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*Editor's note: The world economic-political order is mired in a deep crisis that involves all the countries and regions of the world. On the strictly economic level, the process of restructuring that global world is undergoing involves a radical change in the growth model. The joint construction of the Belt and the Road is a proposal of China but also a common aspiration of all riparian countries. On a new starting point, China wants, through the joint realization of the Belt and the Road, to carry out consultations with the riparian countries on an equal footing, taking into account the respective interests and concerns of different parties, and working together for broader, deeper and deeper openness, interaction and integration. This article aims to explore how the Belt and the Road has great potential in restructuring world trade system at a global level.*

#### **The Belt and Road Initiative: challenges and restructuring of the global trade system**

\*Dr Pengfei Zhang a and \*Dr Lijun Zhao

Acknowledgement: both authors contributed equally to this article.



#### **INTRODUCTION**

The world economic-political order is mired in a deep crisis that involves all the countries and regions of the world. “It is a global restructuring that implies new rules of the economic game and new forms of political power. This global crisis constitutes the context of the crises

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and the restructuring processes of the countries in the current conjuncture” (Hirst et al., 2015). On the strictly economic level, the process of restructuring that global world is undergoing involves a radical change in the growth model. A transition of a style of economic growth oriented to the consolidation of the internal market ("national" or "inward") towards a model of complete insertion in the new international economic order. Transition that has been implemented through policies called "modernization and openness".

The global restructuring process is currently in a process of transition in which two major processes operate. On the one hand, the gradual de-structuring of the post-war economic-political order, in which the United States occupied a position of hegemonic power only questioned by the existence of the Soviet Union (Mommen and Jilberto, 2017). On the other hand, the gradual structuring of a new order, a process that takes place in different scenarios.

One is the gradual integration of economies based on the increase of competition for world markets among transnational corporations. Another is the progressive formation of three major blocks of world trade and power by the United States, the European Community and Japan. A third scenario is that of the multilateral forums in which the new rules of the game of the world order is negotiated: the Group of Seven, the meetings behind closed doors within the GATT, the joint meetings of the IMF and the World Bank, the Security Council of the United Nations.

In the course of this discussion, the challenges of restructuring international trade due to globalization will be discussed.

## GLOBALIZATION

If one understands globalization as the process by which markets are liberalized, integrated and become more international, it is evident that we are facing an unstoppable process. A process derived from the reduction of transport and communications costs and the progressive elimination of barriers to trade that is the result of the political will to open up to competition and international markets, because history and empirical evidence show that open economies grow faster than closed economies and enjoy a higher level of wealth and prosperity.

Undoubtedly, globalization and its effects constitute a permanent object of analysis and debate based on its effects in terms of inequality and poverty, which have been exacerbated by the global financial crisis and by the unfair and inadequate policies applied, which have borne the weakest the bill of a crisis that they have not provoked (Hirst et al., 2015). The result is a growing movement against the liberalization of international trade, immigration and in favour of protectionism with the emergence, first, of social protests and, later, populist social organizations that are gaining voter support. These are populisms of democratic origin, but in EU countries, such as Great Britain, France, Holland, Germany, Austria or Poland, they are clearly fascist and xenophobic.

It is true that we are witnessing an increasing inequality between countries and internally among them, despite the increase in the level of global development. And it is also true that the most unequal societies do not function efficiently, that their economies are not sustainable in the long term and that, sooner or later, they end in a social fracture (Bowen et al., 2015). The proper functioning of the economy and the demands of a decent society require social cohesion and equal opportunities (Moon, 2018). Without them it is not possible to build a shared future project, because insecurity, uncertainty, fear grow and

mistrust in politics and institutions is generalized, something that is not only happening in our country, but also in different countries of our environment.

Global governance and economic regulation are needed to better share the enormous gains of economic openness among all, reducing the income and opportunities gap between winners and losers. Globalization requires redefining an inclusive economic framework with supranational institutions that develop a more demanding regulation of financial markets and that fight against monopolies (Sutcliffe, 2016), cartels and concessional and corporate privileges, which exist because the system allows it and favours it.

