

Impact of OBOR on Global Supply Chain Management

Tariq Mehmood Khan

Abstract:- China's One-Belt-One-Road initiative is a venture that was brought up by Chinese President. The main goal of the initiative is to link China and other nations in the world therefore promoting international trade. China is looking forward to taking the welfare of every nation into consideration in order to achieve mutual benefit. The overall purpose of this research paper is to discuss the impact of OBOR on global supply chain management. The paper begins by discussing OBOR initiative and then followed by a brief discussion of what global supply chain management is. Additionally, various areas where OBOR has impact on such as tourism and shipping industry are also discussed. Finally the anticipated impact of OBOR on global supply chain management is highlighted and at the end a conclusion that summarizes the main ideas in the paper is given.

I. INTRODUCTION

What is the impact of One-Belt-One-Road initiative on the Global Supply Chain Management? According to Harrison et al (2014), globalization has reshaped and changed the world both technologically, politically, economically and environmentally. Global Supply Chain networks allow organizations from various geographic regions to cooperate throughout the lifecycles of their services and products. One-Belt –One- Road (OBOR) also referred to as the Belt and Road Initiative is a venture instigated by the president of China. The intention of this initiative is to create trade pathways linking China and other nations in the Middle East and Africa, Europe and South and Central Asia. It intends to build the biggest platform for economic collaboration, including social and cultural cooperation, financial and trade collaboration, policy coordination, and economic cooperation in the entire world.

OBOR is a system of ports, oil pipelines, railways, roads, power grids and other infrastructural project meant to connect China to the rest of the globe. This initiative was made known in 2013 with an aim of rejuvenating the earliest trade paths linking Europe to Asia. OBOR's action plan was endorsed by the State Council in 2015 and it had two sections: The twenty-first Century Maritime Silk Road and the Silk Road Economic Belt. The twenty-first Century Maritime Silk Road is premeditated to build relations amid regional watercourses while the Silk Road Economic Belt is predicted as three paths linking China to the Mediterranean(via West Asia), Europe (through Central Asia), the Indian Ocean (through South Asia), and the Persian Gulf (Harrison et al, 2014).

The effort has already generated some practical achievements and more than sixty nations have shown concern on participation in the One-Belt-One-Road action plan. China has already signed joint collaboration agreements connected to the venture with nations such as Turkey, Tajikistan, Hungary, Russia, and Mongolia. Several projects are underway, such as a train link connecting Iran and Eastern China that might be extended to Europe. Additionally, there are newest rail connections with Thailand and Laos and high-velocity-rail ventures in Indonesia. China ascertained the forty billion dollar Silk Road finance to fund these initiatives in 2014, and it has made investments in numerous main projects. These ventures are just the beginning as OBOR goes through an innovative phase of more comprehensive and detailed expansion.

The initiative will see the creation of six main economic corridors that will act as the sites of industrial and energy collections and will be built via the use of pipelines, waterways, roads, and rail, air and information highways (The Economic Intelligence Unit, 2016). By enhancing and relating the efficiency of nations alongside the New Silk Road, China looks forward to sharing the benefit of cooperation and that the circle of closeness will be expanded and strengthened. China is looking forward to taking the welfare of each party into consideration in order to make mutual benefits such as closer cultural exchanges and environmental management. The objective of this research paper is to discuss the One-Belt-One-Road initiative and its impacts on Global Supply Chain Management.

II. WHAT IS GLOBAL SUPPLY CHAIN MANAGEMENT?

A global supply chain is a vibrant international network when an organization uses or purchases goods and services from abroad (Ganeshan and Harrison, 1995). It entails resources, processes, information, and individuals involved in the managing and circulation of resources and finished goods or offering a service to the consumer. In business, global supply chain management is described as the circulation of services and goods all the way through a trans-national organizations' global network to minimize waste and maximize profit. It focuses on organizations and companies that are trans-national. Global supply chain management has six areas of focus: operations management, supply-chain coordination, logistics management, customer orientation, supply management, and competitor orientation. Successful supervision of a global supply chain additionally requires complying with

different global regulations set by a range of non-governmental organizations such as the United Nations.

