

## Geo-Economics behind BRI

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**ABSTRACT.** *When the economic growth meets with political activity, those two elements will always create geo-economy. The geo-economy has many basic contents, this paper will focus on one of them: provide theoretical basis for national strategy, regional economic and cultural development strategy, and provide comprehensive theoretical basis for economic, cultural development, design and planning. This paper will show why and how China tried to develop international economic opportunity, and to gain more international influence in these world trade relations.*

**KEYWORDS:** *BRI, Geo-Economic*

The Belt & Road Initiative is based on the idea of Silk Road. The Silk Road was an ancient land-based commercial trade route that started in ancient China and connected Asia, Africa, and Europe. The original role was to transport silk, porcelain and other commodities produced in ancient China. Later, it became an economic and political route between the East and the West. In the modern world, China has become one of the important economic factors. China has a huge market and is also a productive factory. China is a well-known developing country, over the past 30 years, China has made great achievements in reform and opening up. At the same time, there are also problems such as not paying attention to improving the international development environment. It is urgent to strengthen the system integration of reform and opening up measures in all aspects. Understanding the current dilemma in China can better help readers understand the purpose of the Belt and Road Initiative.

Although China has made great progress, there are still some factors that are unfavorable for China's development. The first factor is that China faces excess capacity, excess foreign exchange assets. Overcapacity means that if the capacity to produce products is saturated, the products produced will exceed the capacity required by society. In the past 3 years, China has been developing itself in a fast speed, its rapid growth has shocked the world. But a huge increase in supply will always outnumber demand. That leads to a serious problem. A article shows that In 2005, due to overcapacity and slower demand growth, steel prices fell sharply. Compared with the highs in March, steel prices fell by more than 30% by the end of October. At the same time, the profitability of many enterprises in overcapacity industries has declined significantly. In the first 10 months, the profit of the steel industry increased by 11.2% year-on-year, which was 52.2 percentage points lower

than the same period last year. In August and September, profits showed the first negative growth in nearly six years; The monthly profits of the cement and automobile industries fell by 60.6% and 36.7% year-on-year, respectively. Since March, the sales rate of industrial products has experienced a year-on-year decline in five months. Among them, there has been a three-month decline from August to October, with an average decline of 0.64 percentage points in the three months. At the same time, corporate inventory increased significantly. From January to September, the inventory of finished products in 16 of the 39 industrial industries increased by more than 20% year-on-year, of which the inventory of finished products in the steel, petroleum, chemical and chemical fiber industries increased by more than 30% year-on-year. The loss of loss-making enterprises has increased, and the scope of losses has expanded. In the first three quarters, the loss of loss-making enterprises was 153.17 billion yuan, a year-on-year increase of 57.6%. Among them, the loss of loss-making enterprises in the steel, petroleum processing, and chemical fiber industries nearly doubled or more than doubled. From January to October, the loss of industrial enterprises reached 22.37%, an increase of 0.41% over the same period last year. ("Challenges to Test China's Economy" 1). The excess liquidity in China is due to the fact that the export value and its growth rate are far greater than the import value and growth rate. China's foreign trade continues to have a surplus, resulting in a large amount of foreign exchange income. Under the foreign exchange settlement and sale system, exporting companies settle foreign exchange earnings to relevant banks. After ensuring the normal turnover of foreign exchange, these banks sell a large amount of foreign exchange in the foreign exchange market, and most of these foreign exchanges are finally purchased by the central bank. The formation of national foreign exchange reserves. However, the central bank's purchase of foreign exchange means that it has put money into the financial system, leading to a substantial increase in base currency.



