

Student's Name

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Course

Date

The Belt and Road Initiative of China

The America first protection measures taken by President Trump would make the United States become a more closed economy as border taxes makes exports expensive. Globalization has made economies, and people become more connected in trade and cultures. China as the second largest economy in the world is stepping up to fill the gap that would be left if the United States carry on with its trade protectionism measures (Cai para. 2). The Chinese idea is to make business easier for interlinking countries over land and sea through what is referred to as one road one belt initiative. The paper will discuss the economic benefits to Russia once the road and belt initiative is rolled out.

The road and belt initiative seeks to connect Asia to Europe, Middle East, Southern Asia, Western Asia, and Africa and so on. The idea of the initiative is to spur economic growth in the countries along the corridors through massive infrastructure investments. Importantly, China will bankroll the project estimated to cost a minimum of a trillion dollars. The overland connection will see rail and road being constructed to connect Asia to Europe (Cai para. 3). Importantly, along with the route, industries will spring up helping to spur economic growth along the routes. The maritime route aims at connecting China to Indian by investments in Pakistan linking to the Persian Gulf, Sri-Lanka, Myanmar among others (Swaine 1). Importantly, the routes will connect China to African market which is seen as the next frontiers in trade and investments. In addition,

Africa will become a major source of raw material for Chinese industries hence the maritime route.

Unlike the Western countries that have largely been skeptical about the transport initiative, Russia has welcomed it with open arms. Notably, Russia has been under Western-imposed sanctions over its annexation of Crimea, a territory claimed by Ukraine. The diplomatic deterioration between Russia and the Western countries has been detrimental to its economy. The significant export products are oil and gas. Unfortunately, there has been a declining in the global oil prices, and this has had an adverse impact on the Russian economy. Cutting its reliance on trade with the European Union could allow Russia to weather down effects of Western-imposed sanctions in future reducing their impacts on the economy (Wei 3).

The unfriendly and often tense relationship between the Western countries and Russian could be the primary driver of China to seek alliance in a trade with the Asian giant. Importantly, the trade route could allow Russia to develop its region in the east that has suffered under economic slump due to sanctions (Wei 5). The president of Russia has shown unwavering support for this project since its presuppositions. Therefore, it would be logical to say that the corridor will positively affect the Russian economy.

The coziness between Beijing and Moscow is not only about the trade but also against what it sees as United States hegemony in the area. For example, United States enjoys close ties with Japan, South Korea, Malaysia, Vietnam, Philippines, and Australia. Therefore, by connecting these allies of the United States through trade route, Beijing is trying to assert its influence as the economic giant in Eurasia. Russia has military might that is necessary for maintaining strategic balance and deterring United States possible military intervention in the

region (Wei 7). Importantly, the trade route is meant to create dialogue and peaceful resolution to the problems plaguing the area such as the Southern China Sea and so on.

Cost of transporting goods from China to Russia

Three methods are available from which to choose from on the mode of transporting goods either from Russia to China and vice versa. In the first, a method is a sea where cargo is loaded into ships and dropped at Vladivostok, from there it goes by train to reach Moscow. Approximately, it takes about 30 days to transport cargo through this method from Beijing to Moscow (Swaine 9). Significantly, the method is the cheapest one of all. The other method is to use the existing rail to transport from China to Russia. However, while on the Chinese side the rail is high speed, on the Russian side it is not. Therefore, goods take on average five days to reach Moscow from Beijing.

The delays in the delivery of the product are very costly to firms. Efficiency can be achieved if the road and rail network system were improved, precisely what the one road belt initiative seeks to improve. The study suggests that the network will be able to reduce the cost of transport along the corridor by more than 30%. Such slashing in costs of production such as transportation can improve the price of goods making them affordable.

Effects on Russia Economy

Vladivostok is Russian town located on the border with China. Russia has large vast of arable land in the border frontiers. In fact, most of the industries located in the Vladivostok sources their raw material from China and exports there or take them to Moscow. One major development in this area concerns agriculture (Wei 9). The Chinese population is huge (over a billion people), on the other Russia population is aging and barely reproducing enough. Consequently, large vast of arable land lies idle in the east due to lack of enough human

resources for the cultivation of crops there. The solution has come in the form of Chinese investments.