Global supply-chain management can be affected by various actors who enforce policies that control particular aspects of supply chains. Non-governmental and governmental organizations play a significant role in the area as they enforce and create regulations or laws which firms must adhere to. These rigid policies regularly control social challenges that pertain to the operation and implementation of a global supply chain such as environmental or labor (Manuj and Mentzer, 2008). These policies force organizations to abide by the rules set in place which frequently impact the profit of a company. Managing and operating a global supply chain comes with various risks.

Successful global supply-chain management takes place after putting into practice the suitable structure of concentration, acting in accordance with intercontinental regulations put in place by non-governmental and governmental organizations, and distinguishing as well as suitably managing the risks involved while minimizing waste and maximizing profit. The OBOR project has a truly global scope, a titanic transformation that is looking forward to placing China at its heart. Even as this investment unlocks trade in OBOR areas global supply chains are sure to be created. In China's viewpoint, one main change in this supply chain will be a rebalancing of their dependence on shipments via the Malacca Strait. More than eighty percent of China's thriving oil demand presently passes through these waters. These seismic changes might have a big impact on the industry within Malaysia and the region.

III. MALAYSIA BENEFITS FROM OBOR

The analysis of such a wide-reaching venture is frequently nuanced and complex, but the overall perception is that Malaysia is set to take pleasure in some noteworthy benefits from the realization of One-Belt-One-Road initiative (Yu, 2016). The Maritime Silk Road will require huge investments in a chain of new ports, a thing that Malaysia is keen to capitalize on. China is reportedly investing 7.2 billion dollars in Melaka Gateway one of the flagship infrastructure projects in Malaysia. This huge venture will open up the potential for hugely enhanced competence in main supply routes as well as raise the remarkable likelihood of considerable procurement necessities around infrastructure creation. That definitely means greater opportunities and greater demand.

Whereas the entry of Chinese construction companies specifically could raise challenges for some, the possibility is that the wider impact on production will be positive mainly around infrastructure and it is predicted that the growth will also benefit the domestic subcontractors. More generally the initiative helps promote the positive improvement of regional free trade, enabling and supporting easier cross-border commerce and extended business opportunities. That is specifically crucial for

China and Malaysia who are committed to achieving the objective of one hundred and sixty billion dollars in bilateral trade over coming years. Increasing focus on these trading arrangements implies more frictionless supply chains for services and goods, facilitating the greater improvement of global trade structures.

The OBOR initiative is the largest international trade development venture in history. Therefore, this opens up Malaysia and the surrounding region to an increasing international trade opportunity. Businesses in Malaysia ought to stay competitive so as to keep up and this means utilizing the latest technologies like e-sourcing to make sure that organizations remain competitive on this increasing global stage (Yu, 2016). Additionally, access to global suppliers via modern platforms will play a significant role in the future. Eventually, OBOR is all about unlocking chances. It is about creating an increasingly interconnected world trade network where services and goods move more freely around the continent.

IV. OBOR IN FACILITATING GLOBAL TRADE

China is using over one trillion dollars in infrastructure spending into some of the most isolated and poorest nations in the world and the effect of these lofty objectives are already being felt (Hayes, 2017). The initiative strategy is meant to create a network of infrastructure such as roads and railways that connects China and the nations along the two routes. Additionally, it will create opportunities for China to export overcapacity and make investments abroad. The initiative centers on several infrastructure investments along the route and is anticipated to improve regional connectivity and facilitate trade, and will probably set the stage for the next round of global economic growth. The development is not aimed to benefit China alone instead it is likely to open more avenues throughout the world for instance companies in Western parts will benefit from several emerging trade opportunities.

