



EDITED BY ALESSIA AMIGHINI

CHINA'S BELT AND ROAD: A GAME CHANGER?

INTRODUCTION BY PAOLO MAGRI

ISPI

China's Belt and Road: a Game Changer?

Edited by Alessia Amighini

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Contents

Introduction	
<i>Paolo Magri</i>	7
1. Belt and Road: A Logic Behind the Myth	
<i>Yuan Li</i>	13
2. A Comprehensive Strategy To Strengthen China's Relations with Central Asia	
<i>Fabio Indeo</i>	35
3. Improving Relations with Russia and Ukraine	
<i>Maria Lagutina</i>	53
4. The MENA Region: Where the Belt Joins the Road	
<i>Filippo Fasulo, Valeria Talbot</i>	75
5. New Belts and Roads: Redrawing EU-China Relations	
<i>Xavier Richet, Joël Ruet, Xieshu Wang</i>	97
6. Towards a New Geography of Trade?	
<i>Alessia Amighini</i>	121
Policy Recommendations for the EU	
<i>Alessia Amighini</i>	141
The Authors	145

Introduction

Officially announced by Xi Jinping in 2013, the “Belt and Road Initiative” (BRI) – from the Chinese *yi dai yi lu*, literally one belt one road – is a commitment to easing bottlenecks to Eurasian trade by improving and building networks of connectivity across Central, Western and Southern Asia, but also reaching out to the Middle East as well as East and North Africa. Although often labelled the New Silk Road(s), the BRI is much broader in scope than its predecessors, i.e. the ancient Silk Road(s) dating back to the Han Dynasty (206 BC-220 AD) and the “Go Out” policy launched by the Chinese government in 1999. While the original Silk Road (a term first used by German geologist Baron Ferdinand von Richthofen in the mid-1800s) included land routes and sea-lanes connecting Xian to Rome mainly through southern corridors, crossing Iran and Turkey, the BRI should also cross Central Asia, Russia and Eastern Europe and terminate in Rotterdam. Moreover, unlike the ancient Silk Road, which was largely an unplanned outcome of the trading activities between China and its partner countries, the Belt and Road project is a comprehensive national development strategy designed by the government, with a potentially strong international development impact. In a similar vein, the “Go Out” policy aimed at increasing and facilitating outward foreign direct investment, in the expectation that host countries would welcome Chinese investors with the hope of benefitting from the country’s growth.

The BRI includes two separate routes, the “Silk Road Economic Belt” (SREB), i.e. the overland part of the broader BRI, and the “Maritime Silk Road”, each encompassing a number of corridors, six of which are currently in some stage of planning or construction: the China-Mongolia-Russia corridor; the New Eurasian Land

Bridge; the China-Central Asia-Western Asia Corridor; the China-Pakistan Corridor; the Indochina Peninsula Corridor; and the Bangladesh-China-India-Myanmar Corridor.

The BRI has become the centrepiece of China's economic diplomacy, if not of China's diplomacy tout court. It aims at fostering China's integration into the global economy along much deeper avenues – far beyond trade and investment flows – than ever before. Although the Chinese government officially prefer to call it an initiative, it should be regarded as the country's new opening-up strategy, developed in response to changing domestic and international circumstances. This volume provides an in-depth analysis of the BRI, its logic, rationale and implications on international economic and political relations.

Far beyond the myth in the name of the initiative – as described by Yuan Li in the first chapter – the BRI pursues multifaceted economic and political goals. In the current global geopolitical scene with rising challenges to globalization and to multilateralism – the bedrock of the liberal international order since World War II – the world is again at a historical turning point. Recent economic and political developments in the United States – with President Trump's withdrawal from the Trans-Pacific Partnership (TPP) and his intention to adopt major protectionist trade policies and immigration restrictions – have cast doubts on the future of American hegemony and US participation in global governance. Conversely, China has taken a clear position to defend globalization and boost new multilateralism, confirmed by President Xi's speech in Davos (17 January 2017). However, China is still a developing country with neither the ability nor the obligation to defend and lead globalization alone. Seeking Europe as a partner may be crucial. The BRI is an open proposal from China to Europe and all its partners in the world to forge a platform for diversified cooperation, to integrate China's development strategies with the development strategies of other countries, to generate synergies between government policies, and ultimately to reduce the risk of the "Thucydides Trap".

Central Asia is most likely the region that will receive the strongest impact along the Belt and Road, as described by Fabio Indeo. It

is worth noting that precisely as part of his state visit to Kazakhstan, at Nazarbayev University on 7 September 2013, Chinese President Xi Jinping announced the SREB, one of the two main pillars of the broader BRI. As a matter of fact, the backbone of the SREB initiative currently represents precisely the strategic orientations of the Chinese periphery policy since 1991. Since then, the independence of the five Central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) pushed China to adopt a political strategy – the “Zhoubian zhengce” strategy, or periphery policy – to explore common grounds with new neighbouring countries in both economic and security areas in order to develop good relations with them.

The BRI aims at improving connectivity among a number of previously separated regions – Europe, post-Soviet space, Central, Eastern and Southern Asia, the Middle East – which are supposed to be integrated into a “Greater Eurasia”, part of a long-term global strategy to build a centre of geopolitical stability and development. Therefore, besides Central Asia, both Russia and Ukraine also clearly have crucial positions in the BRI as envisaged by the Chinese leadership, as Maria Lagutina discusses in chapter 3. More specifically, the SREB is a response to the long debated process of integration within Eurasia by Russia and some of the largest Central Asian republics, which eventually led to the establishment of the Eurasian Economic Union (EEU) in 2015. The BRI intends to act as a binder for the projects of regional cooperation and integration already in progress, with the broader aim of connecting Asia to Europe through an integrated Eurasian continent. In such a setting, Ukraine is very important due to its geographical position between Russia and Europe, which also explains why the two countries have recently intensified cooperation in the development of the SREB.

