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PERSPECTIVES ON THE NEW SILK ROAD AND WORLD DYNAMICS

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Abstract

Since the beginning of times that the ancient civilizations have been always stretching their boundaries and join up to form larger structures, either because of trading their surpluses or simply to defend themselves from specific menaces or warfare. The development of these infrastructural connections – across both land and sea – allowed for the exchanging of commodities, knowledge skills and ideas. The Silk Roads have been connecting the East and the West, along with its Maritime routes - also known as the Spice Routes - thus considered to be the most important exchange system that existed during the Common Era. As a result of these developments, not only commodities were exchanged but also the intellectual and religious thinking. The word globalization may be rather controversial when considered under different perspectives yet, in the traditional sense, it means that trade volumes relative to GDP might have peaked and therefore, the term globalization would very much appropriate to refer to the Silk Roads' trading. A greater global economic integration, and of course openness to the world allows countries to learn faster and therefore innovate faster and to leverage their position in the competitive environment, and to benefit from economies of scale. However, the conclusions seem not to be general. The same way trade and technological revolutions brought a great positive impact via lower consumer prices and increased availability of products and services, it is also a fact that for many countries, the negative impact of unemployment and lower wages has affected millions of people, and many times not only temporarily. This work is focused on these key historical moments worth to emphasize in order to understand the world dynamics and the futuristic perspectives on the New Silk and Belt Road. The contribution of this paper is twofold. First, that the entire discussion around the "hidden" and "suspicious" objectives of the BRI when based on insufficient or total lack of information ends up being irrelevant for the time being. And second, that based on the data and metrics provided by the BRI running projects, it is reasonable to think that the BRI might well be the engine behind a new global leadership and, on the other hand, that the Western countries seem to be lacking a global strategy and an anticipatory capacity in terms of positioning themselves - with healthy skepticism - either for immediate benefits or improved long-term projects.

Keywords: Silk Road, China, BRI, World Dynamics, Globalization, International Trade

1. Introduction

Throughout the centuries, the world has witnessed the emergence and collapse of great empires that have had a certain period of leadership over other countries and regions. These empires, independently from their political or religious point of view, and other economic and social regional variants, were able to influence dramatically the world, both in terms of socio-

economic and cultural aspects. Yet, to be more precise, there were also other great leading forces in the world - although these were never called empires - that have exercised a powerful control and sometimes overwhelming influence over large regions of the world – sometimes being led by either monarchies, emperors, oligarchies, or simply one core nation. The ascension and decline of such leading forces has been many times foreseen but it is never easy to preview it due to the intrinsic system's complexity. Aside from their leadership model, the other thing these major regional forces all have in common is that each of them focused on high-skill and capital-intensive production while the rest of the world remains focused on low-skill and labor-intensive production. This means that if we look at the historical facts we will always find innovation capacity associated with these core-nations' strategic ability to install and implement novelties before the other regions which in turn results in greater added-value and/or production surplus within a short period of time. Along with trade, transports always have been the fundamental structure shaping social and economic development. Transports allow for a greater integration between production and distribution but also between people, but probably the most important is that these infrastructure connections require for proper governance skills to enhance reliability among nations in order to allow greater efficiency in cross-border regions.

