



ANALYSIS OF CHARACTERISTICS AND POTENTIAL EFFECTS OF THE NEW SILK ROAD INITIATIVE

Zoran Wittine , Hrvoje Josic and Antea Barisic

University of Zagreb, Croatia

During 2013 Chinese government announced an ambitious initiative under the name One Belt One Road, which colloquially became known as The New Silk Road. A declared project goal is to build infrastructure that would connect China to other countries in Asia, Europe and Africa (encompassing one maritime and three overland routes) which would, in turn, enhance overall global trade and bring economic benefits to all partner-countries involved. However, expert opinions differ on what real project goals actually are. In this paper we discuss characteristics, motivations and risks behind The New Silk Road initiative and analyze what potential economic and political impacts it might result with.

Keywords: Silk road, China, EU, Belt and road initiative, Global trade.

Introduction

More than 2000 years ago Han dynasty launched what we consider today the original Silk Road. At the time this was probably one of the most important trade routes in the world, connecting different nations and cultures. Different scholars regard to the original Silk Road as the main instigator of what we consider today globalization processes. Although it was named after exchange of its most famous commodity i.e. silk, many other products apart from silk travelled along this vast network of roads – ivory, gold, silver, tea, fruits and nuts, paintings, sculptures, manuscripts and ideas and doctrines of many types – religious, scientific, illusionary, revolutionary or merely eccentric (Bhoothalingam, 2015) as well as well as knowledge and languages (Crandall and Crandall, 2017) enabling development of relationships that led to improved understanding and peaceful co-existence of countries involved. At one end of the Road was China, while India, Persia, Arabia, the Levant and Europe were destinations as well as origins of different branches of this complex array of tracks, roads, waterways and caravanserais (Bhoothalingam, 2015). The trade routes were sometimes interrupted by different forces and revived again after each interruption until they were discontinued as a result of World War I and World War II (Crandall and Crandall, 2017).

After being announced in 2013 by Chinese president Xi Jinping, China is looking not only to revive the ancient Silk Road trade routes but also to expand it significantly. The idea is that two new trade corridors – one overland, the other by sea will connect the country with Central Asia, Middle East, Europe and Africa. The program to revive the ancient Silk Road trade routes, as it is currently envisioned, will provide some of the most challenging analysis, planning and implementation work the modern world has seen. It will include highways, railways, pipelines, airports, ports and maritime routes spanning thousands of miles between China and points west (Crandall and Crandall, 2017). Declared project goal is

to build infrastructure that would connect China to other countries in Asia, Europe and Africa (encompassing one maritime and three overland routes) as can be seen in figure 1.

