

## The New Silk Road: a versatile instrument in China's policy

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The Chinese leader Xi Jinping presented the concept of the New Silk Road – a collection of land and maritime routes – in autumn 2013. Initially, it envisaged the creation of a network of infrastructural connections, mainly transport corridors, between China and its most important economic partner – Europe. The concept grew in importance throughout 2014 to become the key instrument of China's foreign policy, especially in the areas of public diplomacy and soft power. Towards the end of 2014, the Chinese government announced it would establish a Silk Road Fund worth US\$40 billion.

The New Silk Road idea is a flexible formula used by China in its dialogue with many other countries. Its inclusive nature helps contribute to diluting the negative impression caused by China's rapid economic expansion and assertiveness in foreign policy, especially with regard to its neighbours. The process of implementing the New Silk Road concept will allow China to expand its influence within its neighbourhood: in Central and South-Eastern Asia. The New Silk Road will be an alternative point of reference to the US dominance and Russian integration projects in these regions. The concept will legitimise and facilitate the growth of China's influence in the transit countries on the route to Western Europe, i.e. in the Middle East (Arab countries, Israel and Turkey, the Horn of Africa and Central Europe (the Balkans and the Visegrad Group countries). This concept is also essential for China's domestic policy. It has become one of Xi Jinping's main political projects. It will boost the development of China's central and western provinces. The fact that the concept is open and not fully defined means that it will be a success regardless of the extent to which it will be implemented in practice. Its flexible nature allows China to continue investments already initiated bilaterally and to present them as components of the New Silk Road concept.

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### The genesis and evolution of the New Silk Road concept

The New Silk Road concept was first presented in public by the president of the People's Republic of China, Xi Jinping, in September 2013 during his visit to Kazakhstan. He came up with the proposal to create a Silk Road Economic Belt. In October 2013, during his trip to Indonesia, he presented a parallel initiative, the 21st Century Maritime Silk Road. The idea of reviving the Silk Road became popular in China in the media and expert circles,

who coined the slogan "One Belt and One Road". Throughout 2014, the concept gradually came to be the pivotal issue in China's foreign policy and, to a lesser extent, in its domestic policy. Initially, it remained vague and did not envisage that institutional action would be taken as part of its implementation. However, the Chinese government created a financial framework of the New Silk Road towards the end of 2014. Xi Jinping declared that China would be establishing a US\$40 billion New Silk Road Fund. The Asian Infrastructure Investment Bank (AIIB), which was found-

ed by China and twenty other Asian countries in November 2014, will be an additional source of funds. In January 2015 it was promised that a private Energy Development Fund would be created. This fund is planning to attract investments worth US\$20 billion as part of the implementation of the New Silk Road concept.

The concept of the land and maritime New Silk Road provides for the creation of a network of transport corridors that will connect China with the European Union, China's number one trade partner (in 2013, total trade was US\$559 billion). This means that transport infrastructure (railway, including high-speed railway, and road infrastructure), inland and maritime ports and airports will be built or modernised, and that transport (oil and gas pipelines) and telecommunication infrastructure will be created. The official version of the New Silk Road's route published on the website of the governmental news agency Xinhua shows one variant of the land section and one of the maritime sections that will connect in northern Italy. However, this variant is oversimplified, because the concept of the New Silk Road is a conglomerate of routes and envisages more than ten variants of transport connections between China and Europe. Furthermore, the individual variants are not mutually exclusive (see Appendix 1).