Although most of the public debate and attention have been devoted to the implications of the BRI in Central Asia, no less crucial to the overall success of the initiative is the Middle East and North Africa (MENA) region, as pointed out by Filippo Fasulo and Valeria Talbot. Indeed, the MENA region is a truly strategic place where the Belt joins the Road, i.e. where the two major overland and mari-

time routes will eventually meet, as the China-Central Asia-West Asia Economic Corridor reaches Iran and Turkey and the Mediterranean Sea, the Red Sea and the Suez Canal. This is also the rationale behind the decision of many Middle Eastern countries to join the Asian Infrastructure Investment Bank (AIIB), the leading financing institution of the BRI. Among them, Oman and Turkey, are countries that probably will be most affected by the BRI corridors.

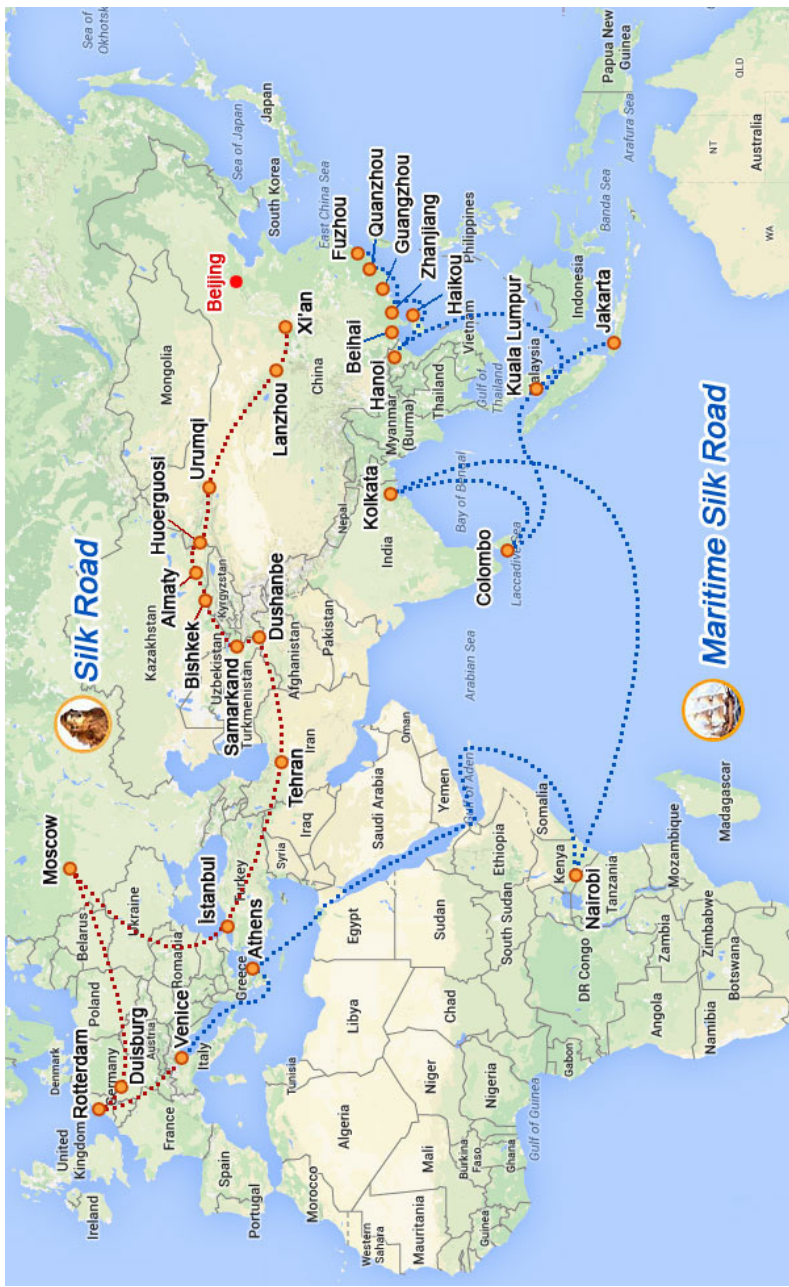
Europe is the end-point of the New Silk Roads, both by land and by sea. It is the ultimate geographic destination and political partner in the BRI. The initiative aims at easing economic and political relations between two major economic powers, at a time when geopolitical tensions in various parts of Asia and policy uncertainties among major world powers, namely the United States, pose a serious risk to multilateral cooperation. Even before the emergence of the BRI, the EU and China already held regular dialogues on railway, maritime, aviation, customs facilitation, as well as other issues related to connectivity, through the EU-China 2020 strategic Agenda for Cooperation signed in 2013, as suggested by Xavier Richet, Joël Ruet and Xieshu Wang in their chapter. But not all European countries are equally important to the BRI. Within Europe, BRI projects are in fact concentrated in two particular regions: Central and Eastern Europe and the European Mediterranean countries. Meanwhile, in September 2015, the European Commission and the Chinese government signed a Memorandum on the EU-China Connectivity Platform to enhance synergies between China's BRI and the EU's connectivity initiatives such as the Trans-European Transport Network.

