

CHINA'S NEW SILK ROADS

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OCTOBER 2019



Photo: 3rd Lisbon Conference "Development in an Age of Uncertainty", Calouste Gulbenkian Foundation, May 2018.

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Our Chinese dream is to be a middle-income country, so we use this term much more often than the concept of middle class. Some say our middle-income population is around 400 million people and others count approximately 600 million, according to different data and criteria. We now celebrate 40 years from the reform that brought 700 million people out of extreme poverty. But many other countries still live in poverty and seek to share their experience with China. Many countries haven't got the possibility of enjoying the benefits of their rapid economic growth, when they don't have electricity, infrastructures, or access to low-carbon technologies, so they still rely on fossil fuels and other energy sources that release huge amounts of CO₂. How to make them rich and cut CO₂ emissions at the same time?

The most important is not about cultural differences, but about the development model. How can people get rich and how to have the benefits of globalization? How to reform globalization? Today we have a liberalism-driven globalization, dominated by capital and focused on innovation and technology. Huge financial resources are invested in Artificial Intelligence (AI) today, as in the Internet yesterday. Of course innovation is good, but this type of globalization tends to create bubbles. When the bubble collapses, then the global financial crisis happens. How to make the capital focus on the real economy, in order to benefit all people and not just the rich people? The Belt & Road Initiative (BRI) wants to achieve this.

There are two kinds of innovation in the world: the European model saved energy and resources, focusing on sustainable development, and the US model saved labor, focusing on efficiency. But these two kinds of innovations are both terrible for the developing countries, because their comparative advantage is cheap labor, and this is diluted by both models. That is why the gap between the rich and the poor is currently so wide in the world.

Today, only 10% to 15% of total trade in Africa is between African countries. But mutual connectivity is the key for the 21st century comparative advantage and it is the key of the BRI. The goal is to solve global problems through solving China's problems: addressing poverty through growth, addressing development gaps through harmonization

(mutual aid between the East and West, interconnectivity among the land and sea), and security through global governance (comprehend both symptoms and root causes with overall plan and coordination).

The BRI traces back to hundreds of years ago, when the East and the West connected through Eurasia. In 1936, Sven Hedin said: "Not exaggeratedly speaking, the Silk Road is the longest line across the old world. In the cultural and historic perspective, it has been the most significant bond that connects all nations and continents that ever existed on Earth. (...) If Chinese government could revitalize the Road in history by means of modern transportation, it would certainly contribute to all human beings, as well as set up a momentum for itself" (Sven Hedin, *The Silk Road*, 1936).

But how to do that? Why a Silk Road, why China, why now, what does it mean for the middle class and why is it good for the world?

Along with the modernization of Europe in the 16th century, the ancient Silk Road has faded away in history. It was lost, but never forgotten, and many tried to re-establish the concept, with different contents and for different ends. International organizations and countries (UNESCO, UNDP, Japan, US, Iran, Russia, Kazakhstan, ROK) tried to revive the ancient Silk Road, mainly because of the huge costs of trade by land in Eurasia. For instance, The US approved in 2011 the "New Silk Road Strategy" and in 2010, the European Union put forward a proposal for a Eurasia Free Trade Zone.

How to turn these dreams into reality – this is China's approach. The Belt and Road Initiative means a Silk Road Economic Belt and a 21st Century Maritime Silk Road: firstly, it features the 21st Century version of Connectography; secondly, it links projects into lines, and lines will grow into belts, zones, and economies of prosperity; thirdly, it transports, and transportation can cut through barriers towards affluence; and fourthly, a good road can begin good things. It is based in interconnectivity of transportation in the air, on land and sea, oil and gas pipelines, and telecommunications, for 65 countries and regions, comprising a giant economy of 4.4 billion on a planet of some 7 billion.

The Belt & Road Initiative (BRI) is a transportation network in the Eurasian area and beyond.

