

# **THE NEW SILK ROAD LEADS THROUGH THE ARAB PENINSULA**

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# **THE NEW SILK ROAD LEADS THROUGH THE ARAB PENINSULA: MASTERING GLOBAL BUSINESS AND INNOVATION**

EDITED BY

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# Acknowledgments

This edited volume reaches the audience at a time when the notion of trade wars is back on the agenda and the value of trade liberalization is contested; when doubts about the value of multilateralism mount and the clout of international organizations and the achievements of multilateralism are openly questioned. A quiet reshuffling of power and spheres of influence is taking place in the global forum. At the same time, the debate on the emerging global order is restrained by the conceptual and cognitive confines of an era that had passed by now. In this context, the Belt and Road Initiative (BRI) poses a variety of conceptual challenges too. The modes of its implementation that – essentially – tap into nascent developments and opportunities only add to the explanatory challenge BRI creates. This is fertile ground for confusion, misperception, and bias to step it. Set against this backdrop, the objective of this volume was to add to the debate on BRI, by focusing on selected aspects of this unique initiative, and therefore encourage a more informed debate on what BRI is and what it represents. The unique value added of this volume is that it considers the case of the Arab Peninsula more carefully than any other publication on BRI does.

The Editors of the volume, serving also as researchers and lecturers, sought to deliver a volume that would be useful and usable for students and professors, while at the same time appealing to professionals in the fields of business and policymaking. Accordingly, the structure of the volume and the format of the chapters lend themselves to self-study as well as to in-class discussions.

We, the Editors, are grateful to all contributing authors, by now our colleagues and friends, who responded to our invitation to join this project. We would like to thank all contributing authors for their hard work, patience and diligence. We are grateful to the Publisher and the entire team that dealt with the book content, including the arduous process of having the paper work done, typesetting, and making the book look as terrific as it does.

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## Chapter 1

# The Belt and Road Initiative: Strategy, Collaboration, Innovation

*Anna Visvizi, Miltiadis D. Lytras, Wadee Alhalabi and Xi Zhang*

### 1. Introduction

For several reasons, the announcement of the launch of the Belt and Road Initiative (BRI) in 2013 triggered questions among experts and academics. Symptomatically, very little information about the initiative was available at that time, and so a sense of confusion was induced in the debate on BRI scope as well as its potential influence on all stakeholders involved. Connotations with the historical Silk Road had infused the debate on BRI not only with great expectations and hopes, but also with fears. Specifically, considering that China epitomizes export-led growth model, many observers argued that BRI might be just another way of facilitating Chinese exports. Caution has been recommended as regards the modes of financing BRI-related projects with regard to sustainable financing, potential indebtedness, and management of debt problems in borrower countries (Hurley, Morris, & Portelance, 2018). In the same context, implications for Southeast Asian regional architecture and the prospect of Sinicization have been stressed (Suehiro, 2017). As ever, a balanced view and a sober assessment of the developments is needed. This chapter and, indeed, the entire volume seek to contribute to this effort.

Today, six years into the official start of BRI, an understanding of what the initiative's objectives are consolidates. This is reflected in academic research and more policy-oriented publications stemming from the think-tank sector (Albert, 2018; Gabuev, 2016; Jakóbowski & Kaczmarek, 2017). There is a growing recognition on the part of international organizations, such as the World Bank Group (WB), and other key players on the international scene, such as the International Chamber of Commerce (ICC), to mention just these two, that serious consideration should be given to BRI and its implications. At the same time, developments on the ground suggest that in as much as BRI embodies a bold vision of the future, it is also beset, like the original Silk Road, by a variety of contingencies and constraints (Blanchard & Flint, 2017; Kozłowski, 2018a).