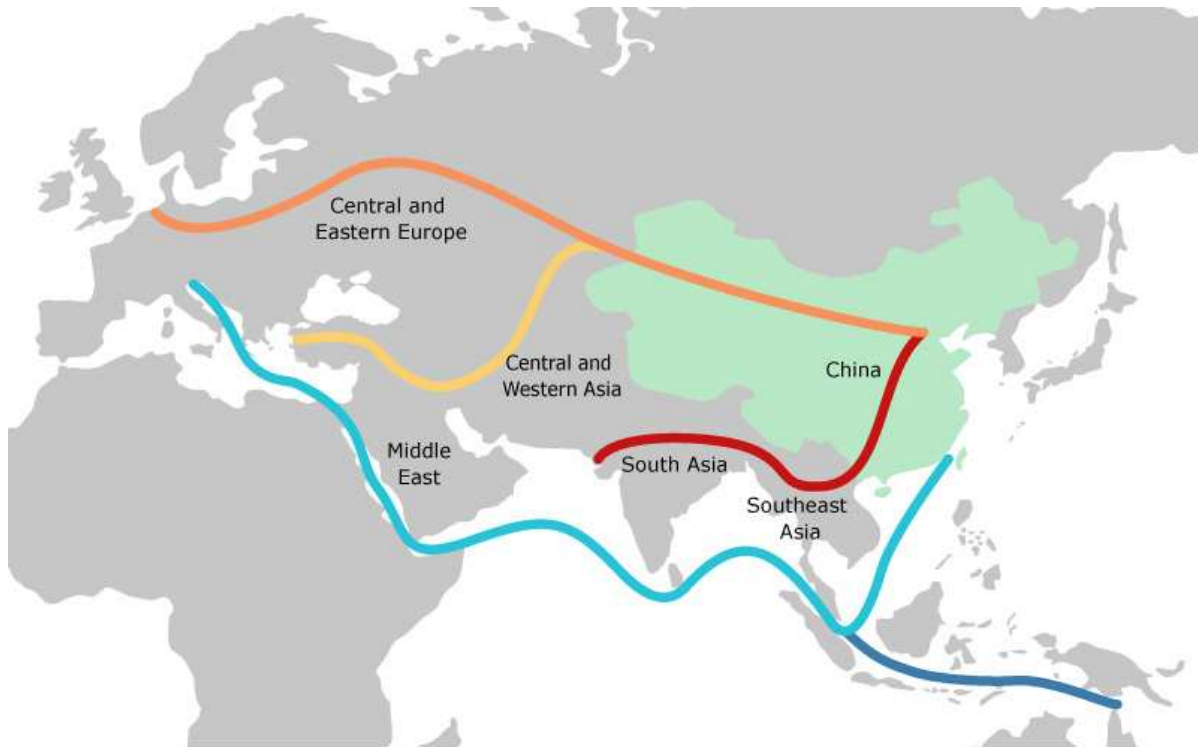


Figure 1. projected outlook of the new Silk Road Initiative
Source: Belt and Road a Game Changer for China (Heffernan, 2017)

The project consists of six economic corridors (Selko, 2017):

- China-Mongolia-Russia
- Eurasian Land Bridge
- China to Central Asia and Western Asia
- China-Indochina peninsula
- China-Pakistan
- Bangladesh-China-India-Myanmar

It is thus not surprising that the project of this size and scope poses many questions. What are the main reasons behind the project? Is there any hidden agenda? What kind of economic, political, social and cultural changes can be expected? How will gains and losses be distributed? What risks does it bear? How will the project complete if at all?

To many of these questions clear and unambiguous answer is not possible. Supporters and opponents of the project change every now and then reflecting political interactions and changes in balance of political power, as well as changes in the economic and social environment (e.g. economic downturn or loss of social support).

In the paper, the authors first explain the driving forces behind the project as well as its key objectives. After that, the authors describe the current state of the project, which in the end will provide us with some guidelines on the possible scenarios regarding the completion of it.

Driving Forces and Key Objectives

We can summarize the key objectives of the New Silk Road as follows:

- New impetus for the Chinese economy
- Relief for current industrial overcapacity
- Energy security (through diversification of energy supply)
- Opening new trade markets
- Internationalization of renminbi and its emergence as an alternative reserve currency
- Regional stability

Some authors point out that Chinese intentions behind this policy can be summarized into two broad categories (Summers, 2016). The first one is geopolitical – in the form of an effort to extend China’s political power and influence through investments which will constrain the policy choices of receiving countries. The second one encompasses economic and commercial drivers, creating new markets for Chinese companies or addressing challenges facing the Chinese economy such as industrial overcapacity or excessive holdings of US dollars.

According to Crandall and Crandall (2017), there are two major project objectives. First, to develop Chinese political influence and accessibility in oil-rich countries and second, to establish China as a world (leading) power.

It is evident that some of the key objectives are short-term (such as dealing with the current industrial overcapacity or boosting the economy) while the other ones are mid- and long-term. However, it seems that all the objectives work in the direction of a common geopolitical goal and that is a tactical repositioning of China in the global economy.

Many argue that Belt and Road idea came into being as a planned countermeasure for US-driven trade agreements such as (planned but never realized) Trans-Pacific Partnership or Transatlantic Trade and Investment Partnership, from which China was supposed to be excluded. By building closer economic ties with the regional economies along the New Silk Road, Beijing is aiming to tie these regions’ prosperity to their relationship with China, hence laying the foundation of an economic empire centered in China (Lo, 2015).

Many authors argue that the long-term goal of the Belt and Road project is to become a free trade zone. In 2017 a free-trade agreement between Georgia and China has thus been ratified. However, to accomplish that, a build-up of infrastructure is simply not enough. Soft infrastructure, market-driven reforms, simplification of customs procedures and much more is required to achieve such an ambitious goal. Any kind of conflict between a few stakeholder countries would seriously undermine such efforts.

Whatever the real intentions are, Belt and Road project could have significant geopolitical implications as a result of China’s ongoing rise and its growing economic influence across the rest of the world (Summers, 2016).

