

THE SILK ROAD, XXI CENTURY:

“One Belt One Road”



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Executive Summary

In late 2013, the Chinese leadership announced an initiative called One Belt One Road, consisting of a land element – development of infrastructure between central China and Western Europe, and a maritime element, starting from a port in South-Eastern China and ending in Venice.

There are many reasons for this breath-taking initiative: a change in orientation of the domestic economy, development of Western inland regions of China itself, security in Central Asia, accelerated access to markets and raw materials, and break-out from perceived US encirclement.

The initiative is accompanied by the establishment by China of the Asian Infrastructure and Investment Bank, and a \$46 bn Silk Road Fund. Much more will be needed.

The project involves some 60 countries and spans the whole of the Eurasian land mass, and includes one of the most neurlgic straits in the world, the Straits of Malacca. The geopolitical implications are huge – the interests of the US, Russia and the EU are in play.

But there are potential benefits for everyone in freeing up an increasingly important channel for two-way trade and exchange.

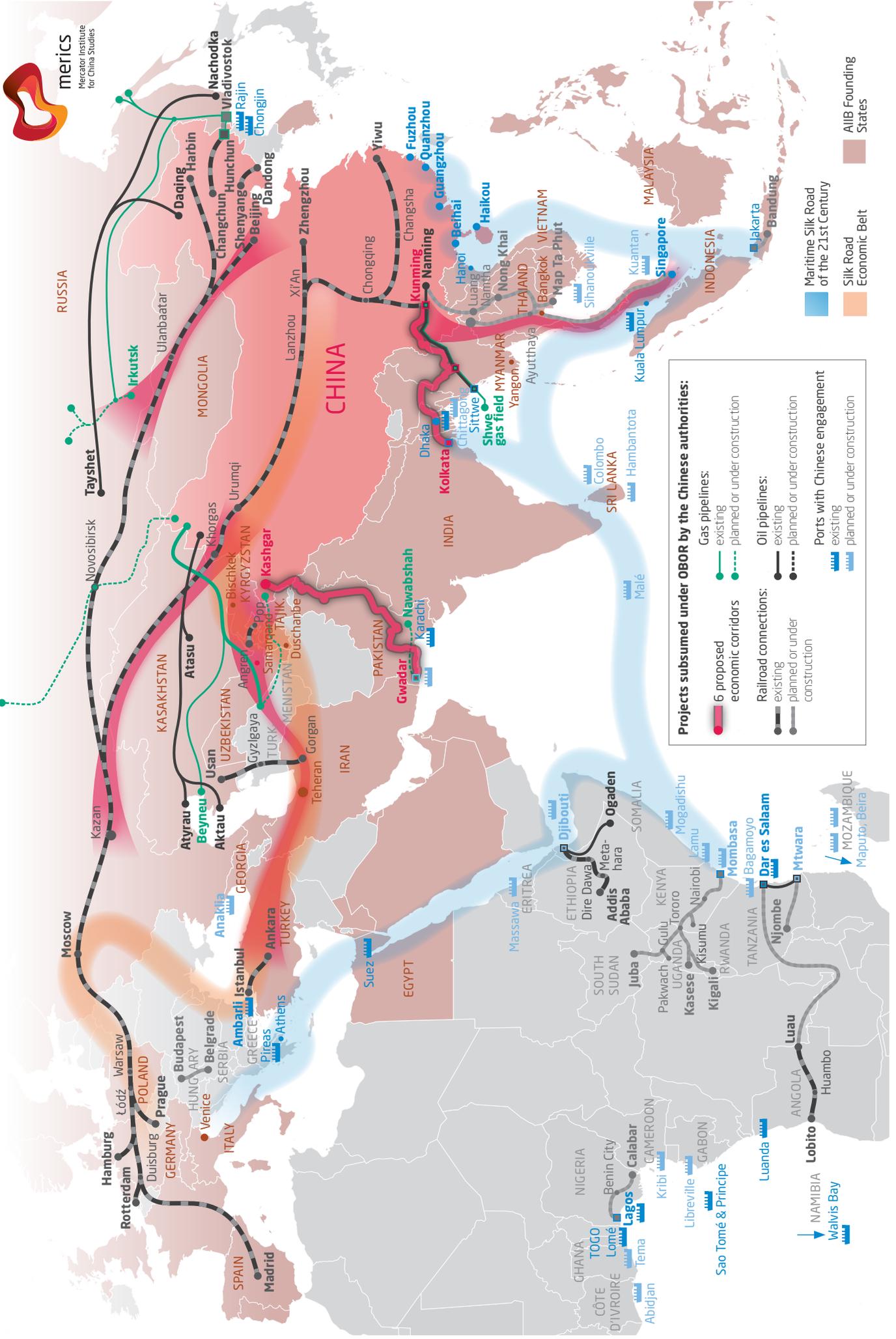
The Initiative

During his State visit to Kazakhstan in September 2013, President Xi Jinping for the first time canvassed his initiative “One Belt, One Road”, the stated aim of which was to revive the trade and cultural links between China and her western neighbours. A month later, before the Indonesian Parliament, Xi announced in addition a “maritime Silk Road of the Twenty-first Century”, geographically concentrated on the Indian Ocean and East Africa. A Xinhua overview shows the overland Road beginning in Xi’an, in central China, before heading to the border of Kazakhstan. It then heads south-west to Iran, before passing through Iraq, Syria and Turkey. It next crosses the Bosphorus, and then travels through Bulgaria, Romania, the Czech Republic and Germany, ending at Rotterdam in the Netherlands, from which the route runs south to Venice, where it converges with the western terminus of the planned maritime route.

The Maritime Silk Road begins in Quanzhou (Fujian) and touches on Guangzhou and Haikou before Hanoi and the Malacca Strait. From Kuala Lumpur it heads to Kolkata and/or Colombo and crosses the Indian Ocean to Nairobi, and thence to the Horn of Africa and the Mediterranean, with destinations Athens (Piraeus) and Venice.