The objective of BRI is to strengthen infrastructure, trade, and investment links between China and 86 countries that – as some estimates suggest – signed collaboration agreements. Collectively these countries account for over 30% of global GDP, 62% of the world’s population, and 75% of known energy reserves. Estimates suggest that about \$1 trillion could be invested in projects associated with the implementation of BRI and its objectives. Other, perhaps more detailed, assessments suggest that China may be investing in infrastructure-related projects up to \$150 billion a year (Hillman, 2018; Saarela, 2018; WB, 2018a). The two major components of BRI are the Silk Road Economic Belt, linking China to Central and South Asia and onward to Europe, and the New Maritime Silk Road, linking China to the countries of South East Asia, the Gulf Countries, North Africa, and on to Europe. Within this framework, the establishment of six economic corridors have been discussed with the aim of linking other countries to the BRI (WB, 2018a). Arguably, a certain vagueness and, indeed, open-endedness of BRI, are its key features.

The lack of a clear delineation of what BRI is and who it is addressed to, renders BRI more of an intention, a process, rather than a well-structured institutionalized framework. True, BRI is a part of Beijing’s ambitious and refocused “Go Global” strategy (Saarela, 2018). Possibly, as this volume suggests, BRI is China’s response to challenges and opportunities of tomorrow. As ever, though, attempts to anticipate and respond to perceived patterns of change in an agent’s external environment, alter those patterns of evolution, while at the same time inducing change in the same agent’s domestic environment. In other words, BRI is China’s response to developments China anticipates. To reap opportunities that these developments will bring and to face challenges they will create, China inadvertently induces new dynamics in the global political and economic system, while at the same time necessitating change in China itself. From a slightly different angle, BRI represents a new approach to economic integration, where traditional tools of incremental build-up of economic collaboration consistent with bilateral agreements, free trade areas, economic corridors, etc., have been replaced by a set of tailor-cut measures and tools corresponding with the specificity of a given market. In this sense, BRI defies traditional definitions outlined in textbooks on economic integration.

While drawing from and taking advantage of the well-established multilateral trading system, BRI promotes and necessitates the emergence of new forms and methods of collaboration-driven economic integration, focused on clusters and corridors rather than on inter-national collaboration. In this view, any attempt to explore BRI through the lens of traditional conceptual frameworks is at risk of offering a fragmented insight, unfit to depict the complexity and dynamics inherent in BRI. Seen in this way, BRI is a unique case study in mastering global economic exposure, strategy, diplomacy, and political communication. Perhaps most importantly, it is a case study in mastering global business and innovation. The objective of this volume is shed some light on these issues.

## **2. BRI and the European Union**

Implicit in the debate on BRI is the understanding that it pivots Europe. Indeed, the map of land connections and sea routes that, in line with Chinese authorities’

plans, BRI embodies, suggests that Europe is the center of BRI's gravity. Certainly, the 500 million consumers that the Single Market represents is a bargain. Interestingly, in the European Union (EU) itself, BRI has not received the attention and policy response that it should have. In other words, even if the EU and China have collaborated on establishing strong and balanced bilateral relations for several years now, there is no unified EU policy position toward BRI. Arguably, the prerogatives the European Commission has in the field of Trade and Investment Policy would allow it to lead a debate on these issues and, consequently, create a consensus among the EU member-states around ways of dealing with Chinese foreign direct investment in the Single Market. The situation may change though. Consider that in April 2018, twenty-seven of the twenty-eight (excluding Hungary) Ambassadors of EU member-states in Beijing issued a report in which several aspects of BRI have been criticized. In the report, leaked to the press, it was argued that BRI runs counter to the EU agenda for liberalizing trade, pushes the balance of power in favor of subsidized Chinese companies, and that – overall – it blurs the international transparency rules (Heide, Hoppe, Scheuer, & Stratmann, 2018). Clearly, BRI is a part of a greater strategy that China implements. However, the EU is not a newcomer in international affairs and it remains to be seen how the EU will address the matter of China's presence in Europe. Certainly, the issue is complex and complicated (Bohman and Ljungwall, 2018; Ferdinand, 2016; Gostin, 2018).