Through investment in other countries China inevitably increases its sphere of influence in those countries. Increased use of renminbi for trade and financial transactions also means increased role for China dominated multilateral organizations, such as Asian Infrastructure Investment Bank or Shanghai Cooperation Organization, but could also pose a threat for the United States of America due to the apparent Chinese intent to replace (or at least significantly substitute) US dollar in the global oil trades.

At the Belt and Road Forum for International Cooperation in May, Xi unveiled a plan that would require \$900 billion in investments. Some have estimated the total cost could be astronomically higher, as much as \$8 trillion (Crandall and Crandall, 2017).

The biggest economic threat to China is that it will invest money and effort into projects that will not provide a satisfactory return on investment, thereby limiting the country’s domestic economic growth (Crandall and Crandall, 2017). However, the geopolitical threat may be even larger if the expanded scope of One Belt, One Road infringes on other countries’ interests, most notably Russia in Central Asia, India along the southern maritime route and the United States in the South China Sea.

Current State of the Initiative

The New Silk Road was officially named “One Belt, One Road” (or OBOR) project by Chinese authorities. Since the name was misleading to many people (because one might erroneously conclude the project includes development of one land and one maritime route) the official name was changed to Belt and Road. The name of the project is still misleading to many because “Road” actually refers to maritime route while “Belt” refers to overland route. However, additional adjustments of the project name are hardly to be expected.

Most sources agree that Belt and Road project should encompass between 65-68 countries in Asia, Europe, Africa and Australia (some sources report more than 70 countries, however, they include South American countries which are (still) not envisioned by the official project). Different institutions have been established to help push Belt and Road project forward, including USD 40 bn worth Silk Road Fund, USD 100 bn worth Asian Infrastructure Investment Bank and USD 50 bn worth New Development Bank.

Silk Road Economic Belt is planned to pass through major cities including Almaty, Samarkand, Tehran, and Moscow before ending in Venice. Maritime Silk Road begins in Fuzhou and links major coastal cities including Hanoi, Jakarta, Kuala Lumpur, Calcutta and Nairobi before joining the Silk Road Economic Belt in Venice (Lo, 2015).

According to Zheng and Jia (2017), Silk Road countries can be divided into three sections. The first section is the core area of Silk Road Economic Belt, which includes five Central Asia countries, including Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan. The second section is the important area of Silk Road Economic Belt, which contains Central Asia, including Russia, Afghanistan, India, Pakistan, Iran, Azerbaijan, Armenia, Georgia, Turkey, Saudi Arabia, Iraq and other regions. The third section is the expansion area of the Silk Road Economic Belt named Asia - Europe Economic Belt, including Europe and North Africa. Germany, France, Britain, Italy, Ukraine and other regions, North Africa, Egypt, Libya, and Algeria are the major countries in this area. In addition, the United States, Japan and Australia are selected as representatives of North America, East Asia and Oceania region respectively, according to their comprehensive national strength and geographical location.

As the sponsor of the Silk Road Economic Belt development strategy, China is devoting ongoing efforts to deepen financial cooperation with the Silk Road countries. At present, China has signed currency swap agreements with some major countries along the Silk Road Economic Belt, which is the first step for regional financial cooperation (Zheng and Jia, 2017). It is important to notice that China has no direct monetary cooperation with Kyrgyzstan and Turkmenistan which are two core countries in Central Asia (Zheng and Jia, 2017).

So far there have been 61 bilateral investment treaties signed between China and Silk Road countries and 31 of them may prevent Silk Road strategy from success as a result of ambiguous definitions of ‘investor’ and ‘investment’. There are only limited state dispute resolution mechanisms available in some countries. Huang (2016) regards ‘financial viability of cross-border projects’ as one of the biggest barriers for the initiative.

Through investment in other countries, China inevitably increases its influence in those countries. This, in turn, might lead to political unrest and increased tensions with other countries. It is thus not surprising that Japan and India have announced a counterinitiative (Crandall and Crandall, 2017).

Some of the countries participating in the OBOR scheme have poor economic fundamentals, including large fiscal and current account deficits. China would be taking on greater default risk by investing in them or by providing them with capital. A wider use of the renminbi may also expose China to foreign exchange risk (Lo, 2015).

Other potential risks to China associated with the New Silk Road strategy are not negligible (Lo, 2015).