Decidedly, China has a bilateral trade agreement with Russia. The agreement has allowed China to lease land from Russia for agricultural cultivation. Consequently, areas that were economically asleep in Russia are being awakened through this kind of investments that are creating jobs for the Russians (Wei 10). Importantly, wealthy Chinese investors are also building luxury in the border towns and supporting other forms of commerce helping to spur growth in this Russian far-flung areas.

The new trade route is supposed to lessen the movement of the people and goods. As more people will be moved across the border, regions in Russia that have largely been economically dormant will be activated. Such economic improvements of the areas will improve the overall financial performance of the Russian economy.

In 2015, the Chinese outbound tourists reached 100 million people (Swaine 12). The majority of the tourists visited places such as Madrid, Rome, and Paris. The most of the journeys were made by the planes. Under road and belt initiative, high-speed rail will be built to connect Asia with Europe. Consequently, many more people will prefer to take a train journey due to affordability and adventure it offers. Russia stands to gain a lot from this improvement in transport. Many of the visitor's Chinese visitors and probably those from other parts of Asia using the train will spend some nights in hotels rooms in Russia (Wei 12). Consequently, the tourism industry, a significant employer will improve due to increased number of arrivals. Importantly, the higher number of arrivals will also spur growth construction sectors as new hotels will be built to accommodate the high numbers. It could be the case that the visitors will attract investments from other businesses operating in the Western Europe. The new investments

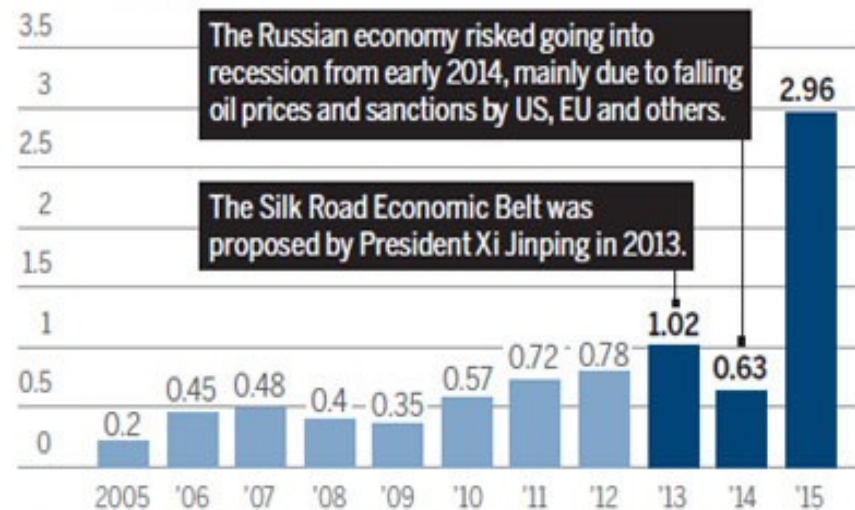
will help improve the economic performance of the Russia economy (Wei 13). Therefore, the road and belt will substantially transform Russia service industry, creating more employment opportunities.

A belt that binds China and Russia

The agreement to coordinate the Belt and Road Initiative and the Eurasian Economic Union has launched activities by the two countries to improve regional connectivity.

CHINESE FOREIGN INVESTMENT IN RUSSIA

Aside from a drop in 2014, investment has risen dramatically.
(Unit: billions of US dollars)



Sources: The Ministry of Foreign Affairs; General Administration of Customs

BILATERAL TRADE

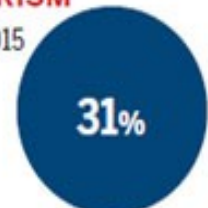
China has been Russia's largest trading partner for the past six years. In 2015, bilateral trade volume reached \$68.06 billion. From January to May last year, bilateral trade volume reached **\$25.8 billion**.

