power will not protect Australia's economic interests, Canberra should continue to engage in OBOR talks with caution and seek ways to influence outcomes that protect international norms and mitigates overt CCP power grabs.

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*Written by: Andrew Allsopp*

*Written at: Curtin University*

*Written for: Chris Ryan*

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