Last but not least, Alessia Amighini notes that the BRI is likely to have long-lasting and deep implications for international economic and political relations, by becoming a true game changer. In fact, although trade is a key pillar of the project, the BRI aims to stimulate economic development over vast areas of land extending from the least-developed inner and western provinces of China to the so-called STAN countries in Central Asia and the rest of developing Asia, but also to the Middle East and Eastern Africa, where many countries are still in great need of infrastructure investment

to improve their connectivity with the rest of the world. Moreover, all Central Asian countries except Pakistan are landlocked, a major disadvantage in terms of export value. Even more importantly, the BRI is likely to radically change the major routes of international trade, which currently travels mainly by sea, in favour of overland routes. The changing network of international trade routes will have profound implications on the geopolitical relations between China and Europe, between China, Central Asia and Russia, and also within the whole Pacific region, to the extent that the major corridors of current seaborne trade of goods, mineral oils and gas will probably shift westwards away from the South China Sea towards the Middle Eastern lanes.

The BRI is the Chinese move on the global chessboard to shape the future international balance of power. It remains to be seen if and to what extent the other major chess pieces – from the EU to Russia – will be able and willing to play the same game.

Paolo Magri
ISPI Executive Vice-President and Director



Silk Road

Maritime Silk Road

1. Belt and Road: A Logic Behind the Myth

Yuan Li

Connections between the major European and Asian civilizations started more than 2,000 years ago, thanks to the diligent and courageous camel caravans that explored and opened up what today is known as the ancient Silk Road. Nowadays, Europe and Asia are once more trying to enhance connectivity, this time with the use of modern transportation, in order to boost trade, investments, and economic development, as well as to improve diplomatic relations, scientific progress and cultural exchange for all countries and regions across the Eurasian continent. These new connections and corridors – covering Central Asia, the Caucasus, the Black and Caspian Seas, Mediterranean-bordering countries, the whole of the European Union in general, and the Central-Eastern-Baltic part in particular – are included in the so-called “Belt and Road Initiative” (BRI) as an attempt to revive the historical Eurasian Silk Road(s).

Since its introduction by Xi Jinping in 2013, the initiative has been the center of a plethora of in-depth analyses and policy debates. The Chinese authorities tend to call it a “strategy” at home and an “initiative” abroad. This grandiose project aims at fostering China’s integration into the world economy and marks a significant milestone in the country’s engagement in the international community. The initiative was officially introduced in the fall of 2013. Most of the big projects still have not been carried out. Although it is a very recent development it has already caught global attention.

The initiative has usually been painted as “truly monumental”¹ or “grandiose”². In accordance with its potentially immense impact, especially on the Eurasian continent, the initiative has aroused great interest, both politically as well as academically. However, given its comprehensive character and the relatively short period that has passed since its inception in 2013, the initiative still poses many pending questions. To name but a few: (1) Why does it have a mysterious name? (2) What is the logic of the initiative? (3) What impacts can it generate?

This chapter aims to approach these questions and concerns on the Belt and Road Initiative. Section 2 analyzes the rationale of the name of the initiative. Section 3 analyzes the logic of the initiative through the linkage of the domestic and global economic contexts in which the initiative is embedded. Section 4 tries to analyze the impacts of the initiative in the involved regions with a special focus on Europe. Section 5 illustrates the impact of the initiative using a case study.

The myth in the name of the initiative

During his visit to Kazakhstan in September 2013, Chinese President Xi Jinping put forward the proposal for an innovative model of regional economic cooperation in order to foster collaboration across the historic Silk Road and named it the “New” Silk Road. One month later in the same year, Xi Jinping proposed the Maritime New Silk Road during his speech to the Indonesian Parliament, which was an extension of the continental New Silk Road and echoed the historic Maritime Silk Road.

But the Chinese government did not simply name the initiative the “New Silk Road(s)”, which might be the most straightforward and suitable title. Instead, the official Chinese official name of the

¹ “The Political Economy of China’s New Silk Road”, *Post Western World*, 6 November 2016. <http://www.postwesternworld.com/2016/11/06/political-economy-chinas/>.

² V.Ntousas, “BacktotheFuture:China’s‘OneBelt,OneRoad’Initiative”, HKTDCResearch, 10 June 2016, <http://www.feps-europe.eu/assets/6b12aa95-9d47-466f-a791-fa02a5d5c7d3/backtothefuture-feps-policybriefpdf.pdf>

initiative is “一带一路” (literally translated as “One Belt, One Road”). For many Westerners, although the name One Belt, One Road is quite inexplicable, this did not prevent the popular use of this term in the West. But later – from September 2015 on – the Chinese government changed the official English name of the initiative again, from One Belt, One Road (OBOR) into “The Belt and Road Initiative”(BRI). Why is the official English name of the initiative no longer “New Silk Road” or “One Belt, One Road” but instead translated as “The Belt and Road”? Why does the initial Chinese name for the initiative remain? In actual fact, the seemingly small adjustment in the official translation by the Chinese government embodies some political and cultural concerns.

First, the term “Seidenstraße” (or Silk Road) was first coined by Ferdinand von Richthofen, a German geographer, in 1877³. Therefore, to some extent, Germany and not the Chinese government is the intellectual property right holder of the word “Silk Road”. Besides, the New Silk Road is also an initiative launched by the United States for connecting Afghanistan and Central Asia in 2011, which aimed to integrate the region and boost its potential as a transit area between Europe and East Asia. Moreover, in the late 1990s, the Japanese government under the administration of Obuchi Keizo had also announced a “Silk Road Diplomacy” which aimed to enhance Japan’s involvement in Central Asia⁴. The Chinese version of the new Silk Road plan is supposed to be different from the previous American and Japanese Silk Road programs, both of which have made little progress. China’s idea is to design a non-exclusive platform for cooperation and regional integration and does not intend to seek dominance of regional affairs⁵. Therefore, the Chinese government used a different name for the BRI initiative.