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It comprises the railway, highway, airlines, sea lines, oil-gas pipelines, power transmission lines and communication network. A comprehensively stereoscopic transportation network with high interconnectivity, that is, an economic corridor with integrated development. A good connection between two cities can bring a lot of industry, logistics, tourism, financing and telecommunications. For instance, China financed the connection between Jakarta and Bandung, in the Indonesian island of Java, and this was crucial to bring the industry and other financing. So, the first objective of BRI is infrastructural development, because infrastructure benefit all, not just the rich.

The BRI Transportation Network, the longest economic corridor across the globe, which has connected Asia-Pacific region (the world economic engine) with the European Union (the largest economics in nowadays' world), would create new opportunities and development space for the continent of Eurasia and formulate an economic radiated area in East Asia, West Asia and South Asia. The basic orientation and comprehensive goals of BRI are to facilitate investment and trade, to reinforce the economic and technical cooperation, to establish free trade zone, and to exploit the great Eurasia market, in order to optimize the allocation of resources and trade, to advance regional economic integration, and to realize the synchronous development of economy and society.

Figure 1. China's new silk roads



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Figure 2. Coverage by region

Coverage: 4.4 billion people (63 %of the world)

\$2.1 trillion GDP (29 %of the world)

Region	Country/Region	Numbers
Central Asia	Mongolia, Russia, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, Kyrgyzstan,	7
South East Asia	Indonesia, Cambodia, East Timor, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar	11
South Asia	Nepal, Bhutan, Maldives, Afghanistan, Pakistan, India, Bangladesh, Sri Lanka	8
Central and East Europe	Poland, Montenegro, Macedonia, Bosnia and Herzegovina, Albania, Lithuania, Latvia, Estonia, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria, Serbia	16
West Asia and North Africa	Iran, Syria, Jordan, Israel, Iraq, Lebanon, Palestine, Egypt, Turkey, Saudi Arabia, United Arab Emirates, Oman, Kuwait, Qatar, Bahrain, Yemen Republic	16
CIS and others	Belorussia, Ukraine, Azerbaijan, Moldova, Armenia, Georgia	6

The first goal is “Community”: community of shared interests, community of shared responsibility, community of shared future for humankind. There are 4 key words to highlight - (i) mutual connectivity, (ii) international capacity cooperation, (iii) synergy of strategies, and (iv) to joint develop the Third-Party Markets; around 5 pillars: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people to-people bond.

It has two wings: on land, the Silk Road Economic Belt, and at sea the 21st-century Maritime Silk Road. It involves 6 economic corridors:

- New Eurasian Land Bridge
- China-Mongolia-Russia
- China-Central Asia-West Asia
- China-Indochina Peninsula
- China-Pakistan
- Bangladesh-China-India-Myanmar

It is developed around 8 cooperation priorities: Infrastructure connectivity; Industrial investment; Resource development; Economic and trade cooperation; Financial cooperation; Cultural exchanges; Ecological protection; Maritime cooperation. The financial resources come from: loans from World Bank, Asian Development Bank and alike; the Silk Road Fund Ltd., with 40 billion USD and growing since 2014; the Asian Infrastructure Investment Bank; and Public-Private Partnership like European Investment Bank.

A huge project like this carries risks, some of which are described in the box. Risks can be prevented by ensuring inclusiveness, by involvement of local stakeholders and people, and by sharing (through the localization of whole industrial chain and services, bringing benefits where we are).

Box: Risks involved in the Belt & Road Initiative

Economic

- Short Term: Conflicting Monetary Policies across the World
- Long Term: Shifting Global Economic Structure
- Now: Investment, Financing, Taxation
- Sovereign Debt, Local Debt, Weak Services, Lack of Awareness
- Will it degenerate into a simple spending spree by China, as some kind of global Ministry of Finance?

Political

- Internal
- Geopolitical
- What will current Global System become? Reactions?