Globalization cannot be attributed to what is the responsibility of national policies. The Nordic countries, fully open to internationalization, are the most egalitarian, while Spain, equally open, is the EU country where inequality has grown the most. National governments have to commit themselves to fighting inequality for reasons of social justice and economic efficiency.

The G20 summit held in China is a step in favour of an inclusive trade that acts according to the rules of the WTO. For the first time, the leaders of the major powers have been concerned about the poor distribution of the benefits of globalization, although it was not for ideological reasons, but because of the need to respond to the growing rise of populism, nationalism and of those who defend protectionism (Dunning, 2014). It is necessary to see what concrete actions are implemented. It is urgent to achieve tax harmonization at an international level that avoids the avoidance of tax payments by large corporations, which requires taxes to be paid where profits are generated and which effectively fights against tax havens.

From the social democratic perspective, people conceive the EU's trade policy as an instrument to establish an adequate regulation of trade, so that it is fair and protects

European social, labour and environmental standards, defending them from dumping by third countries. And also as an instrument to promote human rights and stimulate sustainable growth and the creation of quality jobs, while promoting the development of our industry and services.

The European Union is the largest economy and the leading commercial power in the world, the main source and the main beneficiary of foreign investment. With barely 7% of the planet's population, it generates more than a quarter of the world's wealth in terms of gross domestic product. However, at present, the EU is the economic zone of the world where the impact of the crisis has been greater, with more job destruction and greater risk of poverty and inequality.

The so-called austerity policy - when in reality it is about brutal cuts to the welfare state - applied has accentuated recession and inequality and has not even achieved its main objective of lowering public debt, which has gone from 62% in 2008 to 91% of GDP in 2015. In order to grow and get out of the crisis, policies must be applied that boost growth and combat inequality. One must develop a competitive, efficient economy based on equal opportunities, sustainable and generating new quality jobs.

#### *CHALLENGES OF RESTRUCTURING INTERNATIONAL TRADE*

The restructuring of the world order, and the peculiar forms that the integration of the world is assuming in that new order, represent for us great challenges as researchers, teachers and, as privileged citizens of a deeply unfair social order. The first challenge is the one of a deep revision of the theoretical approaches with which up to the present we have believed to interpret to the world. Of the approaches by means of which one analyses the relations between society and the State, the relations between society and the economy, between society and culture, between society and nature. Issues such as democracy and

political power, citizen rights, violence, poverty, employment, the structure of domestic nuclei, migratory flows, social movements, "national" identities, the role of the State in the economy, the agrarian structures, the relations between the natural environment and technology have to be rethought in the light of these profound transformations (Dunford et al., 2016) and, therefore, of new theoretical reflections. It is not, therefore, necessarily to develop new lines of research - although this could also be a valid conclusion in some cases - but to review the old approaches and pose new questions to the old issues.

According to researchers, three major theoretical reviews are necessary; although there could be many more. These are: A new theoretical perspective on the relationships between economic agents and political power, more specifically, on the relations between the State and markets; a new theoretical perspective on the State, its relations with society, and the relations of national states with other entities of supra-national political power. Finally, a new theoretical perspective on agrarian transformations and agri-food systems (Ruigrok and Van Tulder, 2013).

## **RESTRUCTURING IN THE PROCESS OF CAPITAL ACCUMULATION**

The restructuring of capital accumulation processes occurs, analytically, in the three "circuits of capital": (a) in merchant capital; (b) in the financial capital; and (c) in productive capital (industrial, agricultural, services) (Harvey, 2018).