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The second factor is that China's oil and gas resources and mineral resources are highly dependent on foreign countries. In recent years, the output of China's main mineral products has declined or the growth rate has slowed, the development of some strategic emerging minerals has been relatively lagging, and the degree of dependence on some important minerals has continued to rise. China has surpassed the United States to become the world's largest crude oil importer. The cobalt, nickel, lithium and other minerals needed for the development of strategic emerging industries are highly dependent on foreign sources and concentrated in imports. With the recovery of international mineral prices, the cost of China's mineral imports has risen sharply. (Zhu 3). In 2013, the foreign dependence on oil and natural gas reached 58.1% and 31.6% respectively. China has become the world's third largest consumer of natural gas. It is expected that international oil prices will fall slightly in 2014, and the gas price gap between the United States, Europe and Asia will continue to shrink. China's oil demand growth rate will pick up slightly, and natural gas demand will continue to grow rapidly, accounting for 6.3% of primary energy consumption. The apparent consumption of petroleum and crude oil for the whole year of 2013 reached 498 million tons and 487 million tons, respectively, an increase of 1.7% and 2.8%, respectively, and the growth rate was 2.8 and 1.7% lower than that in 2012. The degree of dependence on foreign oil was 58.1%, basically the same as the previous year. The demand for natural gas increased rapidly in 2013. It is estimated that the metered consumption in 2013 will reach 167.6 billion cubic meters, an annual increase of 13.9%. The proportion of primary energy consumption will rise from 5.4% in the previous year to 5.9%. Imports of natural gas reached 53 billion cubic meters, and the degree of foreign dependence reached 31.6%. In terms of production, China's crude oil production increased steadily in 2013, estimated to reach 210 million tons, an annual increase of 2.1%; conventional natural gas production was approximately 117 billion cubic meters, an increase of 8.6%, and shale gas production is expected to be close to 200 million cubic meters; overseas oil and gas equity production Over 110 million tons, an increase of more than 10% before 2012. The report predicts that the growth rate of oil demand in 2014 will be around 4%, reaching 518 million tons. The net imports of oil and crude oil will reach 304 million tons and 298 million tons respectively, an increase of 5.3% and 7.1% over 2013, and the degree of dependence on foreign oil will reach 58.8%. The market supply and demand of natural gas will still maintain a close balance. It is estimated that apparent consumption will reach 1.860 billion cubic meters, an increase of 11.0%, and its share in primary energy consumption will increase to 6.3% (Liu 2). With a huge demand for natural resources, it is better to keep a healthy trade environment internationally.

The third factor is that China has showed the world its potential and its growing power, and that makes lots of countries to reconsider their relations with China and policies. Meanwhile the US and other western countries are blockading goods, especially those goods that contains high tech, and isolating China in many international cooperation. Because they feel that they are being threatened by China. Compared with China, European and American countries have a great say in the

international trade market, making China's foreign trade more complicated. In this international environment, China has to try to open up a new trading system to get rid of the passive situation and develop more opportunities to avoid greater losses in the inherently unfavorable trading environment. In order to find more opportunities, improve the relations with other countries, and to build a relatively friendly trading environment, China has proposed two grand strategies: the strategic conception of the Silk Road Economic Belt and the strategic conception of the 21st Century Maritime Silk Road Economic Belt. Together they are called "Belt&Road Initiative".

The Maritime Silk Road Economic Belt has a main purpose: transportation of energy such as oil and natural gas. The ultimate goal is "With key ports as nodes, we will jointly build a large, smooth, safe and efficient transportation channel; strive to strengthen the perfection of regional infrastructure, basically forming a safe and efficient land, sea and air channel network" (Huo 3). As the country that started this program first, China has made a significant progress. In 2017, the total mileage of newly completed oil and gas pipelines in China was about 7,159 kilometers, an increase of 632 kilometers compared with the number of newly completed pipelines in the previous year, and the newly completed pipelines were mainly continuation projects and natural gas pipelines (Huo 3). It also requires the cooperation from other countries in order to run a massive cooperation like BRI. According to estimates, countries along the "Belt and Road" will need to invest US\$100 million in the production of 2.88 billion tons of oil and 2.9 trillion cubic meters of natural gas before 2030, and US\$100 billion in new oil and gas pipelines of nearly 20,000 kilometers (Huo 3). Moreover, in order to ensure the safe and fair operation of this project, China has put forward several basic requirements: 1. It is required to strengthen cooperation between governments, countries along the Belt and Road to fully exchange policies and strategies for energy channels, negotiate and solve problems in cooperation, provide policy support for energy transportation cooperation, and ensure that energy channels have unified laws and policies. 2. Require that on the basis of respecting the sovereignty of countries along the route, promote the construction of international backbone corridors, gradually form an infrastructure network between Asian regions and Asia, Europe and Africa, and realize the facilitation of international transportation. 3. It is required to eliminate investment and trade barriers, build a good business environment in the region and countries, and ensure the smooth flow of goods trade. The premise is an effective energy transportation channel to promote the safety and prosperity of energy trade. 4. The Asian monetary system, investment and financing system, and credit system are required to be stable, and to build safe energy transportation and energy cooperation based on cultural exchanges and cultural tolerance. With such an opportunity, China and other countries can actively promote cooperation in the fields of mariculture, offshore fisheries, aquatic product processing, seawater desalination, marine biopharmaceuticals, marine engineering technology, environmental protection industry and marine tourism. Strengthen coal, oil, natural gas, metal minerals and other traditional energy exploration and development cooperation, actively promote hydropower, nuclear power, wind power, solar energy and other clean and renewable energy cooperation, promote the conversion of energy resources at the processing cooperation site, and form an upstream and downstream energy

cooperation chemical industry chain Integration. Strengthen energy deep processing technology, equipment and engineering services cooperation.