Security

- US and NATO confronting a reviving Russia
- Syria, Iraq, Rise of ISIS and general terrorism, and possible manipulation of terrorism by states
- Maritime Disputes
- Color Revolutions

Legal

- Future of WTO (World Trade Organization) facing new arrangements
- Insufficient Legal Frame along BRI
- Obstacles in Existing Legal Systems: Laws too open for interpretation
- Projects and Protest

Moral

- State Level: Unfamiliar China-- How Much do People Know but Pandas?
- Business Level: Bad Behavior-- modernization in a world of Postmodern ethics
- Interpersonal: There are still bad people around

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China's model is based on infrastructure plus education. The Chinese experience says that if you want to get rich, build roads first; if you want to get richer, build the motor road; if you want to get richest, build the internet road; and if you want to get rich together, connect the road with China and to the world through BRI. So, we help very poor countries "to build the swimming pool, so that they can learn to swim, and then pull them into the sea".

Why should we do it now? It is time to bring maximum prosperity for not only China, but for the world. China is in a unique position in the global value chain, to help those countries to increase their integration in the global value chain (Figure 3). There is a growing importance of Silk Road regions in the global economy. But there is a huge infrastructural gap (Figure 4).

Figure 3: The double loop value chain system

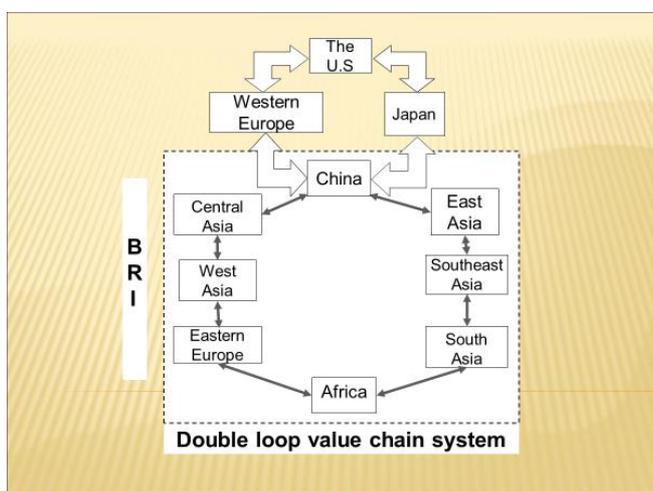
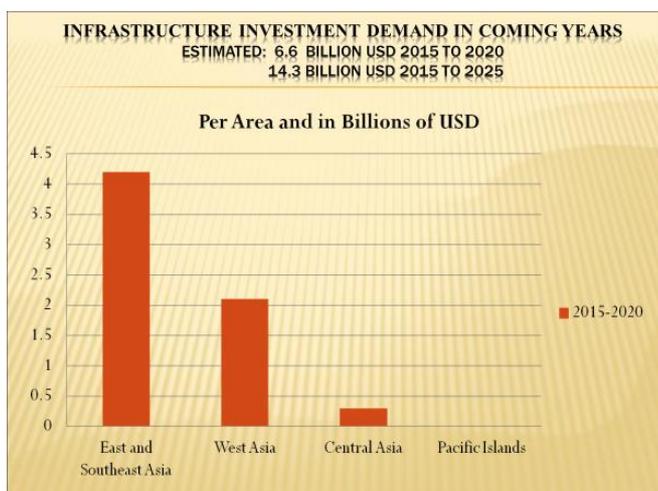


Figure 4. The infrastructural gap



There are already impacts, for instance in trade: China's trade with BRI topped 1 trillion USD in 2013, after a decade of 19% average growth, and is still growing fast. The conventional globalization featured in tariff reduction for free trade would facilitate the economic growth by 5 percent at most, while the new one, with high levels of interconnectivity, is supposed to generate a 10-15 percent increase for global economy (Parag Khana, *Connectography: Mapping the Future of Global Civilization*). According to the Bloomberg analysis, BRI will contribute to 80% of global economic growth and vault 3 billion more middle class by 2050. In the coming decade, BRI will create 2.5 trillion USD trade. And this demonstrates the claim that every one-dollar increase in the infrastructure investment of developing countries would generate a 70-cent growth of import, a half of which is to come from developed countries (Justin Yifu Lin).