The official launch of BRI in 2013 was preceded by the inauguration of the 16+1 initiative in 2012. The 16+1 initiative aims at developing collaboration between China and a group of 16 countries of Central and Eastern Europe and the Balkans, including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia. In line with official documents, the objective of the 16+1 initiative, sometimes referred to as “alliance,” is to promote collaboration in the fields of investments, transport, finance, science, education, and culture. Priority areas with regards to economic cooperation include infrastructure, sophisticated technologies, and green technologies. Considering that some of countries included in the group of 16 are members of the EU, while several are only about to start the membership negotiation process, the 16+1 initiative raises several questions about China's hidden strategy and the EU's capacity to handle issues pertaining to the fields of common trade and investment policy as well as enlargement policy. Indeed, a lot is at stake (Visvizi, 2016; Papermans, 2018; Matura, 2018).

Frequent in the debate on China's inroads in Europe, and even more so in the debate on the 16+1 format, is the argument that the 16+1 initiative creates divisive pressures in the Balkans and in the EU forum. Indeed, while negotiating in that of 16+1, China is also striking bids with neighboring countries, that is, not included in the group of 16, but are members of the EU. Here the case of the port of Piraeus is a good example. It showcases how China connects the obvious dots that the decision-makers in the EU and the Balkans seem to be overseeing.

That is, in line with the lease agreement signed for the period 35+5 years, in force since 2009, the China Ocean Shipping Company (COSCO) paid an upfront payment of €678 million and follow-up infrastructure investments worth €230 million (Bastian, 2017, p. 8). Considering that COSCO Hellas expressed its

interest in becoming majority shareholder, should all conditions outlined in the current agreement be fulfilled, the value of the Chinese investment could reach €368.5 million for the Piraeus Port Authority (PPA), with the key investor, that is, COSCO Hellas acquiring 67% of shares by 2048 (Bastian, 2017, pp. 8–9). COSCO Shipping Ports plans to turn the port in Piraeus the number one container handling port in the Mediterranean by 2020; at the moment it is third (Glass, 2018).

### 3. The BRI: Outstanding Issues

Interestingly, even if the debate on BRI gathers momentum, as reflected by the burgeoning body of literature on it (Li & Schmerer, 2017; Liu & Dunford, 2016; Yu, 2017; Wang, 2016; Kozłowski, 2018b), the inroads BRI makes in the Arab Peninsula have remained underdiscussed. In a similar manner, the discussion on BRI tends to focus on China as the state, the hegemon, rather than on more specific developments in the fields of business, research, and innovation that BRI triggers. As a result, BRI tends to be queried through the conceptual lens of international relations and international political economy (Cai, 2017; Li, 2016; Ploberger, 2017). Relatively less has been written about the mezzo- and micro-levels of the initiative's implementation (Lytras & Visvizi, 2018; Yoshikawa, 2016). In other words, the functional connections involving the business sector, the academia, and the resultant implications for research and innovation, have been less pronounced in the discussion (Lee, Zhao, & Hassna, 2016; Liao, Huang, Vidmer, Zhang, & Zhou, 2018; Visvizi & Lytras, 2018). The prevalent in the discourse emphasis on macro-level developments and processes cast shadow on issues such as business sector responses to challenges and opportunities BRI creates, including equally the Chinese business sector and that of its counterparts (Liu, Jiang, Zhang, & Chen, 2018). Similarly, societies' attitudes to and perceptions of BRI remain underdiscussed in the literature, whereby obviously culture and history serve as powerful levers conditioning BRI's implementation at local and regional level, including cities and urban spaces (Visvizi, Lytras, Damiani, & Mathkour, 2018). These observations come atop further questions about the specific mechanisms by means of which BRI is implemented, about the dynamics of collaboration and growth BRI creates and, finally, about its implications for all stakeholders.