³ F. von Richthofen, *China; Ergebnisse eigener Reisen und darauf gegründeter Studien*, Unveränderter Faksimile-Reprint der Originalausgabe des Verlages, Dietrich Reimer (Ernst Vohsen), 1882, Faksimileausgabe, Saarbrücken, Fines Mundi GmbH 2006.

⁴ C. Len, U. Tomohiko and H. Tetsuya, *Japan’s Silk Road diplomacy: Paving the road ahead*, Washington, D.C., Central Asia-Caucasus Institute & Silk Road Studies Program, 2008.

⁵ H. Maochun and Y. Zhang, “新丝绸之路经济带的国家战略分析”, People.com, 2013, <http://theory.people.com.cn/n/2013/1231/c40531-23993161.html>.

Second, the term One Belt, One Road is awkward in English. In the English language, the structure “one..., one...” is usually used to emphasize the meaning of “each” or “the same”, such as “one person, one vote” or “One World, One Dream”. But the “one..., one...” structure in the original Chinese name of the initiative is mainly used to refer to “abstract things”, and also to balance sentence structure. Noticing the problem, both Chinese and foreign politicians, such as Fu Ying, Vice-Minister of China’s Foreign Affairs Ministry, and Kevin Rudd, former Prime Minister of Australia, suggested using different English translations for the name of the initiative ⁶. Moreover, since its introduction in 2013, the initiative has progressed very fast. The initiative has expanded from including just “one” belt and “one” road, into including many “belts” and many “roads”. Therefore, the official English name of this initiative was changed from One Belt, One Road into The Belt and Road Initiative.

But why didn’t the Chinese name of the initiative change? This is because the traditional Chinese Taoist philosophy can provide a logical explanation for “one” and “many”. In the Taoist classic “Tao Te Ching”, Lao-tzu’s wisdom says that “The Dao begets One; One begets Two; Two begets Three; Three begets the myriad creatures”⁷.

It means Dao begets the *Wuji* (the origin); *Wuji* begets *Yin* (negative) and *Yang* (positive); *Yin* and *Yang* give birth to new things; and in this way all beings are created. This is Lao-tzu’s theory of cosmogony, which has shaped Chinese culture and philosophy. From this way of thinking, One Belt,

The initiative has expanded from including just “one” belt and “one” road, into including many “belts” and many “roads”. Therefore, the official English name of this initiative was changed from OBOR into BRI

⁶ Y. Huang, “Understanding China’s Belt & Road Initiative: Motivation, framework and assessment”, *China Economic Review*, vol. 40, pp. 314-21, 2016, doi:10.1016/j.chieco.2016.07.007.

⁷ Wang Yiwei, *Shi jie shi tong de: „yi dai yi lu” de luo ji*, 1st ed. Ren da chong yang zhi ku zuo pin xi lie RDCY think tank series. Bei Jing: Shang wu yin shu guan, 2016; Lao Tzu, *Tao-te-ching*, Penguin classics, London, 1963.

One Road and Belts and Roads are both opposite and unified, and can be transformed into each other.

Promise of the reason for the existence of everything in the universe is derived from the One (nothingness; or reason for being) (yin and yang) (Heaven, Earth and Man; or yin, yang and qi [breath]).

The logic of the initiative

The objective of the Belt and Road Initiative is a topic heavily debated by academia, think tanks, and public media since its birth. Some observers are inclined to interpret the BRI as China's new grand strategy with security and military aspirations. The BRI has often been compared to the Marshall Plan and portrayed as a threat to Western hegemony⁸. This emphasis on the geopolitical impacts of the BRI tends to come together with a zero-sum and conflictual assessment of China's rise⁹.

One the other hand, some other observers describe the Belt and Road Initiative as China's new economic strategy aimed at further connecting its domestic market with the global market¹⁰, as well as

⁸ E. Curran, "China's Marshall Plan", Bloomberg, 7 August 2016, <https://www.bloomberg.com/news/articles/2016-08-07/china-s-marshall-plan>; S. Mokry, "How the Belt and Road Initiative globalizes China's national security policy", MERICS China Blog, 15 November 2016, <https://blog.merics.org/en/blog-post/2016/11/15/how-the-belt-and-road-initiative-globalizes-chinas-national-security-policy/>; W.H. Overholt, "One Belt, One Road, One Pivot", The Overholt Group, vol. 10, no. 3, Fall 2015, pp. 1-8, <http://theoverholtgroup.com/media/Article-Southeast-Asia/One-Belt-One-Road-One-Pivot-Global-Asia-Corrected-Oct2015.pdf>; S. Tiezzi, "The New Silk Road: China's Marshall Plan?", *The Diplomat*, November 2014, <http://thediplomat.com/2014/11/the-new-silk-road-chinas-marshall-plan/>

⁹ T. Fallon, "China's Pivot to Europe", *American Foreign Policy Interests*, vol. 36, no. 3, 2014, pp. 175-82, doi:10.1080/10803920.2014.925342; A. Bhattacharya, *Conceptualizing the Silk Road Initiative in China's Periphery Policy*, Researchgate, November 2016.