There are two important offshoots foreseen for avoidance of the possible bottleneck of the Straits of Malacca – an oil pipeline from Kashgar to Gwadar in Pakistan, and oil and gas pipelines between Kunming and Kyaukpyu in Burma.

As will be understood, the project is not lacking in ambition, involving as it does more than 60 countries and a number of international organisations. It represents a new approach by China to the other participants – a new, more cooperative diplomacy, as well as a greater openness to an innovative enterprise culture, which will need to persuade



others that they too will benefit, and a very strict assurance, in milieus not very used to this, that there will be no tolerance of corruption. This was the main message of Xi at the Boao Forum in March 2015, when he emphasised the openness and the inclusivity of the project. Above all, the financial implications are huge, when one considers that in September 2010 the Asian Development Bank estimated that the investment needs of Asian developing countries up to 2020 for national and regional infrastructure amounted to \$776 billion annually, that is, some \$8 trillion in all. This amount far exceeds even China's capacity, and nor is China proposing to fund it entirely by itself. But the founding of the Asia Infrastructure and Investment Bank, with registered capital of \$50 billion, which China envisages as doubling soon, is a first step. As well as this, Beijing has set up a Silk Road Fund, with \$46 billion available in coming years for infrastructure in the region. Chinese government-owned firms will also be active in advancing the project. An example is Cosco, the China Ocean Shipping (Group) Company, which in January this year was the successful bidder for 67% of Piraeus, the port of Athens. Another example is the China-Pakistan Economic Corridor, for which the Chinese Government put up \$46 billion in 2014. China is already building expressways and harbours in the Middle East and in December 2014, during the 16+1 Summit, between China and Central and East European countries in Belgrade, Prime Minister Li Keqiang announced the construction of an express railway between Budapest and Belgrade. As for the maritime road, the project foresees several deep-sea harbours in the Indian Ocean, while in Bagamoyo in Tanzania the largest harbour in Africa is being built for \$11 billion.

Chinese Aims

One can think of many reasons why China has launched this project now.