Among the main ambitions of China's new program is the restoration of its ancient Silk Road trading paths, taking Chinese commodities overland to Europe. For the past centuries, these trading paths were abandoned in favor of European ships but this arrangement restricted Chinese developments to its Eastern coastal cities and the government is more than ever committed to extending its prosperity inland in its initiative of "Go West". This will benefit China in ways such as the restoration of China's uncertain economic growth via high volumes of trade formation of jobs. China's prospect to go up the chain and become the head in the export of high-end technology and goods via the ultimate movement of information that will take place is going to be realized (Balandina, 2017).

Other nations that are taking part in OBOR initiative will have access to China in addition to other interlinked markets along the proposed routes. Landlocked and smaller nations particularly stand to benefit from increased inclusiveness. Nations that are small will see inland

infrastructure expansion through increased investment by China and other partner nations. The exchange of ideas, information, and technology amongst nations will bring about sustained economic improvement and spur innovation. The cost of transporting goods to nations given economies of scale and availability of better infrastructure is going to be lower.

OBOR has the potential to change investment landscape of trade of Eurasia and bring about positive collaboration and greater economic gains amongst the states involved, thus improving the economic affluence of the region. The participating nations should, therefore, work together to draft strong policy-related goals and feasible agreements, chart out clear regulations and rules in regards to the regions, for instance, human rights and environment thus ensuring the success of OBOR in the long run. Whereas global trade is without a doubt, not a tide that uplifts all boats, on cumulative it benefits the global enterprise development to buying power and improving standards of living.

V. MULTILATERAL AGREEMENTS

OBOR is one of several ongoing efforts that promote regional integration and cooperation. There are other multilateral trade agreements aiming at creating closer regional ties such as Trans-Pacific Partnership that involves America and other eleven Pacific Rim nations (Divijak, 2012). China has been very active in supporting Double-Tax Treaties which frequently contain reduction and clauses of taxes helpful to the respective parties' trade. China has been very active when it comes to taking part in Free Trade Agreements and it has wide-ranging and significant deals with New Zealand, Singapore, ASEAN, South Korea, and Australia amongst others and is actively engaged in negotiating several more. America is also forging closer economic ties with ASEAN nations through a US government initiative that was launched in February 2016 intended to promote economic integration and trade.

There is much scope for international companies to capitalize on increased connectivity in the OBOR regions. Enhanced connectivity and infrastructure investments might create new markets for international companies and ultimately improve global economic growth. America currently has close trade ties with nations along OBOR and thus they stand a chance to benefit from business climate and improved connectivity in the region. This is significant because they massively and directly impact multilateral and bilateral trade patterns. America's economy is in part depended on the aptitude of US companies to compete successfully in the markets abroad.

According to the America Bureau of Economic and Business Affairs, more than ninety-five percent of the global consumers reside outside America and approximately eighteen percent of manufactured exports from the US are sent by firms to their foreign affiliates. For the nation in the Western, the OBOR initiative means new chances in the Africa, ASEAN, and Central Asia

countries. Nonetheless, any economic impact from the initiative will probably be felt in the longer-term for the reason that projects in the underdeveloped countries along the OBOR will take several years to complete.

VI. IMPLICATIONS FOR BUSINESSES

The OBOR initiative will benefit several businesses including Western firms. The improved infrastructure conditions will probably be optimistic for Western international organizations in their uninterrupted drive to maximize manufacturing expenses. The infrastructure will allow firms to hit into lower remuneration of promising economies along the OBOR as well as result in reduced transit costs. Even though international organizations from Western already have manufacturing bases in several of the nations, higher connectivity will probably reinforce this trend going forward. Consequently, consumers from Western stand to benefit from reduced prices when lower costs are passed through to end users.

Expansion of disposable income and business climate along the OBOR line will probably drive demand food and beverage and consumer goods categories, in turn benefitting international organizations. International companies will additionally benefit from improved catchment regions for the products as a result of enhancements in infrastructure and the elimination of non-tariff obstructions that will ease their business. Sectors that are diverse for instance infrastructure, logistics, trading, energy and tourism in nations along the OBOR are likely to gain from improvements in energy, utilities, infrastructures, and associated industries.