### *CHANGES IN THE MERCANTILE CAPITAL*

Merchant capital and long-distance trade preceded the emergence of the Nation-State. After World War II, as a result of the "inward-oriented" development model, commercial exchange temporarily lost ground. The reconstruction of Europe and Japan, the GAIT, and the emergence of NICs constituted a new incentive for world trade (Sloterdijk, 2013). Despite

protectionist tendencies, the growing exchange has transformed the world economy in different ways:

- a) A trend towards convergence and standardization of consumption patterns worldwide;
- b) A growing segmentation of markets worldwide;
- c) Trade flows that intersect between the "regional" markets of the mercantile blocks in gestation;
- d) The emergence of a new division of labour, less based on "national" resources and spatially located goods (that is, less mobile factors of production) and increasingly based on the dissemination of knowledge and information ( that is, the more mobile and spatially neutral factors)

#### *CHANGES IN FINANCIAL CAPITAL*

Prior to World War II, portfolio investments in England, France and Germany predominated. The investments of the "colonial" capitals were made based on the production of raw materials for the metropolises. After World War II, the process of "industrialization for import substitution" was financed through direct investment by Transnational Corporations (TNCs) (Coleman, 2016). What is really new at this stage of the globalization process?

- a) In the sixties: the emergence of new forms of liquid financing, for example, the Eurodollar market;
- b) In the seventies: the recycling of "petrodollars" through offshore banking;
- c) In the decade of the eighties: the emergence of transnational banking as a result of the growing deregulation of financial markets.

### *CHANGES IN PRODUCTIVE CAPITAL*

In the mid-nineteenth century, the Transnational Corporation (TNC) emerged as a result of the demand for raw materials in the process of industrialization of the "Northern" countries. At the beginning of the 20th century, a new form of TNC emerged, as a result of the increase of protectionist barriers in different countries (McMillan and Rodrik, 2011). What is new at the current juncture?

- a) The emergence of integrated production processes globally;
- b) The increase of labour mobility across national borders (south / north, east / west in Europe). Process to a certain extent made difficult by the emergence of new barriers that try to brake, particularly in the three major "metropolises": the United States, the European Community and Japan.

In summary, what is new is the way these processes are:

- a) Eroding the "national" (inter-sectoral) coherence of capitalist economies;
- b) Undermining the post-war international political order.

### **BELT AND ROAD INITIATIVE**

Under the principle of cooperation in political, economic and commercial matters, the initiative constitutes an important tool of the Chinese Executive to publicize, channel, focus and order its growing influence on a global scale. It is, "therefore, more of a global and generic strategy than of a marked and delimited program, because it is constantly enlarged and reconfigured to adapt to the needs of the moment and the future" (Liu and Dunford, 2016). It also covers multiple markets, projects, ideas and investments with a clear economic vocation but also geostrategic.

### *ADVANTAGES AND DISADVANTAGES*

In the short term, the participating countries will benefit from significant flows of foreign direct investment with the implementation of large infrastructure projects. There is also a significant increase in mergers and acquisitions of companies. These reached a value of 33,000 million dollars at the end of 2017 (Huang, 2018).

In spite of its many positive aspects for development, there are also many dark ones in a megaproject that does not stop supporting a strategy based mainly on the interests of a single country, apart from the logical misgivings coming from its geostrategic, social and political vision, for not in vain supposes among other things a change of balance of powers between East and West.

Other critics note that this initiative goes against the agenda of trade liberalization and unfairly favours Chinese subsidized companies, a lack of access to international competition that is clearly reflected if we take into account that 89% of the projects carried out within The Strip and the Route have been implemented by firms (Swaine, 2015) in that country and that foreign investors have little room or opportunities.

### *RESTRUCTURING OF INTERNATIONAL TRADE*

Favouring trade and investment are an instrument of fundamental economic policy to stimulate growth without the need to incur greater public spending, which, in the context of budgetary restrictions in which we find ourselves, is not trivial. It requires developing an adequate trade agreements policy that contributes to fair, inclusive trade, to open more markets, especially in those countries that grow more and more sustainably (Mansfield and Reinhardt, 2015).