¹⁰ Hong Kong Trade Development Council (HKTDC), "Belt and Road Basics", 2017, <http://beltandroad.hktdc.com/en/belt-and-road-basics>; "Our bulldozers, our rules: China's foreign policy could reshape a good part of the world economy", *The Economist*, 2 June 2016, <http://www.economist.com/news/china/21701505-chinas-foreign-policy-could-reshape-good-part-world-economy-our-bulldozers-our-rules>; B. Hofman, "China's One Belt One Road Initiative: What we know thus far", East Asia & Pacific

a new diplomatic strategy to enhance China's foreign relations with countries along the belt and road¹¹. Note that the official position presented by Chinese authorities is that the BRI is mainly an economic initiative, focusing on win-win cooperation and the socioeconomic benefits that it could bring for China and for the other participant countries. In their view, using a geostrategic lens to analyze an economic initiative is a pretext for being trapped again into a Cold War mindset as well as a zero-sum-game mindset which have hindered cooperation among nations and world development for decades¹².

Although the existing popular policy analyses of the aim of the BRI have provided some important information, their interpretations usually just focus on a certain specific aspect of the BRI. As the BRI itself is multi-dimensional, if one understands the initiative just through one dimension then the whole picture and the links between different dimensions are missed. Modern international relations studies emphasize that sound theories of world politics should try to consider the interplay of both international and domestic dynamics¹³. Policies like the Belt and Road Initiative can be seen as an outcome (equilibrium) of games played between policy-makers in the domestic arena facing constraints from domestic institutions and society, as well as in the international arena facing international constraints. Therefore, to understand the logic of the BRI,

The official position presented by Chinese authorities is that the BRI is mainly an economic initiative

one needs to understand the domestic and global economic contexts in which the initiative is embedded.

on the rise, The World Bank, 12 April 2015, <http://blogs.worldbank.org/eastasiapacific/china-one-belt-one-road-initiative-what-we-know-thus-far>

¹¹ Xie, Tao, "Is China's 'Belt and Road' a Strategy?", December 2015, <http://thediplomat.com/2015/12/is-chinas-belt-and-road-a-strategy/>; McKinsey, "China's One Belt, One Road: Will it reshape global trade?", 2016, <http://www.mckinsey.com/global-themes/china/chinas-one-belt-one-road-will-it-reshape-global-trade>; Y. Fallon (2014).

¹² Li Ruogu, "Understanding 'One Belt, One Road' Initiative and 'Going out' Strategy of Chinese Enterprises" 一带一路" 战略认识与中国企业"走出去", 2016, <http://www.sasac.gov.cn/n1808314/n2106300/n2106332/c2109417/content.html>

¹³ J.N. Rosenau, *Linkage Politics*, New York, The Free Press, 1969.

First of all, because of its increasing weight in the world economy, today China no longer has simply domestic economic policy. After decades of exceptionally strong economic growth, China has become the world's second largest economy. In 2007, it also became the world's largest exporter and second-largest importer. Its import market is roughly the size of the import markets of the other BRICS (Brazil, the Russian Federation, India, China and South Africa), Japan, and Turkey combined¹⁴. The Chinese economy has become a leader in other dimensions too. Investment in China was in 2015 four times the level in Japan and exceeds investment in the United States and the European Union by 35 and 25%, respectively¹⁵. In many metal markets, China even represents more than 50% of global demand. Hence, China's decisions regarding its own monetary, fiscal, and wage policies will have impacts on the rest of the world, from the West to the BRICS and Africa¹⁶. Because of this important role of the Chinese economy, China has become a "neighbor" of all the countries in the world. And it is not surprising that any big domestic economic project in China could generate influence throughout the global economy directly or indirectly, as other nations' links with China through trade and FDI have intensified more than ever before. With this rising influence, international responsibility to share the leadership in world affairs is imposed on China. China has no option but to engage in the shaping of a global governance system, and to collaborate with its main partners internationally, despite their differences. The BRI is an ambitious proposal from China, aiming at forging a platform for diversified cooperation and realizing win-win results and shared development¹⁷.

¹⁴ World Bank, *The Impact of China on Europe and Central Asia*, Europe and Central Asia Economic Update, Office of the Regional Chief Economist, April 2016.

¹⁵ *Ibid.*

¹⁶ P. Defraigne, "China's 'Peaceful Rise' also Depends on Europe", 3 September 2014, <http://www.madariaga.be/publications/madariaga-speeches/971-china-peaceful-rise-also-depends-on-europepdf>

¹⁷ "B&R initiative new opening-up strategy: scholar", *Xinhua News*, 14 January 2017, http://news.xinhuanet.com/english/2017-01/14/c_135982714.htm

However, in the past, may be due to the influence of Deng Xiaoping's suggestion to "hide your capacities, bide your time, accomplish things where possible", Chinese leaders seemed to have had a "small-country" mentality, which means that policy-making considerations regarded China's domestic affairs and were not an international responsibility. Nevertheless, there has been a major shift from a "small-country" mentality to a "big-country" mentality in Chinese leaders' strategic thinking after the leadership change in 2012. China's new leadership has realized that the country has no other option but to coordinate with its main partners concerning the international consequences of China's rise. Otherwise, it runs the risk of containment policies of a bloc-to-bloc confrontation. With this change of mentality, Chinese policy-makers began to focus equally on international as well as domestic markets and to plan domestic reforms in light of global perspectives. For example, the Reform Decision after the 3rd Plenum of the 18th Party Congress called for "adapting to the new situation of globalization"¹⁸.