### **The New Silk Road concept has become the key instrument of China's foreign policy.**

Some infrastructural investments that will form elements of the New Silk Road, such as roads and pipelines in the countries of Central Asia or railway connections with Poland and Germany, had already been implemented before the concept was announced (see Appendix 2). Many of these moves were not coordinated. The idea of the New Silk Road became a political superstructure for them and provided grounds for measures already undertaken by China which had previously

been treated as autonomous moves of a bilateral or multilateral nature. Existing projects or investments in progress can be incorporated into the new concept without additional moves or costs. However, the significance the Chinese government attaches to the New Silk Road concept extends beyond the construction of transport infrastructure between China and Europe. Already the first outline of the idea presented by President Xi in Astana suggested that China's ambitions were bigger. Among the goals of building the New Silk Road which Xi mentioned were: the facilitation of trade and investments, promoting settlements in local currency, and enhancing interpersonal contacts. When he was presenting the maritime variant of the New Silk Road, Xi Jinping focused on integration between China and the member states of the Association of Southeast Asian Nations (ASEAN). Although the New Silk Road concept was initially targeted at the countries neighbouring with China, in 2014 it was transformed into a versatile instrument of Chinese policy.

### **The New Silk Road concept as an instrument in China's foreign policy**

The New Silk Road concept has become an instrument of China's foreign policy in both the regional and global dimensions. The proclamation of the idea of the New Silk Road does not necessarily have to bring about any major change in the policy which China has pursued thus far: investments in individual countries may still continue in the bilateral dialogue format, and they can be presented as being an element of one project under the banner of the New Silk Road only when they have been completed.

The idea of the New Silk Road is deeply rooted in the **historical context**. The concept draws on the routes which existed between the 3<sup>rd</sup> century BC and the 15<sup>th</sup> century AD and were used for trade and cultural exchange between China and Europe. It thus directly refers to the glory days of the Chinese Civilisation, when China was the

centre of the world and was dominant within its neighbourhood. The historical and cultural references are intended to give the concept an unambiguously positive meaning.

The New Silk Road concept is becoming a **key element of China's public diplomacy and soft power**. The concept is presented in an information and propaganda setting, covering cultural events, expert meetings and tourist routes. A special website of the Xinhua news agency has been launched. Chinese experts are promoting slogans like the "Chinese version of the Marshall Plan". The concept is a **kind of 'packaging' for China's economic expansion, lending it an attractive form**. Presenting this expansion as an element of multilateral co-operation beneficial for both China and its partners will make it possible to reduce any potential concerns in the countries which are the objects of this expansion. The concept is also meant to be an **illustration of the Chinese philosophy of international relations where all the countries engaged are winners** (a popularisation of the win-win formula). It is also intended to promote the image of China as a 'benign' power. The New Silk Road concept will also make it possible to at least partly neutralise the negative impression which has been observed over the past few years due to China's increasing assertiveness, visible especially in the territorial disputes in the East and South China Seas.

The New Silk Road concept provides China with a **flexible formula of dialogue** with a number of actors, from the neighbouring countries in Central and South-Eastern Asia through the transit countries in the Middle East and Eastern and Northern Africa, to European countries, both EU member states and those outside the EU. China can 'sell' this concept to individual countries and regions. This is a useful way for China to organise multilateral co-operation without openly forming a pro-Chinese and anti-Western organisation that would have scared off potential participants. China can promote its project in a total of around 50 countries. The countries which have already ex-

pressed they are ready to participate in the project include: Kazakhstan, Cambodia, Laos, Sri Lanka, the Maldives, Poland, Lithuania, Russia, Israel, Austria, Greece, Tajikistan, Afghanistan, Turkey, Indonesia and Egypt. A number of international meetings that are presented as being linked to the New Silk Road are being already held at different levels. At the present stage, the concept is used for holding meetings with potentially interested countries (for example, the New Silk Road transport summit held in Urumqi in September 2014).