From a different angle, very little has been said in the existing literature on the immense diplomatic effort, including the tools of traditional and economic diplomacy, that is necessary if BRI is to be implemented effectively and create synergies. Moreover, the scope of legal issues that BRI's implementation will trigger surpasses any imagination; consider the variety of stakeholders and the multi-varied nature of collaboration that BRI embodies. In absence of a comprehensive multilateral framework agreement that would regulate relations among the stakeholders, how will possible future disputes be resolved, investors' rights or intellectual property rights protected, environmental standards abided by, etc. To some extent, the existing multilateral frameworks and regimes will serve their purpose and will do just that, for example, the World Trade Organization or for instance the World Intellectual Property Organization. However, in absence of a state-investor dispute settlement mechanism, how will issues pertinent to this increasingly sensitive field be resolved along the New Silk Road?

BRI is an economic collaboration and expansion initiative that adjusts to the circumstances and opportunities that the twenty-first century facilitates. Two sets of factors play a role in this respect. These are the evolving role of the state in the economy and the pervasive impact of information and communication technology (ICT) on modes of collaboration in international context. Specifically, the role of the state in domestic politics and so the nature of its involvement in the global forum have changed, recasting its role domestically to that of a smart regulator rather than that of a policeman. What follows is that also in the global context, the role of the state in multilateral fora, is evolving. The emergence of G20 and the special relationship between the Organization for Economic Co-operation and Development (OECD) and the G20 (Rewizorski, 2016) attest to that. As a result, more room exists for the business sector to be involved in the debate, which translates in regional and national regulatory frameworks more open to business activity than before. Advances in ICT add an additional layer to this equation in that they change the modes and efficiency of communication, they alter the conceptualization of business activity per se, and finally redefine the scope and degree of business sector sophistication. BRI taps into these development and resultant opportunities.

#### **4. BRI and the Arab Peninsula**

In the debate on BRI, the Arab Peninsula and its role have been underdiscussed. Considering current developments in the region, especially the modernization effort in Saudi Arabia, implemented under the framework of the Vision 2030, the prospect, potential and implications of strengthened collaboration among China and selected countries in the region are worth discussing.

The Arab Peninsula is home to nine countries, including Jordan, Iraq, Kuwait, Bahrain, Qatar, the United Arab Emirates, Oman, Yemen, and Saudi Arabia. [Table 1.1](#) offers a brief insight into the key macroeconomic indicators, including the GDP growth and dependence on oil exports. This correlation reveals the vulnerability of these economies to global demand for energy resources, and indirectly to cycles of growth and recession. That vulnerability leaves the governments in the region no choice but to implement measures to change the structure of their economies and seek new sources of their competitive advantage.

The values of the Human Development Index (HDI), for many of these countries, apart from Jordan, and for quite different reasons for Yemen, are above 0.800, which locates them in the group of countries with very high human development. This in turn suggests that several mechanisms and processes have been set in work that will enable these countries to stay on the path of growth and development. In this context, to get a better understanding of developments in the region, two other composite indexed are very relevant, that is, the Global Competitiveness Index (GCI) and the Global Innovation Index (GII). The GCI, presented annually in the Global Competitiveness Report (Schwab, 2018) examines how resilient, agile, innovative, and human-centered selected economies are. Regarding methodology, this approach translates into the examination of four key dimensions of a given economy, including the enabling macroeconomic environment, the human capital and its potential, the flexibility and size of markets, and, finally, the quality

Table 1.1: The Arab Peninsula Economies: Performance and Potential.