Second, domestically, after almost 35 years of high growth, China has been entering a "new normal" stage, expecting the average growth rate to be around 6.5% in the foreseeable future. Looking for new growth drivers and transforming the economic structure is a very urgent task. To achieve this aim, in late 2013 the Central Committee of the Party issued a very ambitious reform decision that promises greater progress towards a better functioning and more open market economy. One of the key reform outlines is further opening up the Chinese economy to the world, especially to opening up the inland and border areas of China by developing new transportation routes and accelerating infrastructural connections among neighboring countries and regions. This will facilitate overseas companies' entry into China and Chinese companies' expansion abroad¹⁹.

¹⁸ CPC Central Committee, "Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform", 16 January 2014, http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm

¹⁹ *Ibid.*

Morover, the traditional economic structure of China, which relied on investing massively in fixed assets and exporting low-skilled labor-intensive products, is running out of steam. It now requires a new model to support economic development, through building a large number of high-tech, high-added value sectors, which is not easy to achieve in a short time. This is the typical “middle-income trap” challenge. About three decades ago, the economies of South Korea, Taiwan, and Hong Kong faced the same “middle-income trap” challenges as domestic labor costs rose sharply. They relocated most of their labor-intensive manufacturing factories to the Eastern coastal regions of China and went on to upgrade domestic industrial structure. This process not only helped South Korea, Taiwan, and Hong Kong to overcome the “middle-income trap” but also helped mainland China to achieve industrialization and modernization simultaneously and created many jobs²⁰. The BRI will not only help China to overcome the “middle-income trap” by transforming its economic structure but will also create unprecedented opportunities for all the developing countries along the Belt and Road to achieve economic take-off²¹.

Third, internationally, the recovery of the global economy after the 2008 financial crisis continues to be weak, with several potential skeletons still resting in the cupboard. From the refugee crisis in Europe, the Brexit divorce, to the turbulent American presidential election; from the civil war in Syria, the religious extremism in Indonesia, to the economic depression in Latin America, there have been too many “black swan” events rocking the entire developed and developing world. And much of the social and political chaos has deep economic causes. Finding new long-term growth drivers is, therefore, of utmost urgency for a sustainable recovery of the world economy and long-term peace. Nevertheless, it will take dedication and

Finding new long-term growth drivers is of utmost urgency for a sustainable recovery of the world economy and long-term peace

²⁰ Y. Huang (2016).

²¹ J.Y. Lin, “‘One Belt and One Road’ and Free Trade Zones - China’s New Opening-up Initiatives”, *Frontiers of Economics in China*, vol. 10, no. 4, 2015, pp. 585-90.

hard work to breed a new white swan. For instance, Asia's developing countries have a vast market potential, but their economic take-off is restricted by poor infrastructure, and they lack the funds for catching up. For developed economies, such as Europe, although the growth of bilateral trade, investment, and other economic exchanges with China have been very impressive in recent decades, the economic potential of trade and investment relations with China is far from being fully exploited. This is mainly due to restrictions, bans, and other institutional barriers. The Belt and Road Initiative aims not only at building a trade and infrastructure network but also at integrating the development strategies of the participating countries to generate synergies and reduce the institutional barriers that restrict trade and investment exchanges among them.

Fourth, there has been a significant variation in the domestic policy-making structure caused by the leadership change after the 18th Party Congress. Policy-making in China has for a long time been depicted as fragmented by many China scholars²². Decisions involve a protracted process of building consensus among bureaucratic organizations that represent functional, sectorial, and regional interests. Each bureaucratic organization represents its constituents and pushes for policies in their own interests. However, they cannot command each other. In order to build consensus, they sometimes use logrolling or exchanging favors with one another. The positive effect of logrolling is that it prevents arbitrary personal power. However, the negative effect is that state policies can be captured by powerful interest groups²³. For example, in China, the Security, the Military,

²² K.G. Lieberthal, *Policy Making in China: Leaders, Structures, and Processes* (with the assistance of M. Oksenberg), Princeton, NJ, Princeton University Press, 1988; K.G. Lieberthal and D.M. Lampton, *Bureaucracy, Politics, and Decision Making in Post-Mao China*, Berkeley, University of California Press, 1992; D.M. Lampton, *Following the leader: Ruling China from Deng Xiaoping to Xi Jinping*, A Philip E. Lilienthal book, Berkeley, University of California Press, 2014; S.L. Shirk, *The Political Logic of Economic Reform in China*, California series on social choice and political economy 24, Berkeley, University of California Press, 1993, <http://www.loc.gov/catdir/description/ucal041/92012030.html>

²³ M. Gillia, Yuan Li and Jiwei Qian, "Logrolling Under Fragmented Authoritarianism: Theory and Evidence from China", *SJRN Journal*, 2016; S.L. Shirk, *The Domestic Context of Chinese Foreign Security Policies*. New York, NY, Oxford University Press, 2014.

and the Propaganda systems used to have a strong influence on diplomatic and economic policy-making, but the Ministry of Foreign Affairs did not have real power²⁴. Through a series of bold reforms, including the anti-corruption campaign, the new leadership of Xi Jinping reclaimed authority over economic and diplomatic policy-making. The concentration of policy-making power has been further reinforced through the reduction of the size of the Standing Committee of the Politburo from 9 to 7, where the security and propaganda apparatus were excluded from the top echelon of policy-making in China. These changes have prevented the BRI from being hijacked by powerful interest groups. The Leading Group for Promoting the BRI was established in February 2015 under the leadership of Zhang Gaoli, first-ranked vice-premier and a member of the Standing Committee of the Politburo, whose portfolio focuses on economic issues, and its office has been placed under the National Development and Reform Commission, China's top macroeconomic management agency²⁵. Besides the National Development and Reform Commission, the Ministry of Commerce and the Ministry of Foreign Affairs are another two major ministries involved in the implementation of the BRI. Neither the military nor the security apparatus plays a prominent role in its implementation. Having a domestic institution concerned with the daily management of the BRI also shows that the main focus of the initiative is on economic affairs.

