

Sino-Swiss Free Trade Agreement – 2018 Academic Evaluation Report

中国-瑞士自由贸易协定 – 2018 评估报告

Sino-Swiss Competence Center 中瑞经贸研究中心 (SSCC)

3.2 Belt and Road Initiative – Narrative of Global Public Goods

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The last years have been characterized by a relative stagnation in global trade, and trade-supporting multilateral institutions have even come under siege. Such retrenchment is ironic in a world where information is more globalized than ever (Figure 3.3). And yet the clouds of trade wars loom large over the horizon, incidentally making of bilateral FTAs beacons of hope. The closing up to trade might be counter-balanced by potent new narratives anchored in economic, financial and technological strength. Does China's Belt and Road Initiative (BRI) have the potential and wherewithal to deliver on global public goods like increases in trade?

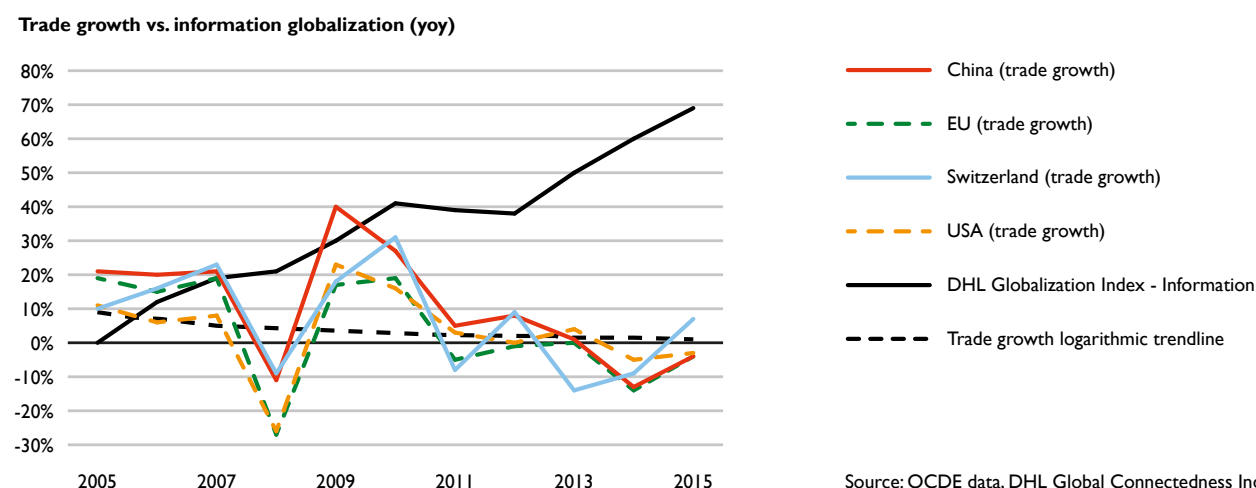
At a high-level BRI has been described as a “community with a shared future for mankind”, one that will, as per President Xi Jinping's speech, usher “Peace, development and governance”. In the West, BRI has evoked both enthusiasm and skepticism. Enthusiasm in business and finance circles aiming at BRI projects. Skepticism is voiced by those who see BRI as a unilateral story, primarily for China's benefit.

If BRI is about China's narrow interests, not rule-based and just about infrastructure projects, it will stall. Costs will skyrocket as a deal-making approach will invariably see some deals turn sour. Yet if BRI stalls, a signal of disorder would be sent to a world quite disorderly as is. Failure of BRI would put China out of the market for axial narratives for maybe decades. In the late 1430's Ming civil servants

stopped the treasure voyages, thereby sealing China's withdrawal from what would become an international system. BRI is in a way “all or nothing.” We take the position that nothing is not an option, that China is sincere, and that the world actually needs the BRI as a complementary framework to existing ones. At the same time, BRI is to be refined and improved through a steep learning curve. That is, a non-linear process implying answers to issues like those suggested below:

