

PIVOT CITIES ON THE BELT AND ROAD

The Belt and Road Research Team
Chongyang Institute for Financial Studies
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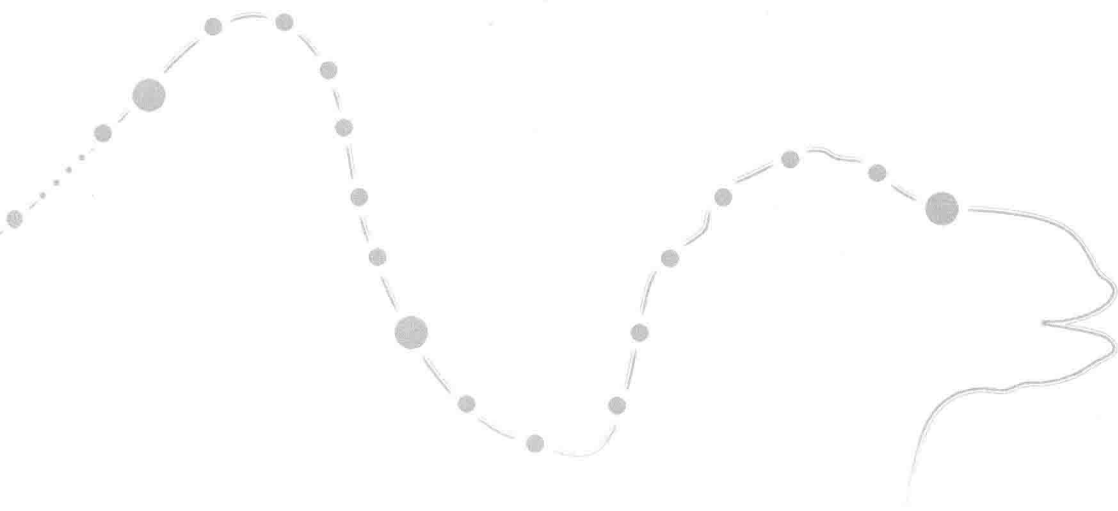
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Chapter 1

Background of the Belt and Road International Trade Pivot Cities



The CPC Central Committee and the State Council, giving overall considerations to both domestic and international situations in the context of the changing global landscape, have initiated a major policy to build up the Silk Road Economic Belt and 21st Century Maritime Silk Road (hereinafter referred to as the Belt and Road). Its global significance lies in the efforts to strengthen partnerships among the countries along the Belt and Road and further deepen the all-around opening-up and cooperation in a bid to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness. How will countries along the Belt and Road comprehensively forge ahead with the economic and trade relationship? The Chongyang Institute for Financial Studies of Renmin University has initiated the vital concept of Belt and Road international trade pivot cities, which refers to the leading international trade cities along the Belt and Road. These cities boast large-scale economic and international trade volume, well-established infrastructure, human resources and open business and investment environment, and therefore are strong forces to concentrate, radiate and lever the industry.

I. Research Objective: Pivot Cities, Key to the Implementation of the Belt and Road

The success of the ancient Silk Road and the Belt and Road hinges on the smooth operation of the Silk Road Economic Belt, which in turn hinges on cities along the Belt and Road, whose trade development turns out to be the ultimate solution. It has been a

long time since the concept of “international trade hubs” was formulated in international trade. We have, however, transferred the research objective from international trade hubs to international trade pivot cities based on the following considerations.

1. The Connotation of International Trade Pivot Cities Is More Profound

The international trade pivot cities, generally speaking, refer to renowned cosmopolises which, by actively participating in international trade with highly intensive resources and highly international business, impose influence on international trade both home and abroad. Most cities along the Belt and Road, besides a number of highly international trade metropolises, are small and medium-sized cities with growth potential in international trade. The concept of international trade hubs is not extensive enough to cover the diversified types of cities, while the concept of international trade pivot cities, to some extent, incorporates both international trade hubs as well as small and medium-sized cities. To be specific, the international trade pivot cities encompass both international trade cosmopolises and small and medium-sized cities and highlights the latter's potential for future growth in international trade. The international trade pivot cities, in this regard, better conform to the theme of the Belt and Road Initiative.