The free trade agreements signed by the EU seek to promote European values in the rest of the world, including clauses respecting democratic guarantees, the defense of the rule of law and human rights and the guarantee of our social, labour and environmental standards and health. But it is not enough to sign good agreements (Palley, 2018). One must be much more demanding in its compliance and in the monitoring and evaluation of results with the participation of civil society.

Looking at the future from a global perspective, one must take into account that, according to the IMF, this year 90% of global growth will be generated outside Europe and a third only in China (Chiu, 2018). In 2030 it is estimated that developing and emerging countries could account for almost 60% of world GDP.

China is the second largest trading partner of the EU. It offers great opportunities due to the development of new groups of consumers with high purchasing power and the investment opportunities it offers, but it also poses important challenges due to the greater competition it implies in terms of price, access to energy and raw materials. But one cannot deny that some industrial and macroeconomic policies practiced by China obey an approach based on state capitalism, non-compliance with WTO rules and labour and environmental standards that create unfair comparative advantages that one cannot share (Van Bergeijk, 2014). In this sense, it is striking that anti-globalization movements are not worried about it. It is necessary to cooperate and collaborate with China so that it undertakes the necessary reforms to compete according to the rules of the WTO and the standards that the EU defends. China's role in the COP21 agreement is an important step.

According to Narula and Dunning, (2010). National regulatory regimes, their scope and effectiveness, are being eroded by the very forces that are transforming the post-war world order. First, national governments are powerless to control the flow of capital or the

exchange of foreign exchange against the threats of capital flight or the interruption of credit lines from international banks. Second, the United States, the European Community and Japan have modified their previous projects of "internal inter-sectoral coherence" or "national integration" for others based on: the strengthening of international competitiveness and the strengthening of their respective geopolitical positions. Third, and in the Latin American context, the conditions in which the negotiation of the external debt took place provided the transnational banks with the power they needed to impose a change in the growth model (Büthe and Mattli, 2011): the achievement of relative self-sufficiency and "national integration" to "openness" or "integration to the new world order".

Cooperation on investment and trade is a priority of the construction of the one Belt one Road. Care must be taken to facilitate investment and trade, remove barriers, and create a national and regional business-friendly environment. China is actively engaged with riparian regions and countries in the construction of free trade areas, the exploitation of cooperation potentials and the expansion of the cooperation "cake".

The riparian countries need to intensify co-operation between their customs services in terms of exchange of information, reciprocal recognition of controls and reciprocal assistance in the application of laws, and bilateral and multilateral co-operation in areas of health inspection, quarantine, certification, accreditation, standards, measurement and statistical information, and to work for the entry into force and implementation of the Agreement on Trade Facilitation of the WTO (Hirst et al., 2015). They need to improve customs clearance facilities at border crossings and speed up the creation of "one-stop shops" to reduce costs and improve customs clearance services. Cooperation needs to be strengthened to ensure the security of supply chains and promote their facilitation; promote coordination of cross-border control procedures, online verification of inspection and

quarantine certificates; and apply mutual recognition of certified companies. Non-tariff barriers need to be reduced and together transparency of technical trade measures (Yu, 2017), liberalization and trade facilitation needs to be improved.

The areas of trade must be expanded and the structure optimized to find new poles of commercial growth and to promote a balanced trade. Innovation will be encouraged to develop new forms of trade such as cross-border e-commerce. A system for the promotion of trade in services must be established and perfected in order to consolidate and expand traditional trade and vigorously develop modern trade in services (Yu, 2017). Investment and trade must be combined so that investment leads to the development of trade.

The investment facilitation process is to accelerate to remove barriers. It is imperative to intensify negotiations on the reciprocal investment protection agreement and the double taxation convention to protect the legitimate rights and interests of investors.

#### *RESTRUCTURING OF CIVIL SOCIETY*

In the field of civil society, different tendencies lead to the emergence of new social pacts. For the moment, these changes are expressed in a repudiation of the previously hegemonic social-democratic contract and its gradual substitution by different versions of the neo-liberal contract. On the one hand, the sectors that favour a growing integration of national societies to the processes of trans-nationalization and redefinition of alliances with economic blocs and hegemonic power (Van Rooy, 2013). On the other hand, a set of sectors that are opposed to the neo-liberal political project based on its effects on the entire society or one of its sectors.