1. It has reached a plateau in the domestic economy which could be characterised as the end of the extensive phase, which had been based on enormous infrastructural development. Domestically, the emphasis is on consumption and services, not any longer on construction. There is a corresponding freeing up of the resources, both financial and physical, which had been devoted to building up infrastructure. Large state enterprises, such as the China State Construction Engineering Corporation, the China Railway Corporation and the China National Petroleum Corporation, can expect to benefit from the Silk Road initiative.
2. China is the world's largest oil importer and gets more than half of its crude oil from the Middle East. Most of this (80%) passes through the Straits of Malacca, a bottleneck which could, from the Chinese perspective, be all too easily closed by the US Sixth Fleet.
3. Beijing is concerned with the situation in Xinjiang and the unrest among its Uighur population. As seen from the Chinese capital, there is potential for unrest on the basis of under-development, drug-trafficking, and terrorism, sometimes imported from and stimulated by the region's Central Asian neighbours, including Afghanistan, many of which are conscious of an ethnic relationship with the Uighur population.
4. China hopes for economic stimulus not only from domestic consumption, but also from opening new trade routes, export markets and energy sources, not only in Asia, but also in Africa and Europe.
5. The distance between Europe and China could be significantly shortened. The land distance from central China to Germany is 12-16 days. The sea route takes 50-60 days.
6. While unspoken, there is undoubtedly a geopolitical calculation which would be to the disadvantage of both Russia and the United States. This is especially the case for the Central Asian states, a crucial element in every sense of the Silk Road.
7. China perceives itself as boxed in by US naval power in the South China Sea and in the East China Sea, hence her territorial claims in these two areas, aimed, inter alia, at achieving an opening to "blue water" for China. A

valorisation of the Chinese presence in Central and Western Asia is another element in asserting Chinese power vis-à-vis the US.

8. In the same vein, Beijing sees the TTIP and the TPP as strategic efforts by the US to isolate the BRICS – it is not so much that China is acting on behalf of the BRICS in this initiative, but that the BRICS represent its – and Russia's – bulwark against what they perceive as the unipolarity of US influence in the world scene. The Silk Road is an effort at once to demonstrate that such efforts will not succeed and a way of countering them.

As well as these considerations, the project is closely linked to China's Thirteenth Five-Year Plan 2016-2020, both in the respect already mentioned – the shift in emphasis to consumption domestically, and in the objective of narrowing the gap between coastal and inland areas – hence, among other things, the beginning of the land route in Xian which, the Chinese emphasise, has historically been linked to the external world,

Russia and the One Belt, One Road Initiative

Russia regards Central Asia as in a sense its *chasse gardée* (preserve). The region has, as Russia sees it, been a culturally close region for more than a century, having been part of both the Russian Empire and the USSR. Its lay elites were formed largely during Soviet times and are still largely Russian-speaking. The quasi-totalitarian political systems, including their dysfunctionality, are closer to the Soviet paradigm, and Moscow would like to think that after the events in Georgia in 2008 and in the Ukraine in 2014, Russia is seen in the area as a real centre of geopolitical influence and an able defender of its interests. Nostalgia in Moscow for the world that disappeared twenty-five years ago is still prevalent, not least in the Kremlin, finding expression in the various efforts to establish a Eurasian Union. So, instead of a Silk Road Economic Belt, Moscow prefers to talk of Eurasian integration. The Chinese have indulged this to an extent.

In May 2015 Vladimir Putin and Xi Jinping discussed the possibility of coordinating and even integrating the Silk Road Economic Belt and the Eurasian Economic Union with the goal of creating "a common economic space". Xi even committed himself in a joint document to hold multilateral talks on linking the two projects, as opposed to bilateral negotiations between those concerned. This did not go down well with the Central Asian states, and in September 2015 Kazakhstan and China declared their intention to coordinate the former's Bright Path national development programme with the Silk Road initiative. China has in fact emerged as the central geopolitical and economic power of the region. Trade has been the main motor: in 2013 it surpassed \$50 billion, far surpassing trade with Russia, and generally, the expansion of Chinese influence in the region has been at the expense of Russia's. An example is the case of Kirghizstan. On 20 January last the Kirghiz Parliament denounced agreements concluded in 2012, with the signature of Vladimir Putin, to build several hydroelectric power stations in Kirghizstan. The reason? Despite much discussion, it emerged that the two Russian concerns involved, RusGydro and Inter RAO, could not raise the necessary finance. Some of these stations are not far from a railway planned by China to transit Kirghizstan and Uzbekistan to Iran. This railway will need electricity; it is not difficult to imagine that China will step in.

A striking element of the Silk Road project is that, apart from what looks like an afterthought loop taking in Moscow, Russia is avoided completely. In one way, there is nothing surprising in this. Given the thrust of the project from the Chinese point of view – reassuring security of Xinjiang, securing access to oil and gas from the Middle East and Iran, securing other resources, especially from Africa, increasing trade, boosting the Central Asian states – this does not call for comment. On the other hand, it does point up the contrast in priorities between the two. Russia has, in the Trans-Siberian Railway, which has a branch line from Ulan Ude to Beijing, an existing railway infrastructure reaching from central China and linking to Western Europe. It is also in need of investment. But the Russian Federation is its sole shareholder, and its President until very recently was Vladimir Yakunin, one of President Putin's camarilla. As well, Russia's development priorities are domestic: the Russian Far East, in which the Trans-Siberian would play a significant rôle.