As the new engine of global economic growth, China brings its advantages in productivity, technology, funding, experience, and development into package and offer. The Belt and Road Initiative is the result of this and China's new phase of all-around opening-up.

It is important a new global rebalance of the world economy, in which we can bridge the gaps. Traditional globalization starts from the sea, so coastal regions and maritime states develop first, while inland countries fall behind, forming a massive wealth gap. We need therefore to move from partial globalization to a more inclusive globalization. We also need a new model for regional cooperation for the 21st Century, and the economic Belt is an innovation in regional cooperation. Europe, China and the US should work together to achieve a new global rebalance.

What is the role of Europe, and how can this be good for the European continent? Now Europe could once again be the center of this world with all Eurasian continent; this geopolitical world island could reshape global geopolitics and the entire globalization with its own integration. In sum, China's "One Belt One Road" offers seven great opportunities for Europe. Firstly, BRI can connect with Juncker-Plan and stimulate European economic growth through mutual-connectivity and extending European single market to Eurasian Big Market, as European countries joining the *Asian Infrastructure Investment Bank* (AIIB) indicates.

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Secondly, it is an opportunity to build a greater Eurasian market and to revive European civilization. Thirdly, it is an opportunity for Europe's regional integration: for a long time, the European Union has not made a firm choice between "Eastern partnership" and "Mediterranean partnership" in terms of priority. Fourthly, the opportunity to push forward EU-China comprehensive strategic partnership, All-Around Strategic Partnership between China and EU. Fifthly, it is an opportunity for EU-Russian reconciliation, since the end of World War II and the establishment of NATO. Sixthly, it is an opportunity for the EU to access to Asia-Pacific Affairs. Seventhly, it is an opportunity for the EU to enhance its global influence. And finally, it is an opportunity to balance the development of the trans-Atlantic relationship.

Europe is the "terminal station" of both the BRI. In building the four partnerships with Europe, namely "partnership of peace, partnership of growth, partnership of reform, and partnership of civilization", maritime cooperation is the new grip. BRI is combining with the maritime strategies of both the EU and the European countries. It is especially the case with Greece, since it will become an important gateway linking China with Europe, as well as the bridgehead of the cooperation between China and the Central and Eastern Europe. On 16 December 2014, *the 3rd Meeting of Heads of Government of China and Central and Eastern European Countries*, relevant parties from the two sides reached the consensus on building a new Asia-Europe maritime-land combined transport passage, relying on Belgrade-Budapest Railway and Greece's Piraeus Port. This testifies once more to the critical position of Europe in BRI.





I could present, as case-study, five ways for the United Kingdom (UK) to join BRI:

- First, strategies synergy. The UK is not a country along the ancient Silk Road trading routes or covered by the Belt and Road Initiative. However, it has proposed to match the Northern England Revitalization Plan with the initiative. By inviting Chinese President Xi Jinping to visit Manchester, the UK has sent a positive signal that non-member countries can also actively participate in the initiative.
- Second, connectivity in five aspects. China has set up offshore yuan clearing center in the UK which will be the first western country to issue yuan-denominated sovereign bonds during President Xi's upcoming visit. As a veteran financial power, the UK plays a critical role in pushing forward the Silk Road Fund and yuan internationalization. Many countries along the Belt and Road are former British colonies which have been adopting the British-style legal system. Therefore, it is of great necessity and profound significance for China and the UK to boost the connectivity in policies, facilities and the people.
- Third, development of third-party markets. Compared with China, the UK has a deeper understanding of the third-party markets including legal and insurance services, which is of profound value to boost the Belt and Road Initiative and strengthen the presence of "Made in China", "Built by China" and "Services from China" along the economic belt and silk road.
- Fourth, international capacity cooperation. Britain was the birthplace of industrial revolution, whose infrastructure is aging and yet fully digitized, providing immense room for Sino-UK capacity cooperation.
- Fifth, joint development of the Maritime Silk Road. The China-EU 2020 Strategic Agenda for Cooperation includes integrated ocean management, marine spatial planning, marine knowledge, ocean observation and monitoring, marine -tech research and development, marine economy, and marine energy. Another factor is China-UK Cooperation in maritime shipping, logistics, maritime security, marine economy, marine spatial planning, marine resources, data development and sharing, and marine environmental protection. And also, international shipping regulations.