RISING TOURISM

Compared with 2015



More than **1 million** Chinese visited Russia in 2016



More than **1.18 million** Russians visited China in 2016

CHINA DAILY

The chart above provides a clear look at the improvement in investments between these neighboring countries since the one road belt proposals were laid down by China president in 2013 (Wei 14). Until, 2013, the investments of China in Russia had always been below a billion dollar. However, with the initiative, the investment hit a billion dollar mark in 2013 and is growing to reach close to three billion dollars in 2016 (Swaine 14). Therefore, if the economic data provided by the chart is anything to go by, the project has aroused the interest of Chinese

investors in the Russian economy. One can only expect that once the project is fully implemented, the numbers will keep soaring up (Fallon 147).

European countries such as Germany have always been Russia biggest trading partners. However, strains brought about by sanctions of war in eastern Ukraine led to a slump in trade. Since then, China has replaced the European countries as Russia biggest trading partner. For instance, in 2015, the bilateral trade between these two countries was \$ 68. Billion (Wei 17). The new road will bring nothing less than the improvement in trade. Importantly, it will allow goods and people to be moved around more quickly thus improving the volume and value of the business.

Like mentioned earlier, tourism between China and Russia is growing. The chart above shows that arrivals in either country are closely matched. The potential is enormous considering the Chinese expanding middle class (Fallon 141). No doubt that the road belt initiative will improve the tourism numbers for either country.

The high-speed rail connectivity between these two nations, however, poses a danger to the air transport. For example, the majority of the people visiting either China or Russia went by planes. The rail will offer a cheaper alternative (Fallon 141). Consequently, the airline passengers' numbers may reduce. It is also possible that the airlines can compensate by increasing the frequency of trips to other popular destinations.

Another aspect of the transport corridor is that it could turn Russia into a major transportation hub in the region. Sitting in the middle of Europe and Asia, Russia could facilitate the movements of people between the two continents. Being a logistical hub, Russia will stand to gain from increased taxes and other forms of revenues that could be used to support other sectors of the Russian economy. Important to note, industries and industrial parks will be sprung up

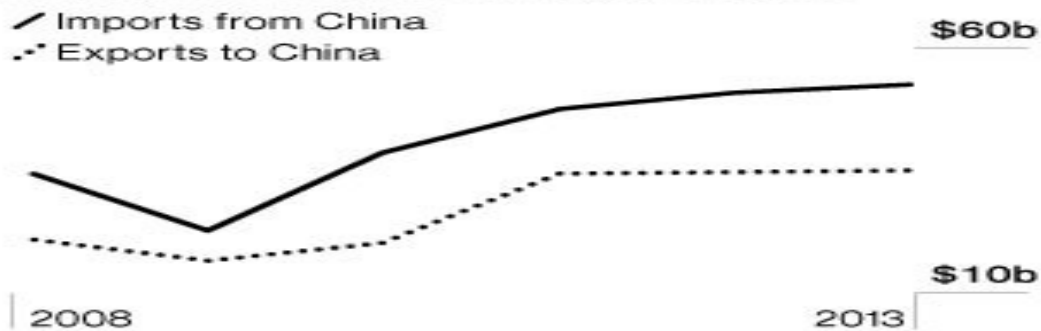
along the route to support manufacturing of goods. For instance, Chinese investors are already constructing an industrial park at Yekaterinburg to attract Chinese light industries to relocate to these Russia (Wei 19). The growth of manufacturing along the corridor will be particularly beneficial to Russia. First, it will allow Russia to expand its industrial capacity which obviously is incomparable to the Chinese one (Swaine 16). In addition, it will introduce Chinese manufacturing technology to Russia, and this might be necessary for improving productivity and efficiency of the Russian workforce.

Initial data shows that Russia eastern areas received close to \$ 16 billion as investment from China (Cai para. 7). The majority of the investments went into cement production, metal extraction, road construction among others. It should be noted that these are just initial stages of the implementation of the project. Therefore, as the implementation of the project progresses, the level of Chinese investments will keep improving.