Accordingly, the five major targets of the BRI include promoting policy coordination, facilitating connectivity, accelerating

The Belt and Road Initiative aims not only at building trade and infrastructure networks but also at integrating the development strategies of the participating countries to generate synergies and reduce the institutional barriers that restrict trade and investment exchanges among them

²⁴ D.M. Lampton, *The making of Chinese foreign and security policy in the era of reform, 1978 – 2000*, Stanford, California, Stanford University Press, 2001.

²⁵ “China sets up leading team on Belt and Road initiative”, *Xinhua News*, 29 March 2015, http://news.xinhuanet.com/english/2015-03/29/c_134107435.htm

trade, tightening financial integration, and promoting people-to-people bonds. If all these goals turn into reality, it will affect China and countries along the Belt and Road significantly, becoming a propeller for thousands-of-kilometers-long hinterland development. So far, there are more than 100 countries and international organizations taking part at different levels in the BRI Initiative²⁶. The widespread willingness to participate in this project shows that the involved countries believe in the positive effects that can be achieved through partnering with the Chinese.

The potential effects of the Belt and Road Initiative on third countries

Where the massive scale of the BRI is concerned, one should keep in mind that it involves about three-fourths of the world's population, and 40% of Global GDP²⁷. As a major effect, the implementation of the Belt and Road Initiative will further deepen economic integration between Asia and Europe. This might generate profound impacts on goods, service, capital, labor and other imports markets, on production processes, as well as on all economic sectors and players (consumers, producers, governments, etc.). The likely overall effects of the BRI on Europe can be positive, negative, or neutral depending on the sum of the costs and benefits for each sector while considering both demand side and supply side impacts.

Generally speaking, trade creation will occur when there is a reduction in tariff barriers, leading to lower prices. This switch to lower cost producers will lead to an increase in consumer surplus and economic benefits. On the contrary, trade diversion occurs when tariff agreements cause imports to shift from low-cost countries to higher cost countries. The BRI is likely to have a major trade creation effect. The trade creation effects of the BRI will likely to be significant for both the EU and China since one of the major aims

²⁶ "Xi calls for advancing Belt and Road Initiative", *Xinhua News*, 18 August 2016, http://news.xinhuanet.com/english/2016-08/18/c_135608750.htm

²⁷ E. Curran, (2016).

of the BRI is to eliminate trade and investment barriers and create a free trade zone among countries along the Belt and Road²⁸.

Although the overall effect of the BRI on economic growth for Europe might be positive due to trade creation, the impacts on different industries and sectors of the economy might vary. Generally, China has a comparative advantage in manufacturing and labor-intensive industries. In recent years, China has also progressed very fast in climbing up the production value chain by developing capital-intensive and technology-intensive industries and started to move its labor-intensive industries to other countries. The BRI might raise the issue of trade imbalance between China and Europe, which has always been a concern because almost all EU countries have maintained quite large trade deficits with China except for Germany.

Furthermore, because of the potential improvement in the competitive position of China's manufacturing industries, some manufacturing sectors in Europe may face more competition. But some other sectors in Europe may benefit from increasing demand for transportation, financial services, and also natural resource exports. As China moves up the production chain, it also would help improve the wages of unskilled workers relative to skilled workers in European countries. The reason is that China's traditional reliance on low-skilled, labor-intensive exports has put downward pressure on wages in other countries. As China relies less on labor-intensive exports, then that downward pressure eases.

Last but not least, the construction of transportation infrastructure itself requires a huge amount of investment, which can become a strong engine for a new round of economic growth. For example, the exceptionally strong investment demand would create large export opportunities for European countries that are specialized in the production of investment goods. This could also create big export opportunities for resource-rich countries in

²⁸ National Development and Reform Commission – People's Republic of China, (NDRC), "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", 28 March 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

Central Asia. Besides, we should not forget that the improvement of transportation infrastructure can function as a driver for productivity and economic growth as well as prosperity and poverty reduction for the countries and regions in the hinterland of the Eurasian continent. Earlier studies have found that trade infrastructure is related to development, because it improves the external trade balance²⁹, reduces income inequality and poverty³⁰, and enhances economic growth³¹.

Income spillover effects

The BRI may generate positive economic spillover effects due to higher growth rates and income levels in Asia, especially in the vast hinterland region between East Asia and Europe as mentioned above. Usually, in trade policy analysis, economic spillovers are likely to be underrated relative to other direct effects. However, as countries become more integrated, they are increasingly influenced by each other's economic development. Hence, we should not ignore the economic spillover effects in evaluating the overall effects of the BRI.