The very Eurasian element of Russian policy is potentially problematic for China. In essence it is at present an effort by Putin to build up an alternative to what he perceives as the failure of his predecessor, Yeltsin, and even more that of Mikhail Gorbachev, to make Russia a "normal" country by integrating it into the Western system. In a replay of the 1920s debate mainly among exiles in Prague, on where the future of Russia lay, the Eurasian option strongly emphasises what is called the "Turanian" identity of the Russian state/empire. This refers to the Central Asian element in Russian historical development and is strongly marked by the culture of the Turkic peoples of Central Asia. Apart from having been taken up by Vladimir Putin, clearly as an alternative to a failed "western" option, the Eurasian option is influential in parts of the Russian security sector, and is strongly advocated by their crank ideologist, Aleksandr Dugin. As it happens, one of the impulses in the reintegration of Central Asia into the Soviet state in the 1920s was a move to incorporate what was called "Eastern Turkestan", what the Chinese call Xinjiang. This is not forgotten in Beijing.

The US in Central Asia

The Chinese project is a challenge to the US in a number of ways already mentioned – a counter to US ambitions to confine China's maritime expansion and also to its objectives in Central Asia. It is also a new intrusion in an area of US primacy, the Middle East and the Eastern Mediterranean. In Central Asia, US policy has gone through two iterations, both failed, and is in search of a third. In 1991-2001, the area was a low priority for the US, Washington's emphasis being on helping the new states there to secure their independence and to ensure that none of them would take over Soviet nuclear capacity. After 2001, the logistical requirements of the invasion of Afghanistan overrode the promotion of economic and political reforms and of human rights. As of now, the reduction of the footprint in Afghanistan raises the question of whether the US in this region. In the words of a Carnegie Endowment paper of January last, "future opportunities to advance American interests will be limited and US relations with Central Asian countries will be challenging". It points out that greater regional integration among Central Asian states has been a long-standing goal of US policy, and that America's own "New Silk Road" initiative was the signature project of the enterprise.

However, as the US was not prepared to provide financing, the initiative floundered. The most significant element in the initiative was TAPI, the Turkmenistan Afghanistan Pakistan India natural gas pipeline. Like all American infrastructure projects in the region not directly linked to the US engagement in Afghanistan, it was oriented North-South, not like the Chinese initiative, East-West, and apparently aimed at focussing development towards the Indian Ocean where, for the time being, the US Navy is dominant. The failure of the initiative was perhaps foreseeable, given the focus on Afghanistan and the necessity of close cooperation between Pakistan and India. It is now clearly overtaken by the Chinese proposal.

China's Strategic Partnership in the Middle East

In the Middle East, China is stepping into an area engaged, in the words of Richard N. Haass, in a new Thirty Years' War, and one where the US is affecting to pivot away from, in order, ironically, to be better prepared to deal with the challenge posed by China. Xi Jinping paid a high-profile visit to the area (and to Iran) in January. China has entered into strategic partnerships with eight Arab countries in recent years, and has signed agreements with six of them to pursue the initiative jointly. During the visit Xi announced that China will give \$55 billion in loans to the region, including a \$15 billion special loan for industrialisation, \$10 billion in commercial loans to boost production capacity, and \$20 billion in concessional loans. The remaining \$10 billion is to go to a joint investment fund with the United Arab Emirates and Qatar to invest in traditional energy, infrastructure development, and high-end manufacturing in the region. It is permissible to doubt that the vaunted Chinese abstention from interference in internal affairs will be enough to keep Beijing free from being caught up in the new Thirty Years' War, or indeed, despite the "pivot", from getting entangled with the US in the process.

Iran's Interest in the Initiative

Just as in the historic Silk Road, Iran is strategically placed to benefit from the Chinese initiative. China has throughout the period of Western-imposed quarantine kept its lines to Iran open, trading with it in oil especially. It is also poised to benefit when eventually the arms embargo on Iran is lifted. The One Belt One Road initiative is ideally suited to restore Iran to a historic central position and thus to bring the country completely out of isolation.