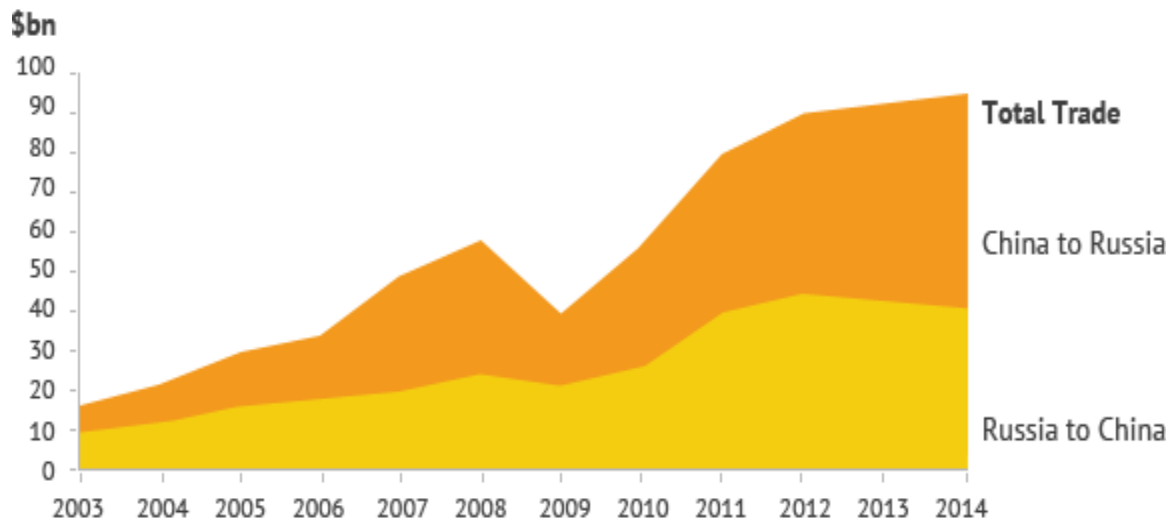
The graph below offers another chance to look and predict how trade between Russia and China will grow from the increased cooperation in the area of infrastructure and business. The value of the Russian exports to China was estimated at \$ 60 billion in 2013 (Wei 24). Remarkably, the value of the Chinese exports to Russia remained flat. The majority of the export commodities to China from Russia are energy related including oil and gas. The graph shows that the imports from China were a meager 10% (Swaine 19). What the figure indicate is that Russia has little significance as an export market for Chinese goods compared to Germany, United States among others who are the major trading partners of China. Peculiarly, the value of Chinese exports to Russia only accounted for 2% of the total import value. However, the potential for growth is immense. For example, since 2013, the onset of the one belt one road initiative, the total trade volume has grown close to \$90 billion. Importantly, the exports and

imports from either country seem to be balancing in their values. Experts expect the value of trade between these two countries to reach \$ 200 billion by 2020. No doubt that the transport corridor will help push the value of commerce between the two nations higher.

Russian Trade With China



GRAPHIC BY BLOOMBERG BUSINESSWEEK
 DATA: FEDERAL STATE STATISTICS SERVICE



China intends to heavily invest in satellite communication for the countries that will be covered by the trading route. In some respect, Russia is a leader in space technology being among the first countries to send a man into space. Therefore, the trade route may bring about investments in space technology through cooperation. Importantly, such joint venture could jumpstart Russia's space industry which seems to be lagging behind the United States and other

Western countries (Fallon 144). In essence, the Chinese will bring the much-needed capital while the Russians will provide technical support in the implementation of the projects.

China is a leader in the high-speed rail technology. Majorly, its bullet trains are among the fastest in the world. On the other hand, Russia has little experience to none in the development of high-speed rail. The project offers an opportunity for skills and technology transfers. If the Russian firms are enjoined in the project, they will gain crucial skills and techniques in the making of high-speed rail. Consequently, the technology can be applied in extending the networks to cover larger areas (Fallon 145). Russia will stand to gain immensely from knowledge and skills transfer, or rather improve its human development index which is central to improving the productivity of the employees. A highly skilled workforce will improve the productivity of the Russian workforce and the efficiency in Russia industries.