Global beverage and food companies such as Nestle has put itself as a beneficiary of upcoming market growth with over one-third of its retailing contributed by the Middle East, Europe, and Asia. Sales from China improved the highest at a twenty-seven percent Compound Annual Growth Rate, followed by the rest of the continent at plus eleven percent, America at plus one percent, and Switzerland plus two percent for the past five years (Haggai, 2016). The sub-Saharan Africa, Oceania and Asia region cooperatively contributed 16.1 percent of total revenue in 2015 with Indonesia and Vietnam as bright spots. We anticipate firms like Nestle to gain from the support the initiative offers to income levels and demand for consumer goods in the area.

Entrepreneurs and businesses in China and other Asian nations are likely to gain from OBOR. The rate of employment is expected to increase as initiative improves further which will thus improve the economic and welfare situations for instance improved economic growth. The initiative is expected to promote integration amongst markets and regions which can be motivated by a well-developed infrastructure. Referring to Haggai (2016), OBOR might lead to improved trade which will probably increase the role of China as the leading trading partners. It is significant to work towards wide-based growth so as to

attain a sustained economic growth and global supply chain in the long run.

VII. EFFECT ON THE TOURISM INDUSTRY

The One-Belt-One-Road initiative offers opportunities to encourage incorporated tourism development involving China and the nations along OBOR and therefore drive up Chinese outbound tourism. In 2015 the number of outbound tourism in China increased to one hundred and twenty million and they spent two hundred billion dollars abroad according to the World Tourism Organization (1997). This played a crucial part in making China the largest source of outbound tourism in the continent. Thailand is a good illustration as tourism is the major source of income for its economy and accounts for nearly sixteen percent of its gross domestic product. It received around 8 million Chinese tourists which generated close to eleven billion dollars income in 2015, greater than any other nation's contribution.

The One-Belt-One-Road development has additionally brought chances for the Chinese airlines to create new routes to take care of cities along the OBOR. For instance, Air China is anticipating new paths linking cities in Western China with Africa and Central Asia which will definitely pave ways for new tourist destinations for the Chinese outbound tourists. A number of American airlines have already created strategic partnerships with Chinese airlines. Their cooperation focuses mainly on America-China routes but their strategic cooperation is to cover the regions along OBOR.

VIII. IMPACT ON THE SHIPPING INDUSTRY

Billions of dollars have already been invested in power grids, roads, bridges, industrial parks, railways, and oil pipelines along a variety of trade routes. The investment in port expansion along the Maritime Silk Road will, without doubt, improve containerized trade and expand the container's set of connections (Yuen, 2016). One of the greatest aspects of this initiative is the change encountered in the control of infrastructure and pattern of global ownership which facilitates new trade movements. The control of such infrastructure from the interest of Chinese will absolutely improve the Chinese exports and imports out and into these nations. Throughout the building of the modern infrastructure, huge quantities of a range of tools and machinery will have to be transported to work sites along the path. Once established it will accelerate economic expansion. It will also catch the attention of more investors and generate desire for other industrial road and rail network which will probably be transported from abroad.

Some of the impacts on shipping from this massive venture are going to be positive since the demand for shipping services is expected to be improved although other developments might have an unfavorable impact in shipping markets. China and other Asian nations retain their high growth. Additionally to this initiative, the seaborne imports in nations of Japan, Europe, and Asia

might improve in the coming decades with the economic weight of the region anticipated to continue growing. The infrastructure venture will enlarge the utilization of raw materials and as a result the requirement for shipping services. Huge volumes of construction development material like steel products, equipment, cement, iron ore and weighty machinery may be distributed from China and other areas through seaborne trade. The project such as a Railway that is linking Kenyan port of Mombasa to Nairobi in addition to South Sudan and other African nations is likely to affect the shipping markets by reducing the tone-mile demand given that part of the transportation will take place through other means such as road transport.