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Unlike European integration or the initiatives promoted by Russia in the CIS area, the New Silk Road concept is an open political project, without clearly defined boundaries. As a consequence of this, it will be a **base for the development of Chinese political influence** and will enable a non-formalised formula of multilateral co-operation to be built. The maritime route may legitimise the intensified presence and activity of the Chinese navy in the World Ocean under the pretext of protecting Chinese trade. The countries invited to co-operate as part of this concept will find it difficult to turn down this offer due to the language of mutual benefit used by Chinese diplomacy and the high degree of the concept's openness (for example, an intensive discussion is taking place in India now as to whether it should join the New Silk Road). Furthermore, the fact that a given country will not participate in the project will not pose any major challenge from China's point of view, given the open and flexible nature of the concept. The New Silk Road concept offers a **point of reference which is an alternative to US dominance**, especially in East Asia, but also with re-

gard to other powers in Eurasia, such as Russia or India. In the long term, the concept is becoming an element of the construction of the Chinese international order, which is alternative to the one dominated by the United States. The establishment of the New Silk Road Fund was preceded by the formation of a new Asian development bank, fostering the idea of building a new security architecture in Asia without the US being involved (this was put forward by Xi

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Jinping during the CICA summit in May 2014 in Shanghai) and supporting the idea of creating a free trade area as part of APEC (this being a response to the American Trans-Pacific Partnership project bypassing China). The New Silk Road is expected to make it more difficult for the United States to carry out its pivot towards Asia and to negate the concept of America's so-called 'New Silk Road Initiative' (put forward by Hillary Clinton back in 2011), running through Afghanistan. The New Silk Road may contribute to the emergence of a pro-Chinese orientation in the foreign policies of the countries through which it runs.

### **The New Silk Road as a framework for the implementation of China's policy with regard to selected countries**

Both the concept itself and the process of its implementation will aid China in achieving its goals with regard to a number of countries. In the case of Russia and the countries of Central Asia, this concept is China's response to the integration project promoted by Moscow – the

Eurasian Economic Union. The Chinese concept, which is based on different principles than the Russian idea, makes it possible for Beijing to protect its economic interests in Central Asia without the need to openly compete with Russia. Furthermore, by treating Russia as an essential element of the New Silk Road (see Appendix 1) they will help reduce Russia's dislike of the project. It also creates the impression that this is a positive-sum game, and thus Russia may be convinced that it is not worth opposing Chinese projects in Central Asia. It is worth noting that the official map of the New Silk Road published by the Chinese governmental news agency Xinhua has been changed. Originally, the land route bypassed Russia, and in the present version it runs through Russia. The Eurasian Economic Union could facilitate the implementation of this project to China, if a common transport area was created, but on condition that no new barriers were added. Even though Russia is envisaged as part of the New Silk Road, this initiative may undermine Russia's own plans to breathe life back into the Trans-Siberian railway infrastructure, especially in the eastern part. The implementation of the New Silk Road may also ameliorate potential Russian-Chinese disputes over the so-called 'Northern Sea Route' running through the Arctic.

As regards the ASEAN countries, the concept of the New Silk Road and its implementation will on the one hand be used to take the edge off the impression of China's assertiveness and on the other will enable China to protect its interests more successfully in territorial disputes. Investments in individual countries (for example, a planned railway in Thailand and a container port in Malaysia) will create a durable platform for co-operation. At the same time, the Maritime Silk Route concept legitimises the intensified presence of China's navy in disputed waters and the fact that it has been tasked with protecting maritime routes; ports in Pakistan, Myanmar and Sri Lanka will also serve the same purpose. The New Silk Road concept creates a platform for dialogue between China and the countries

of South Asia. Regardless of whether India joins the concept, China's position in dealings with it is set to improve. While promoting the New Silk Road concept, China has intensified relations with countries which are viewed as India's close partners: Nepal, Bangladesh and Sri Lanka. Nepal and Bangladesh play a role in the connection between China and the Indian Ocean, and thus the Strait of Malacca can be bypassed. Sri Lanka or the Maldives might become a key point for China's navy, allowing it to maintain a constant presence in the Indian Ocean. By bringing India into the project, China may neutralise its resistance. India wants investments in port infrastructure, and this may convince it to co-operate with China. It is also a member of the AIIB. In turn, if New Delhi refuses to co-operate, India may lose its influence in the countries which want to use potential Chinese funding.