	Population (in mln)	GDP/per Capita/ PPP\$	HDI	GDP Growth (y/y 2017)	Oil Rents	GII Rank (Out of 126)	GCI (Out of 140)
Bahrain	1.5	43,291	0.846	3.9	2.5	72	50
Iraq	36.116	15,664	0.685	-0.8	42.4	n/a	n/a
Jordan	9.7	8,337	0.735	2.0	0	79	73
Kuwait	4.1	65,531	0.803	-2.9	44.0	60	54
Oman	4.6	37,961	0.821	-0.3	24.7	69	47
Qatar	2.482	116,936	0.856	1.6	16.3	51	30
Saudi Arabia	32.9	49,045	0.853	-0.7	26.4	61	39
UAE	9.4	67,293	0.863	0.8	14.5	38	27
Yemen	28.3	n/a	0.452	n/a	0.7	126	139

*Sources:* Based on UN (2017, 2018), WB (2018b, 2018c), Dutta, Lanvin, and Wunsch-Vincent (2018), and Schwab (2018).

of the innovation ecosystem. The GII, in turn, has a slightly different focus. It examines the innovation performance and potential of selected economies. Certain overlaps between these two indexes exist and it is reasonable to read these two in conjunction. Saudi Arabia is a good case in point here.

Saudi Arabia's rank in the GCI is 39, whereby macroeconomic stability (Saudi Arabia ranks the first here) acts as the key variable that influences the overall of that economy. This might explain the variance between the GCI and GII ranks for Saudi Arabia. Overall, the GCI highlights that Saudi Arabia's ranks across categories improves, including skills and innovation capability. Saudi Arabia's GII rank is 61 (out of 126 countries included in the ranking), but its performance in the fields of human capital and research is 24 (out of 126). Here, in the category of education, including expenditure on education (% GDP), school life expectancy, PISA<sup>1</sup> scales in reading, maths and science, and pupil-teacher ratio, Saudi Arabia ranks 14 (!). When it comes to tertiary education, Saudi Arabia scores 39, but in the subcategory tertiary enrolment it scores 27, and graduates in science and engineering, 41. These numbers depict very clearly that Saudi Arabia is on the verge of unleashing human capital potential inherent in its economy. Two other factors will act as multipliers here. In the GII, subcategory business sophistication, Saudi Arabia rank is 52. Interestingly, though in a subcategory of the latter, that is, state of cluster development, Saudi Arabia, again, is ranked as 21. The connection between the increased investment in education, rates of enrollment, performance and cluster development is more than obvious here, suggesting clearly which path of development and economic growth model Saudi

<sup>1</sup>OECD Program for International Student Assessment.

Arabia has embarked on. Even if today, the apparent chasm in GCI ranks and pace of growth between China and Saudi Arabia is considerable, already now, the complementarities and collaboration potential are obvious. As BRI is a forward-oriented initiative and change is under way in the Arab Peninsula, the connection requires careful analysis. The chapters included in this volume are devoted to it. The following paragraphs offer an insight into the structure of the chapters and key points they address.

## **5. Overview of the Volume: Society, Business, and Innovation Along the New Silk Road**

The chapters included in this volume address several issues pertinent to the debate on BRI. The volume has been divided into two parts, 14 chapters and a brief conclusion. Part one addresses broader questions about history and socio-cultural factors influencing the prospect of BRI's implementation in the Arab Peninsula (Chapter 2); questions of diplomacy and strategy inherent in the BRI (Chapter 3), as well as legal implications of BRI, especially with regard to dispute resolution and ways of handling disputes effectively (Chapter 4). In the same vein, an overview of the state of innovation in the Gulf Cooperation Council (GCC) is presented (Chapter 5). Selected issues related to the prospect of improving competitiveness in the region are discussed too (Chapter 6).