2. Literature Review

The Silk Roads have been connecting the East and the West, along with its Maritime routes - also known as the Spice Routes - thus considered to be the most important exchange system that existed during the Common Era. As a result of these developments not only commodities were exchanged but also the intellectual and religious thinking. The word globalization may be rather controversial when considered under different perspectives yet, in the traditional sense it means that trade volumes relative to GDP might have peaked and therefore, the term globalization would very much appropriate to refer to the Silk Roads' trading. The process of globalization is permanently occurring in different parts of the world. Indeed, it is quite simple to trace back the globalization process even in the millennia before the Common Era when different civilizations registered major integration through trade and by building infrastructures to interconnect with other regions. The development of the ancient Silk Road has brought an intensified and highly disputed trade by many countries in the Mediterranean Sea. But in 1498, the Portuguese explorer Vasco da Gama arrived at Calicut in India and showed that it was possible to reach India by sea. From the fifteenth century on, the maritime Silk Road will provide an intensification of political, diplomatic, mercantile and cultural exchange between Asia and the West. The emerging of the so-called Portuguese Overseas was only possible because of the developments in the art of navigation, cartography and maritime technology. By connecting the Atlantic and the Indian Oceans, Portugal established trade routes with the highly developed civilizations of China and Japan and maintained for decades a commercial monopoly of the commodities from Southeast Asia, like pepper and cinnamon among many others (Ramos Pires, 2017; Fontes da Costa and Leitão, 2008). Portuguese maritime expansion has been the key element explaining one of the longest-lived empires of the world. However, Portugal and Spain have had several disputes overtime that ended up in the establishment of important agreements like the Tordesillas Treaty in 1494, which established a division of the newly discovered and undiscovered lands outside Europe between the Kingdom of Portugal and the Spanish Crown – later this gave the Portuguese the legal claim of Brazil (Nabo and Dias, 2019). These facts explain why Portuguese language is among the most spoken languages in the world. But of course, as any other innovations introduced in the market, like the nautical techniques or the ability to know, trade and explore other regions at sea and from the sea was quickly replicated by other European countries, and soon, the Dutch Republic and England, followed by France and Denmark that started their overseas explorations. During the colonialism period, the international trade was growing in volume and varying considerably across time and from empire to empire, and not surprisingly having, during several centuries (from the 1500s to the 1800s) Portugal and the United Kingdom ranking the top in terms of intercontinental trade, in per capita terms (Costa, Palma and Reis, 2015). Europe was then a great power that held colonies all over the world. After the start of the independence

movements, during the 1990s, these European countries progressively left their former colonies; nevertheless the world had already changed a lot.

3. What is behind the “New Silk Road”?

The world is permanently changing and after almost three centuries, the colonized regions were able to start as independent nations. Regardless of the interest in any further consideration and analysis of colonialism or neocolonialism, the fact is that market forces have always led the world much more than countries or empires. Moreover, markets, in turn, are led by efficiency and profit rates. Moreover, the global economy depends largely on trade and therefore on transports, fiscal policies and financial support. If once was possible to major countries or empires to focus and dominate the leading strategic forces of the game, today the challenge is incredibly more complex.

The idea behind the “New Silk Road” or as it is widely known the Chinese “Belt and Road Initiative” (BRI) is somehow related to the idea of “China seen as the center of the Earth”. Following the victory of the Chinese Communist Party in 1949, the first priority of China has been the reunification of the country, that is, the re-establishment of the existing borders before the Qing Dynasty (1664-1911) decay and the occupation of large areas of China by foreign powers. Before the nineteenth century, China and India were the major economies in the world. However, at the inception of People’s Republic in 1950, China’s total GDP was the smallest in history, with heavy industry based in the Northeast China and somehow inherited by the Japanese, and light industry in a few port cities. On average, China had very low industrialization and a very poor peasant economy. Between 1949 and 1978, China starts an economic recovery by copying the Soviet Model and later introducing the Mao’s Model, however China registers the worst famine in human history during the sixties. Although the opening of the country and the economic reform policies that started in 1978, China’s economic development has started later on, in 1992, after a visit of Deng Xiao Ping to the Special Economic Zones in the South (Feng, 2018). From this moment on, and in a few decades, China has scored remarkable achievements in economic and social development. In a nutshell, in 2018 China is the second largest economy, it is the largest merchandise exporter and the second largest merchandise importer, the fifth largest commercial services exporter and the second largest commercial services importer (WTO, 2018). China will remain the world’s largest economy in terms of Gross Domestic Product (GDP) on purchasing power parity (ppp) basis over the next few decades while the United States (US) is second ranked and growing slow, and India is third ranked and way behind (IMF, 2018a). China is also reaching the top either for inward or outward Foreign Direct Investment (FDI) among developing countries (United Nations, 2018). FDI is critical for an open and effective international economic system and tends to catalyze development, although sometimes the benefits of it do not accrue automatically and evenly across countries, sectors and local communities.