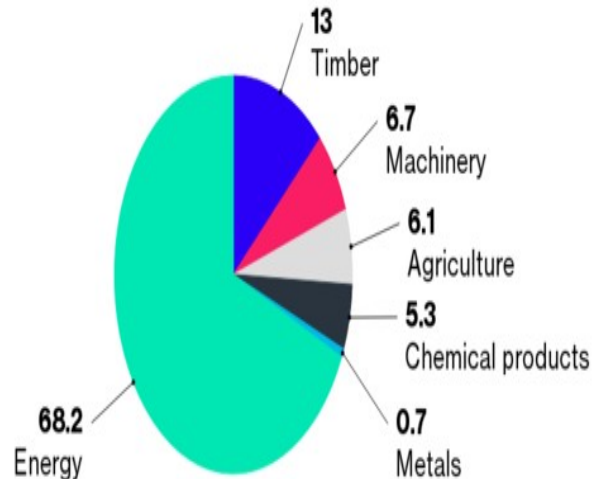
The project does not involve roads and rail alone, and power transmission lines are also included. The arrangement will allow Russia to export excess energy to China. Currently, Russia exports electricity to Finland who industrial capacity is comparatively smaller than China. Therefore, China will offer a large market for Russia to export its electricity, not only to China but any other country that is part of the project (Fallon 145). Equally, China can also export excess energy to Russia eastern region. The interconnection by roads, rail, and power, will allow the two countries to expand their trading volumes.

China is offering the loans for the development of the belt at considerable economic interests. It is possible that Russia may negotiate deals with China to fund other infrastructure projects in the region. Notably, the Russia debt to GDP ratio is small compared to countries such as the United States (Winter para.4). Therefore, it may borrow more from Beijing under bilateral

arrangements to improve the capacity of its infrastructure. Such developments may improve the economic performance of Russia and probably help it to diversify its economy further.

Russia Wants to Boost Food Exports

Fish, soy, sunflower oil and chocolate are Russia's top food exports to China



Source: Economy Ministry data for Jan.-Nov. of 2016, Russian export center

Bloomberg

The pie chart above illustrates the Russia export products to China. Energy remains the greatest export product of Russia to China. However, the slump in the oil prices has reduced the value of exports to China. One area that promises the growth for trade for Russia is agriculture. The country exports wheat, sunflower, fish to China (Fallon 145). However, application of technology has helped the China to boost its production of soybeans and wheat. Therefore, reducing the demand for import from Russia. Principally, China has a big pork market which can be supplied by Russia. However, Russia pork was banned from export to China after swine flu was discovered in some regions. Dairy products have a huge demand in China, Russia can increase its supply of dairy products to Chinese market (Winter para.7). The idea is to diversify the export product to China and ease the overreliance on energy exports mainly oil and gas.

Therefore, Russia expects that the corridor will create a free trading area. Consequently, Russia will expand its value of agricultural export to China. Therefore, the one road one belt initiative may spur the growth of Russia agricultural sector.

In anticipation for improvement in trade, several Chinese companies have been looking for a joint venture with Russian counterparts in the agricultural sector. It is possible that the trade route will increase the concentration of processing plants along the corridor. Importantly, China will also look at the project as a means to exports excess industrial goods. For example, along with the route and in places such as Vladivostok Chinese companies have been setting up smelting plants (Winter para.8). Mostly, the trade route will open up the Russia mining industry to investment by the Chinese companies.

Timber is another commodity that gives export growth exports to the Chinese economy. Conspicuously, Russia has vast tracts of forests cover. On the other hand, demand for timber in China is high driven by the demand for exquisite wood products. Russia can use the new trade route to expand the value of timber exports to the Chinese market (Fallon 146).

The benefits of the transport corridor will transcend trade with China. The transport path which also connects Russia to Turkey can expand the exchanges between these two countries. Turkey is among major export market for Russia wheat and other cereals. The transport corridor will increase the value of commerce between these two nations. Significantly, the corridor improves the connectivity of Russia to the European Union a key trading block of Russia (Lim et al. 16). Consequently, Russia may increase the value of export to the European Union, especially Germany a key trading partner for China and Russia. Therefore, in a big way, the trade route will boost the Russia trade with China.