Both the New Silk Road concept and its implementation are opening up opportunities for China to increase its influence in the Middle East. The New Silk Road will be especially important for China's relations with Egypt and Israel. China is at present considering two large transport projects: digging a second canal to run parallel to the Suez Canal and building a railway in Israel that will enable the canal to be bypassed. The New Silk Road concept is also a way to enhance co-operation between China and Turkey. It may also serve as an instrument that will make China more open to Iran as a consequence of building a connection via Central Asia.

### The New Silk Road vs. Europe

Europe is China's most important economic partner. The implementation of the New Silk Road concept in the narrow scope – the construction of infrastructural connections – will make it possible to increase trade. Even if the project is implemented in part, China will have better access to the **European market** and will find it easier to enhance co-operation with the EU. Central-Eastern Europe (CEE) may play an es-

sential role as a **transit area and a place of entry to the Western European market**. China's total trade with CEE reaches US\$40 billion, i.e. less than 10% of its trade with the EU. Therefore, this region will not be a major recipient of Chinese goods. However, CEE may play the role of a gateway to Western Europe, with its maritime and inland ports. Infrastructure in CEE is still underdeveloped – the lack of standards and incomplete double tracks and electrification. Chinese experts emphasise that this offers China a chance to become engaged in the construction of infrastructure in CEE, especially the modernisation and electrification of railways, while avoiding a conflict with the EU.

### The New Silk Road does not have to generate rivalry between Central European countries.

The New Silk Road concept and its significance for CEE need to be viewed within the wider context of China's relations with this region. From China's viewpoint, the region's location is its main advantage. China expects that CEE countries with open markets will back an agreement introducing investments and a free trade area. Furthermore, CEE countries could be used as a forum where Chinese products can be improved and marketed before they are fully introduced to the European market. CEE countries will benefit from Chinese funding, and China will have a good testing ground for investments in the EU. Good relations with China and the absence of a history of conflicts contribute to lowering strategic resistance to Chinese initiatives. The maritime route will enter Europe as a natural consequence from the south (Greece) and will favour the Balkan countries and Hungary. In turn, the shortest version of the land route leads to Germany via Poland. Greece is viewed as a point which connects the maritime and the land routes. Meanwhile, Poland sees itself as

the main hub on the western end of the New Silk Road, used for the transit and transport of Chinese goods. However, the New Silk Road **does not have to generate rivalry** between Central European countries, since different route variants are not mutually exclusive and will supplement one another. However, at present they may lead to competition between individual countries for the investments that will be an indispensable element of the route. The highest risk for CEE countries is the possibility of a 'race to the bottom' for Chinese investments (this risk has been present for several years and is independent of the New Silk Road concept).

**The New Silk Road project cannot fail mainly because its objectives are not clearly defined and it is based on an open concept.**

In the short term, the existence of two main entry points to Europe may divide the Visegrad Group – Poland and Hungary have had the best positions so far. The Baltic states also hope to benefit from the New Silk Road.

### **The New Silk Road concept as a domestic policy instrument**

In the area of **domestic policy**, the New Silk Road concept is a personal project of China's new leader, Xi Jinping. This plan cannot fail mainly because its objectives are not clearly defined and it is based on an open concept. A whole range of moves made as part of foreign and economic policy can be included in the New Silk Road and presented as a success. Drawing on the glory days of Chinese civilisation is intended at legitimising the Communist Party and its achievements in the international arena.

In the area of **economic policy**, the New Silk Road will promote the development and economic growth of the central and western prov-

inces of China. This concept is thus becoming an instrument in the policy of both Beijing (levelling out the differences on the scale of the whole country) and of individual provinces (competing with each other in the area of economic co-operation with foreign countries). The goals of Chinese provinces include promoting exports of goods and labour, and demonstrating their success in this area to the central government. However, subsidies for transport corridors offered by the central and western provinces and transport price competition adversely affect the rational use of the New Silk Road. The project can be used as an instrument in the policy of Chinese provinces allowing them to meet such criteria as export volume, export of workforce, and gaining experience in a given area. However, the Chinese government is likely to take action aimed at limiting this rivalry and the co-operation of individual provinces during the implementation of this concept.