2. The Range of International Trade Pivot Cities Is More Extensive

The international trade hubs highlight the radiation effects within their radius while the international trade pivot cities, in broad terms, highlight the connectivity of individual cities over surrounding areas within their radius. The all-dimensional partnership of deep cooperation among countries along the Belt and Road would be realized only by giving play to the radiation effects and combined efforts of the cities along the Belt and Road. The Belt and Road international trade pivot cities concept would act by linking individual sites and areas from an all-around development blueprint, in which the international trade pivot cities blaze the trail to build an all-dimensional, interconnected and prosperous economic and trade landscape that is highly intensive and extensive enough to radiate to the surrounding areas.

3. The Advantageous Locations of International Trade Pivot Cities

International trade hubs, often major economic centers of a country, serve as

the proactive propellers of the Belt and Road Initiative, while some are not directly located along the six Economic Corridors of the Belt and Road. Accordingly, not all of the cities along the Belt and Road are international trade hubs. The international trade pivot cities are, however, inextricably relevant to the Belt and Road. Firstly, all of the international trade pivot cities are geographically located along the Belt and Road and serve as proactive propellers of the Initiative; and secondly, the international trade pivot cities cover important cities along the Belt and Road as traffic junctions and highlight these cities as strategic nodes along the line. One single pivot city is often linked to a number of traffic lines and routes, and only with the interconnection of international trade pivot cities would the individual sites be connected to form an interlinked network. Therefore, one or more trade and economic belts may come into being.

4. The Effective Role of International Trade Pivot Cities

The international trade hubs often highlight the dominant status and influence over the surrounding areas, the whole country and the world at large. The Belt and Road Initiative, however, covers a wide range of fields, and most of the cities along the line are part of developing countries and emerging economies and present different growth degrees of international trade. This would make it a time-consuming and cost-expensive approach against the purpose of the Initiative if the competitive resources of some of these cities are converged to foster international trade hubs. In contrast, the international trade pivot cities have unparalleled advantages in developing unimpeded trade among cities underdeveloped in trade, yet abundant in growth potential along the Belt and Road. The international trade pivot cities focus more on the role of cities along the Belt and Road as strongholds leveraging and supporting neighboring areas, other cities along the line and the whole country at large. Provided the optimal approach is taken, the efficiency would be maximized at a minimized cost and thus do less for more.

II. Significance of Research: Identification of the Right Pivot Cities Key to Unimpeded Trade

The Belt and Road is the guarantee of success in promoting unimpeded trade and hence the Belt and Road Initiative. The top priority goes to the identification and

classification of the Belt and Road international trade pivot cities, which would exert decisive influence in future policy making as well as the layout of resources and implementation procedures. A precise evaluation of pivot cities would be the foremost task in the implementation of an all-dimensional layout encompassing the land and maritime routes, linking in all directions to avoid a headlong rush into actions of resource-wasting.

1. Need of the a National Strategy: Foster Pivot Cities and Lever International Trade

International trade hubs are defined in traditional theories as important platforms with concentrated capital, large trade volumes, integrated finance systems and other service infrastructures, innovation and incubation capabilities of transnational enterprises. The international trade hubs make up a vital part of a nation's strategies and serve as important platforms and channels to open up to the world and explore the global market, as well as being a strategic front to acquire global resources.

However, it takes well-established industrial and trade foundations, joint efforts of central and local governments, as well as long-term accumulation and construction in order to foster international trade hubs. Therefore, there are only a relatively small number of such hubs.

The Belt and Road Initiative covers the axis of the heavily populated, geographically dispersed Eurasia, where some of the countries and regions along the line feature relatively underdeveloped economies, unbalanced industrial foundations and lack of a well-structured finance system and other service infrastructures. Besides, there is a great distance between these regions and the radiation zone of traditional industrial trade hubs. As a result, theoretical, policy and practical innovation must be put into practice in accordance with the requirements of the implementation of the Belt and Road Initiative, with an aim to cultivate international trade pivot cities along the line.