Given that the expansions in road infrastructure are projected to improve the route between Central Europe and China, road transportation might attract movements of sensitive and valuable goods which were previously transported by the sea. Thus, regardless of the fact that the entire OBOR initiative possibly will create new chances for the shipping industry, ventures scheduled under the Silk Road might have an unfavorable impact, even though it is not anticipated to create a conspicuous impact on the shipping bulk market. It is quite early for us to assess a particular impact of OBOR initiative on the Shipping industry and onto to the existing maritime routes, but every market player ought to definitely keep an eye on the expansion of such crucial project.

According to Tim Smith (2017), the shipping industry has begun experiencing the gains of firmer stipulation in an intensifying global economy which is pushing a more constructive response amongst industry stakeholders. With plans to generate 2.5 trillion dollars in an additional trade involving Belt and Road nations and China over the next ten years, the OBOR initiative would have a major positive impact on the global shipping industry. The systematic and careful management of cost in addition to the digitization of procedures would be two areas of key focus for global shipping firms over the coming years. Therefore, the Chinese globe-spinning infrastructure initiative will possibly have a significant affirmative impact on the shipping business.

IX. CHALLENGES LINKED TO OBOR

The OBOR initiative is intended to bring socio economic prosperity to all the involved nations as well as to the global supply chain nonetheless; there are still difficulties and risks associated with the project. A considerable number of nations will benefit from the venture, but China remains to be the highest beneficiary (Rudolf, 2015). A key potential challenge linked to the maritime route is the disagreements between China and some of her neighbor countries concerning territories in the Indian and Pacific Ocean, and that regions will distance themselves from the OBOR project (Haggai, 2016). The members of Association of Southeast Asia Nations (ASEAN) are concerned about China OBOR that make those nations hesitant to make active role on China's OBOR investments.

According to Rudolf (2015), another challenge is the conflict in the Middle East and the apprehension that ISIS takes power over areas in Central Asia since nations and areas in this region will play a crucial role for additional success and establishment of OBOR. As stated earlier, China will gain from the strategy, though, it is crucial that Chinese leaders give an explanation to stakeholders and other nations that they will also benefit (Yu, 2016). As a result of avoidance of unilateralism and improved ownership and responsibility, Yu goes ahead to discuss the significance of providing other nations and actors with full insight into the venture. The risk linked to this is that other stakeholders may give up on their participation in the whole initiative.

The initiative matters since it is a challenge to America and its customary way of thinking about the global trade. There is a lot to admire in China's expansive and visionary trade policy in the midst of current global trade expansions in the Western region. Generally, debts of state-owned companies, political reform deadlocks, and ever-escalating regulatory requirements present great limitations and challenges. At the same duration, China has been following its strategic visions and goals consistently for a long duration and latest improvements send a clear message that China will come by train, air, and sea and it is here to stay. The OBOR initiative is a welcome improvement that the world ought to embrace to grab the new trading opportunities.

X. THE ANTICIPATED OUTCOME OF OBOR ON GLOBAL SUPPLY CHAIN

The one-Road-One-Belt initiative is still in its initial stage and quite a number of projects are in their planning phase which makes it difficult to assume that all infrastructure developments will be accomplished. Therefore, the anticipated outcomes from the OBOR are connected to the consequences and prospects. As mentioned in the Visions and Actions Plan (2015), the government of China has promoted the improved communication and relations between nations linked to the initiative. The anticipated results can additionally be related to economic growth, better infrastructure, and enhanced cultural exchanges over borders. According to Xinhua (2016), 4.4 billion individuals will be affected by the OBOR initiative if it works out as planned. One motive behind the initiative was to encourage the domestic economy and improve export opportunities; however, an anticipated outcome is the additional entry of knowledge, technologies, and services from Western nations (Leung, 2016).