The second part of the volume offers a more detailed insight into the business dimension of the BRI. This involves a discussion on the impact of advances in sophisticated ICT on trade in the framework of BRI, as well as the opportunities strategic use of technology may create. Several case-studies illustrate the discussion. The focus of Chapter 7 is explicitly on big data analysis and its application in the context of BRI. Chapter 8 features a very interesting case that demonstrates that BRI necessitates change and evolution of the Chinese business sector. It then outlines how China promotes the development of new strategic industries. Chapters 9 and 10 address the development and application of artificial intelligence (AI)-based technologies and highlight their role in the context of BRI. Chapter 11 addresses the question of Pakistan's role in BRI, whereas Chapter 12 offers a captivating insight into the energy sector development in China and Saudi Arabia. These two chapters serve as a very much needed background that allows the reader to understand the nuanced nature and dynamics specific to the BRI. The volume closes with two case studies that showcase how BRI opens new opportunities for the Chinese business sector, while at the same time making it necessary for respective companies to reconsider their modes of operation.

In Chapter 2, titled "The Spirit of Silk Road: The Impact of Medieval Chinese–Arab Relations on the Contemporary Bilateral Sino–Arab Relations," Tarek Ladjal and Tayeb Brahimi discuss Sino-Saudi commercial relations as they unfolded over. As the authors argue, a model of collaboration based on coexistence and harmony developed between China and the Arab world. The chapter is devoted to the analysis of factors that made it possible.

In Chapter 3, titled "The Past, the Present, and the Future of the New Silk Road: China as a Leader or a Free-rider in International Relations," Krzysztof

Kozłowski, examines the complementary aspects of The New Silk Road Diplomacy in the 1990s, the BRI today and the Digital Silk Road of the future, which signal growing Chinese ambitions in international relations. The bold plans and visions may turn into fundamentals of future Chinese domination in world affairs. However, the ways they are to be achieved indicate, that the Chinese policy-making has not yet adapted yet to new reality of being a leader rather than a free-rider taking advantage of other powers' international involvement. The objective of the chapter is to point to the limitations of China's ambitions. Qualitatively new international reality requires qualitatively new approaches. China, if it does not realize that, despite being one of the biggest surprises in terms of dynamics of development in twentieth century, may become one of the biggest disappointments in 21. The world seems to accept the fact that China's international clout consolidates. The question is, is China ready for this change?

In Chapter 4, Marilena Chrysanthakopoulou focuses on "Dispute Resolution along the Belt and Road Initiative." As the author argues, BRI is endeavor of paramount importance that is likely to redefine socio-economic relations in countries and regions concerned. The debate on BRI's relevance, scope, and potential has only began, and it remains uncertain how exactly it will unfold. In this context, questions pertinent to regulatory frameworks in the context of which BRI initiatives are implemented belong to the most complex and the most interesting ones. Due to BRI's novelty and open-endedness, all matters pertaining to its implementation are of exploratory nature; especially the legal aspects of its implementation. This aim of this chapter is to provide insightful answers to legal questions regarding BRI and dispute resolution via the examination of the current legal status of BRI, as well as explore how trust and cultural awareness can contribute to the avoidance of business-related disputes.

In Chapter 5, titled "The State of Innovation Dimensions in the GCC Countries: Past Development and the Future Ahead," Saad Haj Bakry and Zeyad Haj Bakry examine the state of technology-driven innovation in the GCC countries, and elaborate on its implications for collaboration in context of BRI. While the GCC countries have long been dependent on oil reserves, currently they are planning to reduce this dependence and consider innovation as an important means for their future development. This chapter explores progress in innovation in the GCC countries (as measured by the GII) and highlights the trends that unfold.

In Chapter 6, titled "Building ICT Knowledge Capacity for Female Entrepreneurship for Sustainable Socio-economic Growth in the Middle East," Mehedi Masud, Ahmad Tasnim Siddiqui, and Eman Alkhamash highlight the importance of ICT Knowledge with regard to the promotion of female entrepreneurship. As the authors argues, women's ICT entrepreneurship low although more women than ever are studying ICT programs at the universities. Women's entrepreneurship and participation in the economy are relatively limited due to gender-specific barriers to business creation and development, including cultural norms, civil law, or barriers in the business environment. This chapter investigates the challenges and constraints faced, and the support and opportunities available to female entrepreneurs in ICT. This chapter also presents research on the growing