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## **Nowy Jedwabny Szlak jako instrument chińskiej ekspansji we współczesnej gospodarce światowej**

### **Streszczenie**

Budowa Nowego Szlaku Jedwabnego przez Chiny, nawiązującego do antycznego szlaku handlowego staje się jednym z najciekawszych zjawisk zachodzących we współczesnym świecie i może stanowić jedno z największych wydarzeń w XXI wieku, trwale zmieniając światową gospodarkę i politykę. Celem artykułu jest analiza koncepcji Nowego Szlaku Jedwabnego pod względem jego znaczenia dla międzynarodowych stosunków ekonomicznych i politycznych oraz potencjalnych zmian, które może spowodować w gospodarce światowej. W celu realizacji tematu zakłada się przeprowadzenie analizy literaturowej oraz zbadanie wpływu budowy Nowego Szlaku Jedwabnego na podstawie dostępnych oraz prognoz. Artykuł składa się z trzech części, które kolejno będą poświęcone analizie roli Chin we współczesnym świecie, koncepcji Nowego Szlaku Jedwabnego oraz jego wpływowi na funkcjonowanie gospodarki światowej.

**Słowa kluczowe:** Nowy Jedwabny Szlak, Chiny, ekonomia międzynarodowa, geopolityka, geoeconomia

### **The New Silk Road. Economic importance of China expansion in the modern global economy**

### **Abstract**

Building the New Silk Road by China is becoming one of the most interesting phenomena in the contemporary world. Its construction, referring to the ancient trade route, may be one of the most important events of the 21<sup>st</sup> century that will forever change the world economy and politics. This article aims to analyze the concept of the New Silk Road in terms of its importance for international economic and political relations and the potential changes that could result in the world economy. To understand the subject, the author is to review the literature and examine the impact of building the New Silk Road based on available forecasts. The article is divided into three sections, which concern, respectively, the analysis of China's role in the modern world, the concept of the New Silk Road, and its impact on the functioning of the global economy.

**Keywords:** New Silk Road, China, international economics, geopolitics, geoeconomics

**JEL CODE:** F02, F53, F55

### **Introduction**

Since it was first announced, the construction of the New Silk Road has become one of the most researched and discussed topics in both scientific and popular discourse. China, for years working towards the position of a superpower, systematically seeks opportunities of further expansion, the New Silk Road being one of the instruments in that strategy. The implementation of this project, due to its scale and ambition, is a unique phenomenon that rightly arouses contrasting opinions.

The purpose of this article is to analyze the concept of the New Silk Road in terms of its importance for international economic and political relations and potential changes in the global economy. To address this issue, a literature review is to be conducted and the impact of building the New Silk Road based on available and forecasts examined.

This paper is divided into three sections, which concern, respectively, the analysis of China's role in the modern world, the concept of the New Silk Road, and its impact on the functioning of the global economy.

### **China's economic and political transformation**

China has undoubtedly become one of the key players in the modern economy and politics. The rapid transformation and development of this country for years has been one of the most interesting phenomena of the modern world, astounding researchers, analysts and decision makers alike.

- Economic transformation in China is linked with the plan of ambitious economic reforms initiated by Deng Xiaoping in 1978, when the Chinese government adopted a gradual marketization of the economic system;
- the actual departure from Maoism in the economic, political, social and cultural spheres;
- opening the national economy to the world;
- building a new legal order in the country;
- restoring respect for the old Chinese culture and tradition, and cultivating ancient rituals.

In what was then a reformatory and innovative program of the "four modernizations" - agriculture, industry, national defense, and science and technology (Kowalik 2005, p. 222), economic reforms focused primarily on (Gawlikowski 2004, p. 118):

In light of no of previous experience in the transformation of the socio-economic system, these reforms were introduced gradually, initially in selected enterprises and institutions, which enabled the correction of solutions before their implementation throughout the country (Szymański 2007, pp. 184-185).

Agriculture was the first area to have been reformed. Villages underwent a process of decentralization of property rights and departure from the agricultural communal system. The overarching objective of this reform was to increase agricultural production and ensure the state's self-sufficiency in feeding the population. At the same time, special experimental economic zones were set up at that time, in which free movement of capital was allowed, which resulted, among other things, in the transfer of modern technologies and management methods to be later used across China. The first special economic zone was Hong Kong.

The industry was modernized come 1984, with the main focus on increasing efficiency and effectiveness while reducing bureaucracy and modernizing management methods. The Chinese enterprises were given a relatively broad autonomy, and the allocation of resources through the market system was enabled.