1. BRI advocates institutional integration as an open platform for cooperation. At present, countries along BRI do not lack cooperation mechanisms; the Asia-Europe Meeting (ASEM), the Asia-Pacific Conference (CICA), the China-Arab Cooperation Forum, the Greater Mekong Sub-region (GMS) Economic Cooperation, the Shanghai Cooperation Organization (SCO), or the Central Asia Region Economic Cooperation (CAREC). There are also 76 bilateral FTA in BRI. This fragmentation is sub-optimal, while the value of consolidating part or all of these institutions is enormous. Can BRI be a force for multilateralism?
2. BRI advocates a regional trade and investment system compatible with existing multilateral systems. Will the BRI system contribute to deep and broad trade liberalization? Will new high-standards of international trade at BRI uphold the principles of openness, transparency and non-discrimination?

Figure 3.3: Lower Trade Growth as Information Goes Global?



3. Online exchanges are becoming a major force, and the WTO framework lacks cross-border e-commerce rules. The CPTPP covers cross-border e-commerce, but overall rules vary widely and standards are needed (e.g., for the supervision of e-commerce express mail, or for cross-border e-commerce customs clearance). Can China and Switzerland jointly innovate in the context of the Digital Silk Road?

4. On July 21, 2014, Swiss National Bank and People's Bank of China agreed on a 10 billion RMB bilateral domestic currency swap agreement. Future trade and investment between China and Switzerland will be settled directly in RMB/CHF (instead of USD). BRI is about offshore RMB business, equipment financing leases, and insurance of high-risk infrastructure projects. How can China and Switzerland cooperate to make BRI host of advanced finance?

Back to the skeptics, the European Think-tank Network on China (ETNC) finds the general public in the EU oblivious to BRI, while the Center for Strategic and International Studies (CSIC) in Washington, calculates that 89% of China's transport infrastructure projects are contracted to Chinese companies, prompting headlines like, "Beijing fails to share benefits (...)" (Kynge, 2018) or "China's Belt and Road Initiative is falling short" (Opinion The FT View, 2018).

Essentially BRI's vocation is that of a global institution, a mega coordinating instrument for trade, investment and

technology exchange. Institutions coordinate top down via hierarchies, and bottom up via market mechanisms. There is a third way of coordination, one which the field of narrative economics (Shiller, 2017) is yet to theoretically tackle. Narratives according to Hagel (2011), "invite, even demand, action by participants and they reach out to embrace as many participants as possible. They are continuously unfolding, being shaped and filled in by the participants. (...) Stories are about plots and action while narratives are about people and potential." In the global market for narratives (Casas, Buckup, 2018), can BRI win?

With globalization and the 4th Industrial Revolution, people and potential are realized as parts of complex systems. Interestingly, complex systems don't follow linear but network-causality, their 'elements' are 'interconnected' and have a 'purpose', manifesting their very own, often unpredictable, patterns of behavior (Meadows, 2008). The point is that the more complex the system, the more hierarchies and markets need to be complemented by effective and legitimate narratives.

BRI's future lies beyond infrastructure projects or bilateral FTAs, but rather as a complex system delivering global public goods (as in Figure 3.4). An institutional set coordinated by a memorable, open, inviting, evolving multi-stakeholder narrative. All are invited, and over the next years Switzerland (Figure 3.5) will have the chance to shape the narrative.

Figure 3.4: BRI Makes it for Switzerland, When ...

- When Swiss public opinion perceives BRI as contributing to global prosperity and security
- When a Swiss insurer covers a Silk Fund financed power plant risk in, let's say, South Asia
- When an Appenzeller producer of fine foods doubles revenues on a global e-commerce platform using Digital Silk Road customs clearance rules
- When the President of the AIIB happens to be a Swiss national
- When Swiss trade increases with Kazakhstan are directly attributable to BRI institutions

Figure 3.5: BRI Makes it for China, When ...

- When the BRI narrative is clear
- When BRI is not perceived as 'China strategy', but generally as a global public good
- When Switzerland contributes to the BRI narrative ... and co-owns it too!
- When Switzerland extends BRI institutions into Western Europe as a new bridge to Europe's East
- When BRI financial cooperation mechanisms, with Switzerland's input, are transparent