Belt and road initiative enhances mutual understanding of peoples. This is the social foundation of the construction of the Belt and the Road. To consolidate bilateral or

multilateral cooperation on a solid grassroots basis, it is necessary to transmit and spread the spirit of friendship and cooperation embodied by the Silk Road (Li, 2015), to develop more cultural, academic and human exchanges such as media, youth, women and volunteers.

i) There is a need to increase the scope of student exchanges and to engage in school cooperation. 'China offers the riparian countries each year 10,000 government scholarships. The riparian countries will organize, cross-culturally, cultural festivals, film festivals, television weeks and book fairs, co-operate in the production and translation of educational programs, radio, film and television will jointly submit nominations for world cultural heritage and work together to protect World Heritage sites' (Arase, 2015). The human exchanges and cooperation of the riparian countries will be deepened.

It is essential to strengthen tourism cooperation and develop the tourism industry. 'Weeks and months of tourist promotion will be organized, itineraries and tourist products in the colours of the Silk Road will be developed jointly internationally and obtaining visas of riparian countries will be made easier. This will intensify co-operation with neighbouring countries in the exchange of information on epidemics, preventive and therapeutic technologies, as well as in the training of qualified persons to strengthen the capacity to co-manage public health incidents' (Yunling, 2015). This initiative will strengthen scientific and technological cooperation and will establish joint laboratories (research centres), international technology transfer centres and maritime cooperation centres with the countries concerned.

All this coupled with 'the loss of political power and bargaining power of the labour movements, and particularly of the trade union movement' (Blanchard and Flint, 2017), a product in turn of the changes that are occurring in productive activities (e.g.

deindustrialization) and in labour markets (e.g. substitution of the manual worker by the intellectual worker, flexibility of employment, home contracts, etc.).

#### *RESTRUCTURING AND INTEGRATION OF ECONOMY AND FINANCE*

Belt and Road initiative is something which is necessary to seek new forms of investment co-operation by foreign companies. China encourages its companies to participate in infrastructure construction and industrial investment in riparian countries. In addition, it encourages its companies to organize their activities according to the principle of localization, to support the development of the local economy, to create jobs, to improve the life of the population (Beeson, 2014), to fulfil its social responsibilities, and to protect rigorously biodiversity and the environment.

Financial integration constitutes a major support for the construction of the Belt and the Road. Financial cooperation must be deepened in promoting the establishment of a monetary stabilization system, an investment and financing system and a credibility system in Asia; to encourage riparian countries to develop more exchanges between them and bilateral transactions in national currencies; open and further develop the Asian bond market; advance preparations for the creation of the Asian Infrastructure Investment Bank and the BRICS Development Bank; to enter into negotiations between the interested parties to establish a financing institution within the framework of the Shanghai Cooperation Organization (Huang, 2018) and accelerate the establishment of a Silk Road Fund to be operational at the earliest.

Furthermore, pragmatic cooperation within the China-ASEAN banking consortium and the Shanghai Cooperation Organization's banking consortium must be deepened and multilateral financial cooperation must be developed through syndicated credit and bank credit. It encourages the governments of the riparian countries, their companies and their

high-rated financial institutions to issue RMB bonds in China (Tsui et al., 2017). Qualifying financial institutions and Chinese enterprises will be allowed to issue RMB and foreign currency bonds abroad.

Cooperation on financial regulation will be strengthened. It encourages the signing of bilateral Memoranda of Understanding on Co-operation in this area to gradually establish an effective regional coordination mechanism for financial regulation. Arrangements to address risks and manage crises will be improved, and a regional financial risk warning system will be put in place to form a mechanism for exchange and co-operation to deal with cross-border risks and manage crises (Cai, 2017). Cooperation and cross-border exchanges between credit rating services and institutions as well as rating agencies will be intensified.