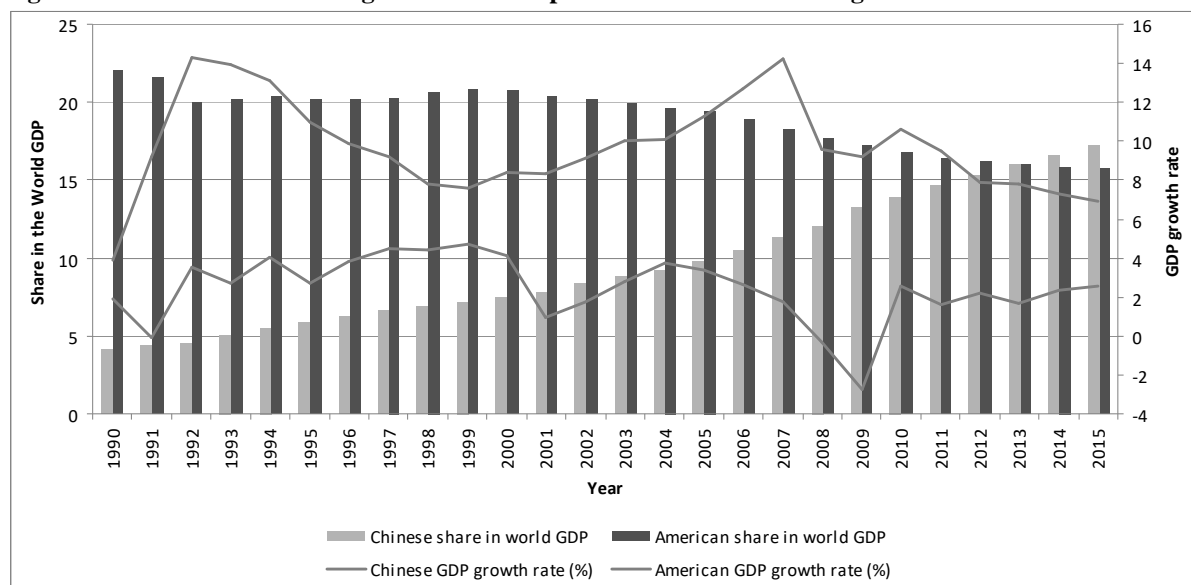
Finally, in 1991, the Chinese government decided to abandon the centrally planned economy in favor of the market system. The full market economy was to be achieved by 2000.

Such rapid changes in the global economic system had both positive and negative implications for the world. On the one hand, China has become an attractive market for rapidly growing Western countries, and on the other – a source of cheap imports and a place of production for corporations, which allowed to maintain low inflation, limit wage growth and allow domestic demand to increase. At the same time, however, negative aspects must not be overlooked: the role of China as the largest buyer of debt securities enabling the financing of budget deficits, growing trade deficits; indirectly, the increase in the prices of natural resources affecting other countries, as a consequence of the sharp increase in production and industrialization in China.

It should be noted that, to this day, it is quite problematic to try and analyze this giant - on the one hand, a huge Chinese population determines a high level of production, and thus the level of GDP. Therefore, achieving a certain GDP and increasing the share in global GDP *de facto* means reaching only the nominal leader position. Standard of living, innovation, quality of human capital and institutions in the Western world still remain several times higher than

in China. So, while this process illustrates the growth of an economic power, China still has a long way to go in paring with top-tier economies (Figure 1).

**Figure 1. China and USA GDP growth rate comparison and their share in global GDP**



Source: own study based on: *World Bank Economic Outlook*,  
<http://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx>

With that being said, it is clear that the growing interdependence and China's rising position come with as many threats as benefits. Foreign debt entrusted in China's hands can serve as a potential source of pressure and destabilization, whereas the growing dependence on Chinese goods and the increasing foreign exchange reserves in China can easily trigger a crisis and economic collapse in the entire Western world. China's production of increasingly sophisticated goods and the tendency for Chinese corporations to acquire well-known brands and cooperate more closely with modern technology manufacturers may be perceived as alarming.

Another problem is the strengthening of China's position in Europe, both through ever-bolder investments as well as the purchase of debt securities of European countries, including those of PIGS (Portugal, Italy, Greece, Spain), which may consequently make them politically dependent on Beijing. Also interesting is the progressive construction of the New Silk Road.