The Silk Road Economic Belt also has a main purpose : relying on major international corridors, supporting central cities along the route, and using key economic and trade industrial parks as cooperation platforms to jointly build new Eurasian continental bridges, China-Mongolia-Russia, Central Asia and West Asia, China-India Peninsula and other international economic cooperation. In the past five years, the total merchandise trade between my country and the countries along the route exceeded 6 trillion US dollars. In 2018, China directly invested US\$15.6 billion in countries along the route. As of the end of February 2019, the cumulative number of trains in Central Europe reached 14,000, excluding trains from China to Central Asia. As of the end of 2018, the loan balance of the China Development Bank and the Export-Import Bank in countries along the route was approximately US\$250 billion. China Export & Credit Insurance Corporation has provided more than 600 billion U.S. dollars of insurance in countries along the route (Zheng 3). Even more, over the past ten years, China's direct investment in other countries has grown rapidly. Its direct investment stock has increased from US\$1.34 billion at the end of 2003 to US\$92.581 billion at the end of 2014. The proportion of China's foreign direct investment stock has increased from 2003's 3.96% increased to 10.5% in 2014. In 2015, the total direct investment of Chinese enterprises in 49 countries along the "Belt and Road" reached US\$14.82 billion, a year-on-year increase of 18.2% (Ling 1). As the result, China and other countries have made a huge progress by working together : East Africa has the first highway, the Maldives has the first sea-crossing bridge, Belarus has its own automobile manufacturing industry, Kazakhstan has its own sea channel, and Southeast Asia is building high-speed railways. , China-Europe Express has become the longest cooperation link in Eurasia. The Mombasa-Nairobi Railway is known as the "Project of the Century" in Kenya. The railway was completed and opened to traffic, creating nearly 50,000 local jobs and driving economic growth by 1.5%. In Uzbekistan, Chinese workers and locals built a 19-kilometer tunnel in 900 days, allowing people in remote areas to cross the mountains in just 900 seconds (Zheng 5).

With all these policies and opportunities, China has gained international influences and get recognized by many other countries. As of March 6, 2019, more than 20 European countries have signed "One Belt One Road" cooperation documents with China, including 16 Central and Eastern European countries, Russia, Ukraine, Ukraine, Belarus, Moldova, Portugal, Austria, Greece, etc (Zheng 20). As of the end of January 2020, China has signed 200 cooperation documents for jointly building the "Belt and Road" with 138 countries and 30 international organizations. In 2019, the Ministry of Commerce successfully held the second China International Import Expo in collaboration with relevant departments and localities, and actively expanded imports through a series of measures such as lowering import tariffs, improving trade facilitation, and relaxing market access. In the whole year, China's merchandise imports were 14.31 trillion yuan, a year-on-year increase of 1.6%. Imports in the four quarters reached 3.26 trillion yuan, 3.49 trillion yuan, 3.72 trillion yuan and 3.85 trillion yuan respectively, and the scale of imports increased

month-on-month. Imports in December were 1.34 trillion yuan, a year-on-year increase of 17.7%, setting a new monthly import high. China successfully hosted the second China International Import Expo. A total of 181 countries, regions and international organizations participated in this exhibition. More than 3,800 companies participated in the exhibition, including 288 Fortune 500 companies and leading companies. The exhibition area increased to 366,000 square meters. More than 500,000 domestic and foreign buyers participated in the conference, and the accumulated intentional turnover was 71.13 billion US dollars, an increase of 23% over the first session. In 2019, imports from the EU, ASEAN and Latin America reached RMB 1.91 trillion, RMB 1.95 trillion and RMB 1.14 trillion respectively, an increase of 5.5%, 9.8% and 9% respectively. Among them, imports from Malaysia, Thailand, Singapore, Brazil and Russia increased by 18.8%, 8.1%, 9.2%, 7.4% and 7.5% respectively. China's imports from other countries related to the "Belt and Road" increased by 6.8%, and its share of imports increased by 2% over the same period last year (Zhang 5).

As this paper has pointed out, due to the lack of resources, the need for a good and positive international trading environment, the disadvantage in cooperation with European and American countries, and the idea of gaining influence, BRI has been proposed and implemented. And it has made significant progress so far, became one of the biggest international cooperation. It will continually create more opportunities, both internationally and financially. This world is full of great powers' competitions. Compared with aggression and snatching, win-win cooperation is a more effective way. The Belt and Road Initiative not only provides convenience for the development of the world, but also embodies the wisdom and philosophy of "harmony and wealth" of the Chinese people.

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