Implementation of the New Silk Road's guidelines will also become a way to diversify investments and bring part of Chinese reserves into use. This will also contribute to boosting exports of capital and workforce and to diversifying investments. The construction of infrastructure will make it possible for Chinese firms to increase their engagement worldwide.

### **The prospects of the implementation of the New Silk Road**

The implementation of the New Silk Road concept will to a huge extent depend on China. Building new connections makes sense at least because of the volume of Chinese trade with individual regions through which the land or the maritime variants of the New Silk Road will run: with Europe (US\$559 billion), ASEAN (US\$443 billion), the Middle East (US\$257 billion), Africa (US\$192 billion) and the CIS (US\$150 billion). Given the open and imprecise nature of the concept, it may be expected that the concept will be implemented as part of bilateral relations, a formula now in

use. The decision as to when the concept's success should be announced will be up to Beijing. Previous experience also suggests that projects as part of the New Silk Road concept will be implemented **in parallel rather than stage by stage**. However, a number of limitations which may obstruct the process of the concept's implementation can be pointed to at the present stage.

The development of existing railway connections between China and Europe is the core of the land section's concept. At present, railway transport is used in only a small part of Chinese trade (3.5% of Chinese exports to the EU are transported by land). The main advantage of this is its much lower cost when compared to air transport and the fact that it is several times quicker than maritime transport. It takes 12-16 days to transport goods from central China to Germany by railway, and 50-60 days by ship. Railway transport will thus be appropriate for a specific group of goods, where it does not pay to transport them by air freight but maritime transport takes too long. **The railway network will never be a predominant means of transport;** it will remain an addition to maritime transport.

The most serious impediments to the implementation of the concept include **customs procedures** and **differences in railway systems**, which extend the time of transport. Interoperability of railway connections is difficult to achieve since the New Silk Road runs through

three railway systems: the Chinese, the post-Soviet and the European. An additional challenge will be posed by Russia's integration projects as part of the Eurasian Economic Union, since this may impede the harmonisation and simplification of customs procedures. The decision to build new (standard gauge) railways in Eurasia may be of key importance in the context of the New Silk Road. Russia opposes such plans, especially with regard to Kazakhstan, and does not want a railway connection to be built from China to Kyrgyzstan and Uzbekistan. In addition to this, the various actors disagree about the shape of the route and its individual variants. The rivalry is especially evident between the EU and Russia. The New Silk Road also depends on the political developments in the numerous territories it runs through. Transport via Ukraine became less attractive when China withdrew from the plans to build a deep port in Crimea following its annexation. The lack of goods that could be exported to China is a great challenge, especially for Central Europe. The trains go back empty, and the containers are often sent back to China by sea, which extends the time and increases the costs. The list of potential goods includes cars and medicines. Breaks need to be made in the winter season due to the low temperatures. As a consequence, some carriers started buying special thermo-insulated carriages that enable year-round transport.

## APPENDIX 1

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### Variants and routes of the New Silk Road

Both the land and the maritime versions of the New Silk Road will connect China to Europe. The concept alone includes several main and a dozen or so intermediate variants of the routes which the New Silk Road may take. Since various terms are used to describe the same variants of the New Silk Road, it is recommended that potential variants be characterised in terms of key elements which influence the choice of individual routes. More importantly, the individual variants are not mutually exclusive; they are rather a conglomerate of routes which can be built at the same time. Nevertheless, if any of the variants is granted priority, this variant will be stronger in comparison to the remaining ones.

Khorgos, an inland port on the border with Kazakhstan, will be the starting point of the land route of the New Silk Road in China.