### **The New Silk Road as conceived by China**

The construction of the New Silk Road is an obvious reference to the ancient route, which synthetically defines the entirety of trade routes that most probably linked Europe and the Far East as early as the first millennium before Christ (Uhlig 2007, p. 6). This most famous and the most important trade route in history began to gain importance along with the progressive centralization of the then powers: the Empire of the Chinese Qin and Han dynasties and the Roman Empire controlling the Mediterranean basin, enabling the intensification of trade between East and West. Originally, the Trail ran from the then capital of the Chinese Empire - Chang'an, through the outskirts of the Takla Makan Desert, reaching Central Asia. Then, through Persia, the goods would arrive in Antioch, from where they could be distributed to other Western centers.

For centuries, the ancient Silk Road enabled not only commercial but also cultural exchange between East and West, playing an important role up until the Great Geographical Discoveries that completely reshaped the global system. The idea of the Silk Road consisted not only in prompting mutual interactions between nations, but above all in cooperation in

creating and shaping culture and civilization. For this reason, researchers believe the trail was a *de facto* comprehensive political, economic and cultural system for Eurasia, whose axis was mutual contacts (cf. Beckwith 2009).

For China today, the New Silk Road is mostly an element of geopolitical and geo-economic strategy of further expansion, and of a new world order in the future. This is closely linked with the idea of the "great renaissance of the Chinese nation" which regains significance and importance due to civilizational and cultural achievements as well as China's potential and position in contemporary international economic and political relations. China, which is not only a state or culture, but above all a great ancient civilization, feels strong enough not to imitate others, but rather follow its own path and stimulate global tendencies (see Hübner 2014, pp. 5-31). It is important to note that the New Silk Road can be as beneficial and contributive to overall development as it can be detrimental in many respects. While its very creation and construction may give rise wars and conflicts, should it become a fact, it will be a huge political and economic success – especially for China, which in doing so will get closer to the role of the actual global superpower. It is also an excellent instrument for the implementation of soft-power diplomacy, whose main objective is to build a positive image of the state as a gentle and generous power.

The initiative in question is to foster win-win cooperation as a basis for further and harmonious socioeconomic development of individual countries and global economy as a whole. To implement the assumptions outlined, individual states should concentrate on extending cooperation in the following areas (*Jedwabne szlaki ...* 2015, pp. 11-24):

- political coordination, which is the foundation for the implementation of the initiative and is implemented through intergovernmental cooperation, multi-level intergovernmental exchange.
- in a long-term perspective, the countries of the Road can coordinate their mutual strategy and policy in the field of economic development, work out plans and measures to develop regional cooperation and provide political support;
- connections between entities, which are a priority area in the concept of the New Silk Road. Countries along the Route should improve the links of their infrastructure construction plans and technical standards systems, jointly develop the construction of major international crossings, and create an infrastructure network encompassing all subregions in Asia, as well as linking Asia, Europe and Africa;
- unhindered trade - cooperation in the field of investment and trade is the most important task in building the Road, which necessitates further facilitations in terms of investment and trade and removal of any additional barriers to ensure a healthy business environment. A question that remains to be seen is the establishment of possible free trade areas with a view to unleashing the potential for mutual cooperation;
- financial integration, constituting the base of the construction of the Road, aimed at strengthening financial cooperation and intensifying efforts to create a monetary stability system, an investment and financing system and a credit information system;
- building and strengthening social bonds as a prerequisite for providing support for the implementation of the idea of the Road by the societies of the countries involved.

The New Silk Road is a unilateral Chinese initiative financed from China's national funds under the Silk Road Fund established with this purpose in mind, with a capital of about USD 40 billion and using recently founded international institutions, mainly the Asian Infrastructure Investment Bank (AIIB). In January 2015, a private energy development fund was also announced, with a plan to attract USD 20 billion in investments to the concept of the Road. Additionally, China wants to set up free trade zones with Asian and European countries, promote financial integration and create new trade belts (Kaczmarek 2015). The New Silk Road is to be divided into a land route connecting the Far East, Central Asia and Europe, and the

Silk Road on the Sea (or Maritime Silk Road), intended to approach China to other Asian countries, India and Africa.

