Chi on China

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THE "INVISIBLE" BELT AND ROAD INITIATIVE OF CHINA

Never relinquish the initiative.

Charles de Gaulle

SUMMARY

- While China's stated objectives of the "Belt and Road Initiative" (BRI) look west by connecting its old economy to other developing countries in Central and Southeast Asia, Africa and Eastern Europe, its most powerful growth centres are looking east – to the US.
- China's "netware" companies are driving technological innovation to propel future economic growth as envisioned by the "Made in China 2025" industrial policy. This development connects with the BRI via infrastructure investment by China, which includes building I.T. networks in the BRI countries.
- But the world's netware champions are all built on American operating platforms. As China wants to be a leading global technological centre of the 21st century, it will have to climb the netware value chain that connects it to the US. This is indeed an invisible global BRI route outside conventional thinking.

Politically, the "Belt and Road Initiative" (BRI) is an expansion strategy of Beijing's "Chinese Dream" vision to eschew the "America shield" that constrains China's expansion to the east. From the north of Asia (including South Korea and Japan) to the south (including many Southeast Asian countries and Australia), America has built an alliance network which acts like an invisible shield that constrains China's expansion of its influence to the east (Map 1). Hence, the BRI goes west (Map 2).

BRI'S FUTURE LOOKS EAST

Economically, the BRI connects China's old economy plagued by excess capacity (steel, coal, construction, heavy industries and engineering) to other low- and middle-income developing countries in Central and Southeast Asia, the Middle East, Africa and Eastern Europe. While these BRI routes look west, China's future growth centres (Shanghai, Beijing, Shenzhen, and the list will grow) are looking east to the US (notably the west coast). Why?

Online “netware” companies in eastern China are driving technological innovation in the country. Beijing’s “Made in China 2025” has emphasised the technology sector as the future of economic growth. Netware represents a wide-range of technologies, including social networks, online market platforms, e-payment and investment platforms, ride-hailing services such as Uber and Didi in China, shared bicycles, online hospitality service such as Airbnb, and even computer games.

Map 1: The “American shield” constrains China’s expansion to the east

Source: BNPP AM (Asia)

Map 2: So the BRI goes west

Source: Geopolitical Information System

China’s two most profitable new-economy companies are Alibaba (China’s Amazon) and Tencent (China’s Facebook). The former runs Taibao and Tmall e-commerce sites which are the number one and two, respectively, online marketplaces in the world, while the latter runs the ubiquitous WeChat social network and many other online services, including payments and games.

These netware giants, and many others like them, are quite profitable, representing the success stories of China’s new economy. Unlike hardware companies, such as Lenovo, ZTE and Huawei, which compete fiercely in individual unit sales, they make money not by selling tangible products but by selling services that help people to sell to each other. They are also leaders in new technologies such as artificial intelligence and virtual reality by leveraging their online networks. Most crucially, they are all built on American platforms.

THE LINKAGE WITH THE US

Beneath the threat of a Sino-US trade war lays an inseparable economic tie between the two economic giants via trans-Pacific technological networks. Netware development is heavily concentrated in the Pacific Basin, with the leading netware applications coming overwhelmingly from the Chinese and Americans. Companies such as Didi, Baidu, Alibaba, Tencent, Shanda Interactive Entertainment, Mobike Technology, NetEase, Apple, Amazon, Google, Facebook, Uber, Airbnb and Activision all share a Pacific netware ecosystem. European companies barely register on the radar.

The business model of these online businesses is created by the US and represents the success of Silicon Valley which has evolved from hardware incubation and development to software and netware manufacturing. For example, Apple may design its iPhones in Cupertino, California, but it does not manufacture any units. Apple makes money by putting users into an online services ecosystem based around iTunes and the App Store.

China’s high-tech cities are going the same way. Apple’s iPhones, once made in Shenzhen, are now mostly made in the poor and cheaper city of Zhengzhou in the Henan province. Huawei and ZTE, which are both Shenzhen-based, have also moved their manufacturing lines to inner and cheaper provinces. All this underscores my argument that industrial migration to the inner provinces would help sustain China’s economic growth at 6% for a much longer period than most observers have expected[1]. Shenzhen, China’s Silicon Valley, like California in the US, has evolved into focusing on I.T. and A.I. development, social networks, online marketplaces, e-ecommerce and sharing apps.

All the successful Chinese netware business models were imported from the west coast of the US. Tencent was founded in 1999 as a clone of AOL’s ICQ service. Jack Ma founded Alibaba in 2000 with Silicon Valley venture capital and expanded it by merging with Yahoo in China. Robin Li, the CEO of Baidu, worked at Silicon Valley search engine pioneer Infoseek before co-founding Baidu in 2000. These firms have come a long way but their close connections with Silicon Valley remain.

Whether they are Chinese or American firms, the common thread among them is that they are all built on American operating platforms (Android, Windows, iOS or macOS), and programmed in American languages (Java, JavaScript, PHP, Python, Perl and SQL) despite the local languages they sell in. China is aiming at becoming a leading global technological centre in the 21st century. To do so, it will have to connect closely with Silicon Valley and other US technology hubs to be part of the value chain as the US-China technology ecosystem that links champion companies on both sides of the Pacific Ocean is the key to their shared economic future.

[1] See “*Chi on China: Mega Trends of China (6) – Evolution of China’s Growth Model*”, 6 April 2018.

AN INVISIBLE GLOBAL BRI

The strategic objective of the BRI aims at building a massive network of trade and infrastructure by China in Central and Southeast Asia, the Middle East, Eastern Europe, Africa and even Latin America. Obviously, this initiative is crucial for China’s traditional exporters of cheap manufactured goods and for the state-owned heavy industries that build infrastructure projects.

However, when it comes to China’s economic future, it is pushing hard to develop 21st-century technologies, such as blockchain, big data, virtual reality, artificial intelligence and the Internet of Things[2]. And within the BRI framework, building I.T. networks in the BRI countries is part of the infrastructure investment objective. This linkage between China’s high-tech economic future that looks to the east and the BRI’s expansion that looks to the west is indeed an invisible global Belt and Road Initiative beyond conventional thinking at this point.

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[2] The Internet of Things is the network of physical devices, vehicles, home appliances and other items embedded with electronics, software, sensors, actuators, and connectivity which enables these things to connect and exchange data, creating opportunities for more direct integration of the physical world into computer-based systems. The purpose is to increase economic efficiency and benefits with less human intervention.

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