#### *TRANSPORT AS A DYNAMIC AXIS*

From a commercial point of view, its objective is to promote greater integration among the countries that are part of it, trying to boost the work of trade as a driver of growth and development. Now, it will generate greater market access so probably unbalanced and



biased towards Chinese goods and services with greater added value, in line with the strategy Made in China 2025.

To achieve this greater integration, together with trade facilitation measures to harmonize and expedite customs procedures, the creation of new transport routes and freight services between China, Southeast Asia and Europe stands out (Huang, 2018). It is at this point where the six railway corridors between China and Europe would be incardinated, within which is the railway route between Yiwu and Madrid.

The key aspect to promote this greater integration, which is the core of the initiative, is the provision of a greater quantity and quality of infrastructures of land, rail, energy and telecommunications. This is where the investment aspect becomes relevant, given the huge mobilization of resources that requires promoting greater connectivity between such extensive regions, with cultures, economies, regulations and levels of development so different.

In addition to its global reach, the other fundamental objective of the Strip and the Route is the development of the less-favoured regions of China itself. Apart from the western region, this strategy is also expected to play an important role in the revitalization of the poorest provinces of the northeast and south-west of the country (Swaine, 2015). In fact, all provinces are interested in participating in the national project, as many see it as a golden opportunity to obtain cheap financing and political support for their own infrastructure projects.

## **CONCLUSION**

To conclude, the investigation of the world social reality requires today, in addition to strong doses of imagination and social sensitivity, the capacity to produce new approaches. Only a restoration of the political economy that integrates in an organic whole the different levels of analysis (global, national, sub-national) and that incorporates in the explanation the strategic actions of the social agents, may give an account of the transformations in progress.

With the help of belt and road initiative, the transport equipment market will move more than 263,000 million dollars in the involved territories during this year. Therefore, new avenues of entry into this and other sectors related to supply can be opened, provided that the path to competition is opened and the required requirements and standards are met. Taking into account the extent of territories and markets of the Strip and the Route, it can be

said that this will affect one way or another to virtually any company that works in international markets and that is an aspect to consider the time to perform any work of market analysis in the future.

The joint construction of the Belt and the Road is a proposal of China but also a common aspiration of all riparian countries. On a new starting point, China wants, through the joint realization of the Belt and the Road, to carry out consultations with the riparian countries on an equal footing, taking into account the respective interests and concerns of different parties, and working together for broader, deeper and deeper openness, interaction and integration. The building of the Belt and Road, marked by openness and inclusiveness, is open to all countries and to all international and regional organizations, and their active participation will be welcome.

The joint construction of the Belt and the Road must be based on the coordination of objectives and policy consultation, without stubbornly seeking uniformity. It is a process of co-operation characterized by flexibility, elasticity, diversity and openness. China intends to work with riparian countries to continually enrich and improve the content and modes of cooperation of the Belt and Road Project, develop a timetable and road map, and promote synergy. For instance, riparian countries' development plans and regional cooperation programs.

Within the framework of existing bilateral and multilateral cooperation mechanisms, both regional and sub-regional, China intends to co-operate with riparian countries in the form of joint research, forums, exhibitions, training, exchange of information and resources, ideas and visits, to deepen the knowledge and understanding of riparian countries about the content, purpose and mission of the Belt and the Road.

China intends to work together with the riparian countries to continue on a regular basis the implementation of the pilot projects, to develop programs taking into account bilateral and multilateral interests, to launch without delay the programs whose conditions are met and the consensus of all parties to harvest the first fruits.

The Belt and the Road are a path of mutual respect and trust, cooperation and win-win, as well as mutual inspiration of different civilizations. As long as the countries are working in solidarity and in the same direction, they can all together inaugurate new chapters in the construction of the Silk Road Economic Belt and the 21st century Maritime Silk Road, and benefits to peoples.

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