In 2013, the President of the People’s Republic of China (PRC), Xi Jinping, announced the will to realize the “Chinese dream” and take responsibilities in deciding the rules of the world’s conceptual model of relationships. The BRI is the strategic plan of a global project in which the Chinese government planned to invest, over the next 10 years, around US\$1 trillion in infrastructure projects in different parts of the world, including Asia, Europe, the Middle East and Africa. Since the first introduction to the world of the BRI in 2013, the initial budget and extension have been expanding. Only a few years later, during the summer of 2017, China announced to the world the expansion of BRI to Latin America, in countries like Brazil, Panama and Chile, as a natural extension and that, of course, will also increase planned investments to a much higher level than \$1 trillion (Brinza, 2018).

Within the multiple interpretations of the “Chinese dream”, one of them is, of course, the reunification of China and the will to stretch its borders, even if ill-defined due to occupations that may eventually be defined as illegal. Having successfully integrated the former colonies of Hong Kong and Macao, over which China regained sovereignty in 1997 and 1999, respectively, Beijing believes that Taiwan, whose economy is now closely linked to the continent, will end accepting the Chinese territorial unification, and Tibet is another challenge. China has a mixture

of a planned economy and a market economy, which is neither defined as pure socialism nor pure capitalism. After the death of Mao Tsé Tung, the opening of the Chinese economy leaves no doubts that China is to play a relevant role in the economic, political, technological, social and cultural transformation that the world will live in since the last quarter of the 20th century, and as a result of the world economy's globalization (Nabo and Dias, 2019).

4. Conclusion

Since the First Industrial Revolution (1760-1840) followed by a Second Industrial Revolution (1870-1914), in which the electricity and the assembly line allowed for the mass production of goods and services, international trade was clearly the ignition for the economic growth in the Western countries. The Third Revolution (1969-2000) took off with industrial computing, automation developments and information and communication technologies bringing an increasingly global and complex scenario to the international trade along with completely different consequences in terms of political relations among nations. The strategic and political ability of individual states to maintain their status over time is now depending on the capacity to play in an open environment globally. The net effect of successive industrial revolutions and consequently the enhanced international trade is then seen as positive because it raised the GDP per capita globally. According to Alcalá and Ciccone (2004), there is empirical evidence that there is a causal relationship between trade and economic growth. Historians often mention two major waves of globalization, having the first wave started in the nineteenth century and ending with the beginning of the First World War, and the second wave started after the Second World War, and is still continuing according to Ortiz-Ospina *et al.* (2014).

The increased interconnectivity between people and its economic and social consequences among nation states is often due to the natural economic process that involves the global reorganization of production processes, in which various stages of the production of any product can occur in various countries, typically with the aim of minimizing costs. The pattern of international trade has changed remarkably in the last decades – today, companies distribute their operations around the world - from designing their products to manufacturing them, assembling and finally marketing them. This has contributed to the formation of international production chains, which have altered the production process and business models in the world. Indeed, the emergence of Global Value Chains (GVCs) has triggered a sharp increase in the trade flow of intermediate goods and services. The services' sector plays a central role in the operation of GVCs and international production networks - particularly in transport, communication and other business services. In this context of global interdependence, GVCs are actually regional and geographically fragmented in terms of their activities and according to the investment decisions by multinational companies. Transport costs, communication and infrastructure quality along with regional trade agreements have all contributed to creating the GVCs. The importance of GVCs will continue to grow, which is why legislators must understand their implications, especially with regard to public policy management (Stephenson, 2014).