The idea, becoming one of the key developmental concepts of the Middle Kingdom, is obviously international and supra-regional in nature, including Central Asia as the basis of the Economic Belt and Southeast Asia as the basis of the Silk Road on the Sea. It also includes Pakistan in the form of the China-Pakistan Economic Corridor (cf. Głogowski 2016, pp. 15-25). The land-based Silk Road Economic Belt connects China, Central Asia, Russia and Europe, plus the region of the Persian Gulf and the Mediterranean, running through both Central and West Asia. In addition, it links China with Southeast Asia, South Asia and India. In turn, the Silk Road on the Sea connects the Chinese coast with Europe via the South China Sea and the Indian Ocean as one route and from the Chinese coast through the South China Sea to the South Pacific as the other. The above directions constitute the area of the greatest political and economic interest of China. Nevertheless, the trail itself is not limited to Asia only, but rather connects East and West the way its ancient predecessor did. An important element of China's strategy concerns the following, broadly defined regions and transit countries: Central and Eastern Europe, the Balkans, the Southern Caucasus, Turkey and the Middle East. Beijing also plans to build a new Eurasian Land Bridge and develop economic connections of the following configurations: China – Mongolia - Russia, China – Central and West Asia, and China – Southeast Asia, based on the major cities along the Road. At sea, the initiative focuses on jointly building efficient, safe and effective transportation routes connecting major sea ports. Closely related to the construction of the Road is the establishment of the economic belt China-Pakistan and Bangladesh-China-India-Myanmar (*Jedwabne szlaki ...* 2015, pp. 11-13).

Despite these promising and astounding in ambition perspectives, one should still bear in mind the problems that China may face in the coming years that will affect the construction and functioning of the Road. The most important issue seems to be the need to change the orientation of the economy from pro-export (but also focused on accepting foreign investments) to the internal market. The persistent disproportion between investments, at 50% of GDP (and in fact driving China's economy today), and household consumption, at around 1/3 of national income (*Peddalling Prosperity ...* 2012), is problematic. Corruption and possible social conflicts that may arise in the growing income stratification of the population or in political matters are a serious problem, too - it is enough to mention the independence tendencies in Tibet and the revolts of the Uyghur people in the Xinjiang Autonomous Region. The question of possible conflicts related to civil liberties and human rights also remains to be seen. Another serious problem is the aging of the population and the imbalance in gender proportion, related both to the long-term one-child policy as well as to the historically conditioned preference of male children. Last but not least, the issues of environmental protection and the fight against pollution are of utmost importance, too (see Liberska 2010, pp. 340-346, Kamiński 2007, pp. 37-39).

In spite of all these doubts, the very concept of the New Silk Road is nevertheless extremely interesting and potentially beneficial through the intensification of trade and cultural exchange for the entire region of Central and East Asia, as well as the countries that will actively participate in this initiative. For China, the most important aspect seems to be that of expansion, strengthened hegemony and political influence in global terms.

### **Economic importance of the New Silk Road in the global economy**

The One Belt One Road Initiative, or the New Silk Road of the 21st Century, was announced by President Xi Jinping in Astana, in September 2013. Since then, the project has been carried out with great impetus by Beijing, and if it succeeds, it will have the potential to determine the architecture of international global order, including the commodity exchange system, and thus - all the institutions that form the backbone of that system.

This initiative is an emanation of actions aimed at creating a multi-polar and more balanced world, appreciating cultural diversity, based on economic and cultural exchange, as well as global and regional cooperation, taking greater account of the voice and interests of less developed countries. The construction of new trade routes in the future may have fundamental economic and political implications for project participants. It can lead to the coordination and integration of development strategies of the countries of the Road and increase the market potential of the region, while stimulating investment, consumption and global demand, thereby influencing the labor market. The intensification of social and cultural relations between individual countries is also important, with the participation in the Road, as declared, open to all entities, both countries and international institutions (*Jedwabne szlaki ... 2015*, pp. 7-8).

The emergence of the New Silk Road may transform the economic system and the global order in terms of the division of labor and its fruits. Great geographical discoveries and colonialism created and consolidated the system of division of labor, redistributing the surplus value of work and its fruits from the periphery and semi-periphery countries to the core countries. These core countries dominate by owning and controlling the most important means of production and performing tasks with a higher level of knowledge (domination in high technology products, innovation, productivity, finance and trade). China is a country that has shifted from periphery to semi-periphery (which is already a remarkable achievement given its huge population and vast territory) and is now on the way to profoundly influencing the entire global system and become a core country under an entirely new regime, unheard of in the last 500 years of dominance of the sea powers.

In the geopolitical dimension, China and its New Silk Road can reverse the effects of great geographic expeditions that brought about a world trading system that favors sea states - historically speaking, the coastal states of Western Europe and then United States. If successful, the Road can alter the relationship in favor of the land communication system linking the distant parts of Eurasia, with all implications this process may entail. In doing so, China gains access to the broadly defined West: Asia Central Europe. This is dictated by both the objective requirements of geopolitics, as well as the large financial and power reserves of the Chinese economy after the period of intense development, when China's GDP would increase by an average of 10 percent annually. The transport network connection with Europe and the European Union countries would merge the two most productive areas of Eurasia with the resource base in Africa.