Estimated transport benefits

Tianjin is a major industrial city in China and which ships large quantities to Russia through Mongolia. Using the current railroad, it takes more than ten days. The longer the time taken to transport cargo, the higher it costs. Since the train on the one road one belt initiative is expected to be faster, the time could reduce by more than two-thirds. Reduction in time taken to transport cargo is directly proportional to the cost. Therefore, it would be expected that the cost of transporting a 40-foot container will drop by about 66% (Winter para.9). The benefits of will go to the consumer in the form of lower prices of goods.

One existing problem in the current system is goods transfer. For example, goods from China brought by trucks are often moved to Mongolian trucks once they reach the border. On reaching, Russia the containers are loaded into Russian trucks. Cumulatively, these transfers increase the delays in delivering goods and also the costs by at least 10%. The new initiative is expected to promote open borders and cut these bottlenecks allowing for smooth and faster transfer of goods throughout the region.

The same case is observed with the rail network where the Chinese side is high capacity while on the Russian side is meter gauge and small capacity. Therefore, goods have to be transferred to Russian wagons at the border, and this increases the overall cost of goods and the profitability of the transport business (Winter para.10). The standard for the new initiative will be the same allowing for seamless transport, such that a train can start at Tianjin and stop at Baikal without having to undergo re-loading.

The Chinese traders import fresh fish from Lake Baikal. However, the fish take more than ten days to arrive, this increases the costs regarding refrigeration and the transports. Consequently, the volume of trade is reduced, since demand and supply rarely match (Fallon 143). If the transport is made faster, the fish will reach Tianjin faster thus allowing the Russians

to sell more fish to the Chinese and at the same time, Chinese buy them at a lower price.

Therefore, the economic benefit of the one road, one belt initiative is undisputed.

Another factor that causes delays in the transport of goods between the two countries and increases costs of goods is border clearance charges and time taken for the approval. The new initiative is cognizant of these bottlenecks in transport and roots for electronic customs clearance to speed up the transport of goods.

New oil and gas pipeline is already being constructed as part of the one belt one road initiative. The goal of the pipeline is to reduce the cost of transporting oil from Russia Siberia region to China Tianjin and Nanjing regions. Therefore, Russia will be able to pump more oil to China and supply more gases thus increasing the earnings and improving the economic performance of the country. Therefore, the initiative will benefit Russia economy concerning oil and gas revenue, a major export commodity of Russia to China (Fallon 143). Similarly, the pipeline will cut the cost of transporting the product thereby making oil and gas cheaper in the Chinese market, good for industries and motorists.

Ultimately, transport by new high-speed rail will make products reach the destinations in Russia and China because it is faster than ships but cheaper than air. The new logistics hubs along the lines will stimulate economic development in the Russia underdeveloped eastern region.

On average, it costs about \$ 6870 to transport a 40-foot container from Shanghai via Vladivostok to Moscow and takes roughly 30 days by road and rail (Fallon 144). However, the belt and road will cut the time to just ten days, the reduction in the cost is estimated at 40% (Fallon 144). Therefore, China and Russia will be able to export or import more at lower prices. Another route often used to deliver goods to Russia from Shanghai is via Novorossiysk and take

on average about 40 days for goods to arrive at the cost of \$ 5540 (Fallon 144). Again, the same forecast is made on reduction in the time and subsequent drop in the price.

The Shanghai-Ust-Luga to Moscow routes uses a multimodal approach to transport utilizing both rail and road. It takes about 43 days to deliver goods using this route and costs \$ 5225 for a 40-foot container (Cai para. 14). The new initiative insists on seamless transport that is expected to cut transport time by more than half this route. The consumers will enjoy the benefits of lower costs in either country.

Mainly, the road and belt initiative has a historical background as well. It is reminiscent of the old Silk Road that revolutionized trade. With all the cash that is involved in rolling out the project, it is only logical that economic analysis is carried out to determine exactly how each country along the corridor will benefit (Winter para.9). Importantly, the initiative has already faced resistance from major players in the region such as India which sees the efforts of the China as nothing more than gaining political influence in the area. Other criticisms have come majorly from Western countries who presumably see China as using its economic might to compromise territorial integrity and sovereignty of the states along the route (Cai para. 7).

The Chinese economy over the past three decades has been growing by double digits. However, in the recent past, the economy has been performing below 10% (Swaine 8).