They pertain to funding (e.g. project costs are currently estimated at over \$8tn until 2020 (Mishra, 2016)); technical and regulatory challenges (e.g. different width of rail tracks in different countries); political uncertainty; financial viability and expected countermeasures from geopolitical opponents (potentially including USA, India, Japan, European Union).

Some authors consider that “the main threat to the development of the new Silk Road, an engine of regional economic growth, is posed by a potential wave of ethnic conflicts in failing states, poverty, militant Islamic involvement, and the potentially anti-Western policies of regional powers like China, Russia and Iran” (Cohen, 2000).

Possible Scenarios

There are many ways in which Belt and Road project may unfold. However, in more general terms, we believe there are three broad scenarios this project could see.

First scenario – project gets developed as planned. In other words, Belt and Road project develops in full capacity, interconnecting almost 70 countries in the world. Having in mind the current state of the affairs as well as current and possible obstacles, we don’t see this scenario as highly likely, especially in the short- or even mid-term. Processes and activities that should precede infrastructural development in any of the stakeholder countries are numerous and complex. In some countries that have been project supporters from the very beginning, diminishing of project support can be seen already now. Although project should be of immense importance to any country involved, it seems that (apart from few) the majority of countries don’t share China’s enthusiasm towards fast completion of the project.

Second scenario – project gets stuck due to the roadblocks and (ultimately) canceled. Although there are many current roadblocks (e.g. funding, lack of social consensus, political instability etc.) this scenario is also highly unlikely. History teaches us that when (modern) Chinese government develops and publishes a strategy (for instance – different strategies of industrial or regional development created in the past) they firmly stick to it. However, it has to be taken into account that in this project China doesn’t depend on its own. This is the reason why Chinese institutions try to push the project within other countries through various types of incentives (e.g. access to cheap capital). Still, in some countries of the Central Asia (which are a vital link of the trade route) the response to Belt and Road project has been relatively muted (Fitzgeorge-Parker, 2017). A number of Central Asian countries is concerned that they will simply become a pass-through for goods going from China to Europe and vice versa and that they won’t benefit from these exchanges (Fitzgeorge-Parker, 2017). Taken all things into matter, although there are many potential risks towards completion of the project and some countries may choose to opt out of it, it is likely that the sufficient number of countries will remain supporting the project.

Third scenario is what authors of this paper see as the most likely scenario – the project develops partially in the middle run and scope of the projects changes. Although as we mentioned earlier, not many countries share Chinese enthusiasm towards completion of the project, there are many countries whose benefit would be far greater than others. More specifically, countries in China’s close vicinity, as well as less developed countries of South East Asia, could be more interested in the completion of their part of the project. A rise of China’s economy, as well as infrastructural development and new trade possibilities, could bring many economic benefits to those countries. Many of these countries would also be eager to see the rise of China as world geopolitical leader since they are all members of the same civilization (Huntington, 1993). On the other hand, some stakeholder countries (members of different civilizations, such as EU or Central Asian countries) may welcome the positive economic effects of One Belt, One Road but resist any hint of increased dominance in domestic affairs by China (Crandall and Crandall, 2017).

Conclusion

Belt and Road project is by far the most complex project of the modern age. If completed as envisioned it could bring unprecedented changes throughout the world. Although creators of the project mainly point out economic changes the project would bring, one can not ignore political, cultural and social changes.

Most researchers agree that project would create economic value, i.e. improve economic conditions in participating countries, although no one can predict precisely how economic gains would be distributed or even in what time period would invested funds be returned.

On the other hand, it is far more difficult to predict complex political and cultural changes this project could bring. Many scholars claim that if this project becomes a reality (as originally envisioned) it could bring peace to many of the stakeholder countries that are currently in turmoil. However, it is difficult not to imagine that rise of such a global superpower (as China would definitely become) would not trigger some kind of response of other global superpowers whose influence would be diminished. A response does not necessarily involve conflict. It would more likely induce different types of economic clashes and political reassignments in search of geostrategic and geopolitical partnerships.

Due to many potential roadblocks previously described, it is difficult to expect complete development of the project. It will more likely develop in the restricted sphere of East and Central Asia. Because of that, its direct economic, political and cultural changes will be restricted to those countries, while causing much weaker and only indirect impact to countries of the western hemisphere.

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