The first question is what role Russia should play. China needs to solve the dilemma as to what extent the New Silk Road should run through Russian territory (this would ensure the shortest route to Europe). If the Russian border needs to be crossed, two variants can be used. One of them envisages the use of the longest possible section of the Trans-Siberian Railway (possible entry points are: directly from north-eastern China; from northern China via Mongolia; and from western China via Kazakhstan). In the second version the Trans-Siberian Railway would not be used at all – the greater part of the Asian section of the route would run through Kazakhstan, the south-western part of Russia (areas around Volgograd) and Ukraine. If Russia is bypassed, two other basic elements are also possible. One of them provides for connecting railway and maritime transport and directing the New Silk Road via the Caspian Sea and the South Caucasus countries to Turkey. If the second variant is chosen, this will be a land route and will run through the northern part of Iran to Turkey. When the New Silk Road enters Turkey, another possible variant will be to continue transport via the Black Sea to Romanian ports, but this would raise the costs of implementing the project. Another issue is the entry of the New Silk Road's land part to Europe. In this case three main variants are possible. The first, northern, one provides for transport via Poland to Germany and possibly on to other Western European countries. The second one provides for entry via Slovakia in the direction of Vienna. In the third variant, the New Silk Road enters Europe via Bulgaria and runs northwards. The maritime route will begin in Guangdong Province in south eastern China and run along the South-Eastern Asia coastline via the Strait of Malacca, Sri Lanka, the Indian Ocean, the Horn of Africa and the Suez Canal to the Mediterranean Sea. From here it can split into ports in northern and southern Europe, connecting with the land route in the latter case. Sri Lanka, the Maldives, Egypt and Israel will play an essential role in the case of the maritime route.

The maritime route can be supplemented with a land transport corridor connecting China with Myanmar, Bangladesh and India, reaching the Indian Ocean and bypassing the Strait of Malacca. Its parallel variant could be a corridor running through Pakistan and reaching the Indian Ocean. The New Silk Road would run from Yunnan Province via Myanmar to Dhaka (Bangladesh) and then to Calcutta (India).

The maritime and the land routes may connect in two variants. The first one envisages entry to Europe via Greek ports, from which the route would run northwards (Serbia, Hungary and Vienna). In the second variant the New Silk Road enters Europe via Italian ports on the Adriatic Sea and goes on to Western Europe. The ports which have been considered in individual variants are: Piraeus, Thessaloniki (Greece), Bar (Macedonia) and Koper (Slovenia).

## APPENDIX 2

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### Progress in the implementation of the New Silk Road

Some of the infrastructural connections between China and Europe which are to form the core of the New Silk Road's land route are already in use. These include railway connections: from Chongqing to Duisburg (since October 2011); from Wuhan to Prague (since October 2012); from Chengdu to Lodz (since October 2013); from Zhengzhou to Hamburg (since July 2013); from Suzhou to Warsaw (since October 2013); from Changsha to Duisburg (since November 2014). The railway connection between Yiwu and Madrid is the latest launched so far (the operators are considering whether it should become a regular connection).



There are also railway connections which can be included in the routes forming the New Silk Road:

- between the Asian and the European parts of Istanbul (a submarine tunnel);
- the Kazakhstan–Turkmenistan–Iran connection;
- connections offered by the Chinese high-speed railway reaching its western provinces.

Piraeus, a Greek port leased by a Chinese company, is the first budding of the maritime part of the New Silk Road. It has shortened the time of the transport of Chinese goods to Europe by around one week, since they do not go to ports in Northern Europe.

The planned high-speed railway connecting Belgrade and Budapest, which will facilitate the transport of goods from Greece to European markets, is a flagship project as part of connecting the maritime and the land routes of the New Silk Road. A memorandum concerning this project was signed in November 2013, and a contract was signed in December 2014. Construction is planned to commence in 2015 and to be completed in 2017. The 2 billion euros it costs will be paid for by China's Exim Bank, and the construction work will be entrusted to the state-owned China Railway and Construction Corporation. However, there are no precise plans for building a railway connection between Greece and Serbia.

## MAP

### Variants of the New Silk Road



Source: <http://www.scmp.com/business/economy/article/1657286/silk-road-subsidies-undermine-rail-link>

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