Palley (2018) argues that the last forty years have witnessed a third wave of globalization, what he calls "neoliberal globalization", in which it took place a global reconfiguration of production. Production shifted manufacturing from developed Northern economies to developing Southern economies and that the United States (US) also shifted to running enormous persistent trade deficits, giving rise to "global imbalances". A greater global economic integration, and of course openness to the world allows countries to learn faster and therefore innovate faster and to leverage their position in the competitive environment, and to benefit from economies of scale. However, the conclusions are often controversial. The same way trade and technological revolutions brought a great positive impact via lower consumer prices and increased availability of products and services it is also a fact that for many countries the negative impact of unemployment and lower wages have affected millions of people, and many times not only temporarily (Nabo and Dias, 2019). The Fourth Industrial Revolution started almost simultaneously along with the Third Industrial Revolution, with the advent of the Internet that dates back from the 1960s. However, it is only from the 1990s onwards that

humankind is able to see the greatest changes transforming the way we do business and the way we interact. The power of individuals over digital contents keeps on growing as the proliferation of innovative gadgets produced by the ICT developments (Dias *et al.* 2011).

The remarkable advances in information, communication and transport technologies, the growing global supply chains and some governments' recognition that it is necessary to foster friendly policy frameworks governance in order to enhance corporate competitiveness are changing the economic, social and political landscape. The immediate benefits of having financial support to invest, and especially infrastructure development capable of triggering a new wave of emerging businesses and markets might well be the engine for greater economic development worldwide. China is in position to provide these circumstances in much of the developing countries and also in many of the Western countries affected by the 2008 global crisis. However, it is not as simple as many politicians and diplomats envision the People's Republic of China as a world power aiming at turning European, Eurasian, African and even Latin American countries into tributary states, depending on Chinese capital and on Chinese Governing rules from trade to digital technologies (The Economist, 2018).

The entire discussion around the "hidden" objectives of the BRI based on insufficient or total lack of information ends up being irrelevant for the time being. Although numbers do not necessarily give complete information to enable us to design the best strategy, the data and metrics provided by the BRI up until now should be sufficient for the World to design a new strategy on how to approach such fast rhythm of infrastructure investments. The world is more integrated than ever and people are indifferent whether who or which country is capable of providing improved life circumstances. We are surrounded by information, facilities and news (or fake news) all the time and that fact is here to stay. Hence, other facts or trends are to be more relevant like the established trend of the continuous and gradual decelerating growth of global population (especially in Europe) and the rapid economic convergence of the emerging markets – potentially having much to offer to the world in terms of climate, food and energetic sustainability. After the 2008 crisis, the European countries entered in a process of capitalism decay associated with economic, social and political problems with high levels of unemployment, unsustainable levels of inequality, within and across countries and social fragmentation dictating the end of the middle class workers, especially in the European Southern countries like Portugal or Spain for example (IMF, 2018b). In OECD (2017, pp. 7-8), examining social divide in Europe, it is possible to conclude that income inequality has been growing in most wealthy countries during the last decades and that the "Great Divide" pertains not only to growing gaps between the bottom and the top of the income distribution within the European countries but also to diverging trends between countries – "In the 1980s, the average disposable income of the richest 10% was around 7 times higher than that of the poorest 10%; today, it is around 9 ½ times higher". During the previous economic eras, Western companies built supply chains in places where labor costs were the lowest possible, and China was one of these strategic places. Although the West tries to meet the challenges of the new economic era, having long-term and strong capacities, it seems to be failing the expectations of civil society. These trends are being accelerated by Chinese investments worldwide and will certainly influence all nations, including China. China is already facing new challenges due to its great economic success - as China gets richer its population living standards and labor costs are getting higher. Furthermore, the world trade recovery in 2017 was mainly due to the increase in demand for imports in East Asia, however the recent reconfigurations of trade relations, following the United Kingdom decision to leave the European Union and the US trade policy actions, raises concerns about tougher barriers to trade, which in turn is already evidencing exacerbation of commercial litigation (Stoica and Sudacevschi, 2019). At the same time, as evidenced through the long list of infrastructure projects and associated need to provide related services, China has already changed the focus of their future competitive areas, namely where to source inputs, where to establish production, and where to sell goods (Nabo and Dias, 2019). China has a plan called BRI, which is rapidly being put into practice with great success; China has designed a "future"! From this perspective, it is reasonable to think that the BRI might well be the engine behind a new global leadership. On the other hand, the Western countries seem

to be lacking a global strategy and an anticipatory capacity in terms of positioning themselves - with healthy skepticism - either for immediate benefits or improved long-term projects.

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