The utmost significance of international trade pivot cities lies in their leverage effects and radiation effects to the surrounding areas, since common growth and shared prosperity would be facilitated only with an interconnected radiation network of international trade pivot cities, a fully unfolded cluster effect in urban regions and boosted international trade, logistics and people-to-people exchanges.

2. Demand of the Unimpeded Trade: Identification of the Right Pivot Cities the Key to Unimpeded Trade

Trading relationships are always important parts of the world economy. Unimpeded trade is, therefore, the main part of the Belt and Road Initiative. In fact, among the five points of cooperation priorities of the Belt and Road Initiative, unimpeded trade is the major entry point.

Historically, the Silk Road and the Maritime Silk Road were first established as routes of trade. More than two millennia ago, the diligent and courageous people of Eurasia explored and opened up several routes of trade and cultural exchanges that linked the major civilizations of Asia, Europe and Africa, collectively called the Silk Road by later generations.

Trade has been the foundation of the exchanges between China and other countries since the Reform and Opening-up in 1978. In 2014, China's trade growth rate of imports and exports in real terms reached 6.1% and that of exports reached 8.7%, both higher than expected. The export volume of China that year made up 12.2% of the global figure and the country continued to maintain the position as top commodity trade giant.¹

The five points of cooperation priorities, each acting dependently on the others and among which unimpeded trade is of greatest significance, make up the main part of the Belt and Road Initiative. Unimpeded trade is the prerequisite to the need for smooth traffic and well-built infrastructures, a propelling force of currency circulation and people-to-people bonds. Therefore, the establishment of a trade benefit mechanism, as well as trade facilitation, would ultimately drive the joint development of countries along the Belt and Road.

Chinese President Xi Jinping proposed to move forward in gradual implementation for grand regional cooperation by linking individual sites and areas to form an integrated network. The focus of the implementation of the Belt and Road Initiative is the identification of the right node countries. As the key for overseas investment is to locate the right node projects in the right node countries, the key for realizing unimpeded trade is to locate the right pivot cities and give full play to their functions.

¹ See Annual Report of the Ministry of Commerce: Commercial Work in 2014 X: China's Foreign Trade Development Scores High under the New Normal, <http://www.mofcom.gov.cn/article/ae/ai/201501/20150100872487.shtml>.

For instance, facing the relative underdevelopment and weak infrastructure of countries in Central Asia and the sparsely populated areas in West China with inconvenient traffic access, it is necessary to build pivot cities to improve the trade environment of these relevant areas and constitute leverage effects over the surrounding countries. Therefore, locating pivot cities conforms to the objective laws of building up the Belt and Road Initiative.

3. Coordination of Local Demands: Enforce Reasonable Layout and Avoid Impulsiveness

The foremost issues in building up the Belt and Road international trade pivot cities are which cities to choose and how these cities would be built.

According to the plan of the Belt and Road Promotion Leading Group, provinces in China were to finish the cooperative proposal for together implementing the vision of building the Belt and Road within September no later than October in 2015. Those provinces, taking international trade as major business activities, had to ponder how to make use of respective competitive edges and formulate planning for future development.

To identify and develop the international trade pivot cities and give full play to the model effects of these cities, four areas of focus were to be emphasized: firstly, focus on giving full play to the radiation effects and leverage effects of advantageous international trade pivot cities; secondly, focus on breaking down the institutional barriers and bottlenecks restricting cities' potential to grow into international trade pivot cities, while the key point in this aspect is to intensify reforms and get rid of administrative hierarchies; thirdly, focus on supporting international trade strategic pivot cities and building up these cities to unleash their strategic functions; fourthly, focus on enforcing a reasonable layout and adjusting disorderly competitions in specific regions to avoid waste of resources and take the areas within the radiation zone of international trade pivot cities into the overall development planning.

To build the Belt and Road international trade pivot cities is a macro economic strategy unable to be propelled by a single city or a few cities. National efforts jointly made by the central and local governments should also be directed to the initiative. In addition, functions of think tanks in building international trade pivot cities should be valued to seek theoretical support from them in evaluating and screening pivot cities.