The New Silk Road initiative will promote the Chinese currency on the global market that can advance the globalization of the Chinese currency (Cheng, 2016). The OBOR initiative will build trust and respect among the nations and the people along the roads. This improved knowledge sharing across and between nations along the roads is because of improved links that rose to respect and trust (Vision and Action Plan, 2015). Going forward, the

visions and Action Plan lays emphasis on the significance of nation's endeavor towards the common objectives of the OBOR initiative. The One-Road-One-Belt initiative has huge potentials if explored with common objectives with motive to benefit nations.

XI. CONCLUSION

China's initiative to open herself to the other parts of the globe in 1978 was the beginning of new era. The One-Belt-One-Road initiative aims to stimulate global as well as domestic economy and increase relations between nations along the roads. The initiative was made known in 2013 by the Chinese President with an objective of promoting economic development of the nation's next to the belt and road and local economic collaboration. The initiative was also meant to strengthen mutual learning and exchanges between various cultures and to encourage global development and peace. The initiative is expected to have a positive impact on the global supply chain management with nations along the OBOR expected to benefit more. As earlier said, China is also going to benefit a lot since everything revolves around them and this, therefore, indicates that in years to come China will be leading in trade throughout the world. The OBOR initiative is in the initial stages of development and how it is going to unfold will be appealing in future research on OBOR's impact on global supply chain management.

REFERENCES

- [1]. Balandina, M.S. (2017). International trade as a channel of influence of globalization on economic development of the countries-parties of OBOR initiative. *R-Economy*. 2017. Vol.3.Iss. 4, 3(4), 231-242.
- [2]. Cheng, L. (2016). Three questions on China's "Belt and Road Initiative". *China Economic Review*, 40, 309-313.
- [3]. Divijak, D. (2012). World trade organization and multilateral environmental agreements. *Zbornik Radova* 46, 175
- [4]. Ganeshan, R., & Harrison, T. P. (1995). An introduction to supply chain management. Department of Management Science and Information Systems, Penn State University, 2-7.
- [5]. Haggai, K. (2016). One Belt One Road Strategy in China and Economic Development in the Concerning Countries. *World Journal of Social Sciences and Humanities*, 2(1), 10-14.
- [6]. Harrison, A., van Hoek, R. & Skipworth, H. (2014). *Logistics management and strategy: Competing through the supply chain*. (5th ed.) United Kingdom: Pearson Education.
- [7]. Hayes, N. (2017). The Impact of China's one belt one road initiative on developing countries. *International Development*.
- [8]. Leung, A.K. P. (2016). Huge potential gains of China's 'One Belt One Road' are worth the risks. *South China Morning Post*, 2016-05-05.

- [9]. Manuj, I., & Mentzer, J. T. (2008). Global supply chain risk management strategies. *International Journal of Physical Distribution and Logistics Management*, 38(3), 192-223.
- [10]. Rudolf, M. (2015). China's Silk Road Initiative Is at Risk of Failure. *The Diplomat*, 2015-09-24. Accessed: 2017-03-21.
- [11]. Smith, C.T. (2017). Century of the seas: unlocking Indian maritime strategy in the 21st century (Doctoral dissertation, Monterey, California: Naval Postgraduate School).
- [12]. World Tourism Organization (Madrid), Network, W. E., University of Hawaii (Manoa), University of Calgary (Calgary, Canada., & James Cook University (Australia). (1997). *International tourism: a global perspective*. World Tourism Organization.
- [13]. Xinhua92016a). *Chronology of China's Belt and Road initiative*. Accessed: 2017-02-21.
- [14]. Yu, H. (2016). Motivation behind China's 'One Belt, One Road' Initiatives and Establishment of the Asian Infrastructure Investment Bank. *Journal of Contemporary China*, 26(105), 1-16.
- [15]. Yuen, K.T. (2016). China's 21st Century Maritime Silk Road: Malaysian perspectives. *China's One Belt One Road Initiative*, 289.