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Albert Einstein's formula ($E=MC^2$) can remind us that Europe should not only invest in Atlantic relations, which are very unequal, but also in Eurasia. E: Europe; M: Mutual Connectivity; C²: China multiplies Eurasian Continent

And why is it good for the US? The US economy is business, and BRI is a huge business; the American companies make much money with all these projects. Take the construction of Melaka Gateway as an example: China invested 30 billion Malaysian ringgits while U.S. invested 10 billion, and the AIIB uses the U.S. dollar as its operation currency. America's advantages in rules and standards of soft infrastructure and China's advantages in hard infrastructure can be combined; America's advantages in the security system and China's in economy can be combined to jointly develop third-party markets.

Besides this, according to Justin Yifu model, every dollar the developing countries invest in infrastructure, will increase imports by 70 cents, including 35 cents from the developed countries. The Belt and Road infrastructure investment will promote the export and create jobs for the US, bringing the space for its structural reform.

To jointly launch Belt and Road Bank or Global Infrastructure Investment Bank (GIIB) is the major step for BRI 2.0. Such bank will work together with AIIB, taking investment bank + IMF + World Bank + Commercial Bank" operation model, to finance global infrastructure building including in the US. With GIIB, China and the US joint hands to explore the third-party market.

The US, Europe and China should work together: the US have the power of innovation, Europe the power of spirit and China the power of practice; therefore, each of them alone cannot solve the huge problems ahead of us, and if we work together, all win. We should work for a better globalization, of the people, by the people and for the people (and not of capital, by capital, for capital).

For more information:

- ▶ Official website: <https://eng.yidaiyilu.gov.cn/>
- ▶ Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road, March 28, 2015. www.mfa.gov.cn/mfa_chn/zyxw_602251/t1249574.shtml
- ▶ Building the Belt and Road: Concept, Practice and China's Contribution. <https://eng.yidaiyilu.gov.cn/zchj/qwfb/12731.htm>
- ▶ National Development and Reform Commission, State Oceanic Administration jointly release Vision for Maritime Cooperation under the Belt and Road Initiative, 2017-06-20. www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201706/201706200153032.pdf

IMVF Briefs are publications that target a wide audience and present in a concise manner the key features and questions regarding a development-related issue.

This presentation was initially delivered at the 3rd Lisbon Conference, on "Development in an Age of Uncertainty", held in May 2018, in the panel on Middle Classes on Diverging Tracks. The text results from the editing of the recorded oral speech. More information at www.clubelisboa.pt

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SOBRE O INSTITUTO MARQUÊS DE VALLE FLOR

Criado em 1951 como instituição privada de utilidade pública, o IMVF é uma Fundação para o desenvolvimento e a cooperação, tendo iniciado atividade como ONGD em 1988 em São Tomé e Príncipe. A partir dos anos 90 expandiu a sua ação a outros países, com predominância aos de língua oficial portuguesa e aumentou as áreas de atividade. Já em 2017 voltou a alargar a sua ação a novas geografias em África e na América Latina. O trabalho feito e os resultados alcançados tornaram o IMVF numa entidade de referência nos domínios da cooperação e do desenvolvimento.

ABOUT THE INSTITUTE MARQUÊS DE VALLE FLOR

Created in 1951 as a private institution of public utility, IMVF is a foundation for development and cooperation, having started its activity as a NGDO in 1988, in Sao Tome and Principe. From the 90s onward, the Institute have expanded its actions to other countries, mainly Portuguese Speaking Countries and broaden its scope of intervention. In 2017 it widened again its sphere of activities to new geographies in Africa and Latin America as well. The work done and the results obtained have turned IMVF into a key stakeholder in different areas of expertise and intervention such as Cooperation and Development.

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