As regards Russia and the countries of Central Asia, the concept of the New Silk Road is a Chinese response to the Eurasian Economic Union (EAEU) promoted by Moscow. The Chinese concept - different in principles from Russia's vision - helps defend Beijing's economic position in Central Asia without the need for open competition with Russia. On the other hand, treating Russia as an important element of the Road will certainly ease the latter's aversion towards the project. It will also give the impression of a positive-sum game that can convince Russia not to oppose Chinese projects in Central Asia. Although Russia is conceived as part of the Road, this initiative may undermine its independent plans to revitalize the infrastructure of the Trans-Siberian railway, especially in its eastern section. On the other hand, potential political, demographic and eventually economic conflicts with Russia may emerge in the future.

With regard to the ASEAN countries, the concept of the New Silk Road and its implementation will serve, on the one hand, to alleviate (even if seemingly) Chinese hegemony, and on the other to allow more effective defense of Chinese interests in territorial disputes. Investments in individual countries (e.g. a planned railway in Thailand, a container port in Malaysia) will create a lasting platform for cooperation. At the same time, the concept of the Silk Road on the Sea is a legitimation for increasing the presence of the Chinese Navy in disputed

waters and protecting sea routes, which is to be achieved using ports in Pakistan, Myanmar and Sri Lanka.

The implementation of this concept will also strengthen China's position in relation to India, regardless of whether India decides to join the project or not. By promoting the concept of the Road, China has intensified its relations with countries considered close partners of New Delhi: Nepal, Bangladesh and Sri Lanka. Nepal and Bangladesh are important for China to gain access to the Indian Ocean, bypassing the Malacca Strait. Sri Lanka or Maldives, meanwhile, can become a focal point for the Chinese Navy, allowing it to maintain a permanent presence in the Indian Ocean. By pulling India into the project, China can neutralize the latter's resistance in that respect. On the other hand, India wants to invest in port infrastructure, which may lead it to cooperate with China. If, in turn, New Delhi refuses to cooperate, then India is prone to losing its influence in the above-mentioned countries, which are willing to take advantage of potential Chinese financing.

Both the concept of the Road and its implementation pave the way for increasing China's influence in the Middle East. The idea of the New Silk Road is also a means to strengthen cooperation between China and Turkey. The New Road may become an instrument that will bring China closer together with Iran by building a belt running through Central Asia.

Europe is the most important economic partner for China. Implementation of the narrow-range Road concept - construction of infrastructure belts - will allow to increase trade turnover and boost exchange. Even partial implementation of the project will increase China's access to the European market and facilitate closer cooperation with the EU. Central and Eastern Europe can play an important role as a transit zone and a port of entry to the Western European market. This part of the continent can serve as a gateway to Western Europe, countries with sea and land ports.

The concept of the Road and its importance for Central and Eastern Europe should be included in the broader context of China's relations with the region. From China's perspective, the main advantage of the region is its geographical location. China expects that the countries of the region with open markets will be in favor of an agreement on investments and free trade areas. In addition, they could help improve and market Chinese products before their proper entry into the European market. Good relations with China and the lack of historical disputes further reduce the strategic resistance to Chinese initiatives. However, the New Silk Road may lead to competition between individual countries for investments that will be an indispensable element of the route.

To sum up, the construction of the New Silk Road may completely change the face of the modern world, directly affecting Eurasia and Africa, and indirectly both Americas and other regions. These changes can also fundamentally impact global politics and economics. Despite the threats for individual countries related to the transformation of production and exchange structures, the project in question may ultimately prove beneficial to all the parties involved.

## **Conclusions**

The construction of the New Silk Road is the largest geopolitical and geo-economic project in years. Its main objective is, simply put, to reshape the global order. For China, it is a way to expand and strengthen its influence, develop and escape from the middle income trap, building instead a society of at least "moderate well-being".

The New Silk Road presents an interesting initiative for countries that decide to participate in this project. The direct benefits arise from the intensification of trade and cultural exchange and broader integration between the participants. In the long-term perspective, changes may be observed with relation to the possible rebuilding of world order and geopolitical polarity. It should be noted that the potential benefits must be analyzed together with the potential threats associated with the reshaping and structural changes in the economies of the participating countries and possible new conflicts that may emerge in the process.

In conclusion, China's initiative is certainly one of the most important projects of recent years, and if successful, it will trigger profound changes in the functioning of the global economy and its entities.

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