The slowdown of the Chinese economy has been a concern to the global economy. It is because

China is the biggest trading country in the world, its participation in the global trade and potential disruption due to the slowdown cannot be underestimated (Cai para. 15). On the other hand, the Russian economy has been on doldrums. The massive infrastructure proposed by China may help jumpstart the Russia economic engine. Equally, the project will find a new market for Chinese firms, for example, more Chinese companies may be more involved in overseeing

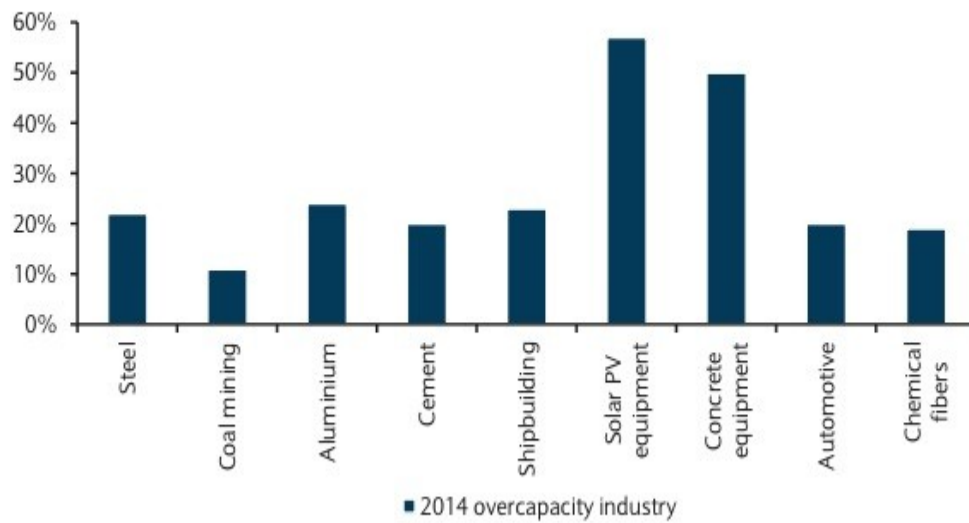
construction projects (Fallon 146). The program will also allow China to deal with the problem of overcapacity in the cement, steel, and other metals. Usually, a project of this magnitude often involves massive

China would not invest in a project that would earn little economic returns, therefore, valuation of the project to determine its profitability has been done upwards. The major motivation of the project is to connect China to the European Union a key trading partner of China (Cai para. 16). Russia stands to gain a lot from its strategic location, for example, the trade route may open up the Russian economy for more investment by Western nations including the development of assembly and manufacturing plants along the trade route.





FIGURE 15
Average overcapacity reached c20% in China in 2014



Source: Bloomberg, Barclays Research estimates

Industrial overcapacity is a major concern in the Chinese economies. The decreased demand for cement and steel due to China declining construction sector has made excess steel,

glass, and cement to lie idly (Lim et al. 29). Notably, overcapacity is very costly to businesses as they are unable to recoup their investment and increase trade. The project may spur construction boom in Russia as new trade centers and cities crop up along the route. Consequently, China will be able to utilize the excess cement and steel through the project.

The one belt one road project could be the answer to tackling part of the China overcapacity problem. Evidently, China is initiating the large infrastructural projects to spur up the demand for cement and steel. For example, the project will consume tons of steel and cement. The Chinese companies, therefore, have a chance to utilize part of the steel and cement that is lying idly in factory warehouses (Lim et al. 29). The possibility that China could use the excess steel and cement to lower their prices and make other companies from the countries covered by the project uncompetitive is a growing concern. For example, China has not openly laid out the conditions for granting the loans for the countries that will be covered by the project (Cai para.18).

In conclusion, one road one belt has been billed by the Chinese government as the Silk Road of the 21st century that aims to connect countries for trade through rail and roads and maritime networks. Among the countries that expect to reap big by its participation in the project is Russia. Notably, the project will open up Russia under-developed eastern areas for trade and investments spurring economic growth. In addition, Russia will increase its value of exports to China and help weather down economic storm brought about by sanctions placed by the European Union.

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