Turkey-China Relations

Turkey, too, as in the original Silk Road, is strategically placed to benefit from it. In the Turkish case, however, there are some ethnic complications. As mentioned, a large part of the Central Asian population including in Xinjiang, is Turkic. When China suppressed Uighur protests in 2009, Recep Tayyan Erdoğan, the Turkish Prime Minister at the time, condemned the action as "a kind of genocide", and in July last, Turks and Uighurs protested twice in Istanbul and Ankara. The tone has, however, shifted in Ankara. Last year, Erdoğan, now President, warned his countrymen to be wary of rumours on social media about China's treatment of Uighurs, and nationalistic Turkish groups such as Young Anatolia have softened their stance towards China. In the meantime, in addition, Turkey has, in shooting down a Russian military plane in November, prejudiced its position as a transit country in Russian gas exports to Europe. On the other hand, last month, Turkey, clearly under pressure from its NATO allies, abandoned a plan to manufacture jointly with a state-backed Chinese company a sophisticated missile defence system. Turkey's trade relationship with China is one-sided – it imports \$25 billion per year from China, and exports only \$3 billion – and there is much disappointment in the country at the abandonment of the missile joint venture. For all that, because it would underline Turkey's rôle as a strategically important transit zone, and will have positive spin-offs in a sector of great Turkish strength, the construction sector, the country can probably be counted on as a full-hearted participant in the Chinese Silk Road initiative.

The EU's Interest in Central Asia

The EU's interest in Central Asia is sporadic. It indicated in June 2015 that it was reviewing its Central Asia Strategy, and in December 2015 it signed an Enhanced Partnership and Cooperation Agreement with Kazakhstan after negotiating for almost a year. Its priorities now are clearly elsewhere. Its activity in Central Asia has been largely focussed on institution-building and advancement of human rights, and thus is probably not in competition with China there. The One Belt One Road initiative does however have implications in Europe itself, as the Chinese investment in Piraeus shows. There is clearly a European interest in ensuring that infrastructural development in Europe itself benefits Europe, and also an interest in promoting international trade development, and, to that extent, an interest in cooperating with the Chinese project. Some German commentators propose that there would be an EU interest in promoting concordance between Putin's Eurasian Union and the Silk Road, thus joining the EU to the undertaking in order to promote cooperation from Lisbon to Vladivostok. As is known, there are thoughts in Berlin of meeting some of Vladimir Putin's preoccupations at being kept at distance by the EU by proposing special relations between the EU and his Eurasian Economic Union, and some indications that Germany might try to advance this during its Chairmanship of the OSCE this year. Whatever about the latter initiative, and it is not without possible complications to the extent that it might involve consecrating a would-be Russian position in Central Asia, the idea of adding the Silk Road initiative to the mix is probably a step too far: as indicated above, it is very unlikely that Russian and Chinese ideas in the area are compatible.

India's Concerns

India is, of course, a member of the BRICS group jointly with China. The two can hardly be considered to have warm

relations for all that. There is first of all a territorial dispute, with Arunachal Pradesh being occupied by China since the 1961 war. As well as that, India has naval ambitions in the Indian Ocean, and does not smile at energetic Chinese efforts to seek ports to develop along the maritime route in that Ocean and the accompanying threat of a Chinese naval presence in the Ocean. India's fundamental interest in infrastructure is on a North-South axis, whereas the Chinese interest is in an East-West one.

Japan-China Relations

Japan is peripheral to the One Belt One Road initiative as presented by Beijing. This no doubt is not accidental: the country is seen by China as part of the US encirclement of the PRC, and, even apart from this, there are many reasons, geopolitical and historical, why Beijing would not be greatly concerned about Japanese preoccupations in its regard. For all that, Tokyo must have an interest in development of an East-West infrastructural link, and it will be interesting to see how these interests will play out in regard to the Chinese initiative.

Conclusion

By its nature The One Belt One Road initiative is breath-taking in its ambition. For that reason, it is evident that much still needs to be clarified in regard to timing and financing especially. If it is linked to the Thirteenth Five-Year Plan, its time-scale clearly extends much further. As mentioned, the financing obviously exceeds even Beijing's ample possibilities. The Chinese side emphasises that it represents an effort to find a new way of win-win cooperation, and clearly sees this as including not only other countries concerned, but also other institutions like the Asian Development Bank and the World Bank. They are allergic to any analogies to other such initiatives, of which the Marshall Plan is an obvious one, on the basis that the geopolitical context is quite different, and underline their cooperative intentions.