The BRI could influence EU countries' growth through a number of channels. The most obvious channel is trade: a rise in the BRI region's growth will lead to an increase in their demand for EU imports, which then contributes directly to an increase in the net exports of the EU countries. And the positive implications of trade for economic growth are not limited to countries that run sur-

²⁹ G. Celbis, P. Nijkamp and J. Poot, "Infrastructure and Trade: A Meta-Analysis", *Region: the journal of ERSAs*, vol. 1, no. 1, 2014, pp. 25-62, <http://hdl.handle.net/10419/110933>

³⁰ C. Calderón and L. Servén, *The Effects of Infrastructure Development on Growth and Income Distribution*, Documentos de trabajo/Banco Central de Chile 270, Santiago de Chile, 2004; D. Seneviratne and Y. Sun, "Infrastructure and Income Distribution in ASEAN-5: What Are the Links?", International Monetary Fund (IMF), 2013, <http://www.imf.org/external/pubs/ft/wp/2013/wp1341.pdf>

³¹ D.H. Brooks, "Infrastructure's role in lowering Asia's trade costs", in *Infrastructure's role in lowering Asia's trade costs: Building for trade*, D.H. Brooks and D. Hummels (eds.), Cheltenham, UK - Northampton, MA, USA, Elgar, 2009, pp. 1-16.

pluses since countries can benefit from technology transfers and other efficiency gains associated with international trade³². Indeed, IMF studies show that a country's economic growth is positively influenced by both the growth rate and relative income level of its trading partners and that countries benefit relatively more if their trading partners grow faster than they themselves do³³.

Second, with growing foreign direct and portfolio investment flows into China, in the form of FDI, and from China, in the form of Chinese purchases of foreign assets, the BRI can have an impact on the global demand and supply of capital. Thus, it would also generate spillover effects

on the GDP growth of the EU through financial linkages. The BRI would enhance regional integration across the Eurasian continent, which would offer European suppliers more scope in participating in the "Asian Factory",

The BRI could influence EU countries' growth through a number of channels. The most obvious channel is trade: a rise in the BRI region's growth will lead to an increase in their demand for EU imports

that is through cross-border value added chains. Many countries covered by the BRI are mostly low-income economies. They have greater potentials to grow rapidly but lack the required capital, technology, and know-how. The European economies are at the top of the global production and productivity chain. At the same time others, including China, are somewhere in the middle. On the one hand, China as a market for high-end EU products and investments will become larger, following the increase in the size and ranks of the Chinese middle-class. On the other, Chinese and European companies can work together on jointly investing in the landlocked areas between Europe and East Asia. Such investments will help these countries to create more (and better) jobs, as

³² D.T. Coe and E. Helpman, "International R&D spillovers", *European Economic Review*, vol. 39, no. 5, 1995, pp. 859-87, doi:10.1016/0014-2921(94)00100-E.

³³ V. Arora and A. Vamvakidis, "Economic Spillovers", *Finance and Development: A quarterly magazine of the IMF*, vol. 42, no. 3, 2005, <http://www.imf.org/external/pubs/ft/fandd/2005/09/arora.htm>

well as increase exports and upgrade their industrial capabilities. Therefore, the successful economic integration and development of the hinterland region along the BRI could create new markets for EU exports and FDI, thereby securing employment in Europe.

An important factor hindering the recovery of the world economy is the existence of high transaction costs. Although the growth of bilateral trade, investment and other economic exchanges with China have been very impressive for many developed countries including the EU, in recent decades, the economic potential of trade and investment relations with China is far from being fully achieved. This is mainly due to restrictions, bans, and other institutional barriers to trade, still existing between two trade partners. The Belt and Road Initiative aims not only at building a trade and infrastructure network but also at integrating the development strategies of the participating countries to generate synergies and reduce the institutional barriers that restrict trade and investment exchanges among them. But note that the BRI is different from any traditional paradigm of regional integration. Traditional regional integration arrangements are based on legal rules. In contrast, the BRI is not in a hurry to develop unified rules and arrangements for its participants but seeks to establish a coalition relationship between different countries, different cultures, and different systems. This methodology embodies traditional Chinese culture and wisdom, which perceives the world in a dialectical, pragmatic, and flexible way. For example, market access for agro-food products, technical barriers to trade, services restrictions, market-economy status in trade defense instruments are some of the important issues concerning EU-China trade.

A case study of Duisburg as an important hub on the New Silk Road Economic Belt

I work at the Institute of East Asian Studies at the University of Duisburg-Essen, one of the largest research centers on East Asian studies in Germany. Duisburg is situated in the Ruhr area, and rather than for close ties with East Asia, it used to be better known for

its blast furnaces, coal mines and inland port. This state of affairs started to change in 2010, when the Yuxinou Railway was completed, connecting Chongqing and Duisburg via an 11,179 km long railroad. It sets out from Chongqing (one of China's five national central cities) in Southwest China, and passes through Kazakhstan, Russia, Belarus, Poland, and finally reaches Germany in Duisburg. If transported by sea from Chongqing to Europe, container-packed goods would first need to be carried from Chongqing to Shanghai or Shenzhen, and then shipped overseas. As such, the Yuxinou Railway has reduced the total transportation time to only two weeks instead of the one and a half months of the past. In March 2014, Chinese President Xi Jinping visited Duisburg to promote the construction of the "New Silk Road Economic Belt". The Chinese President witnessed the arrival of a cargo train from Chongqing at the railway station in Duisburg and expressed his hope that this German hub will play a bigger role in China-Germany-Europe cooperation.

Since President Xi Jinping's visit in March 2014, the Belt and Road Initiative has progressed very fast in Duisburg. I remember when President Xi Jinping visited Duisburg in March 2014, the watchword One Belt, One Road was a new phrase heard before by very few people. Nowadays this phrase has become a buzzword in the global media, attracting the highest attention whenever it pops up. Moreover, the number of rail lines similar to the abovementioned Yuxinou Railway is growing and the number of China-Europe rail lines that go to Duisburg has increased to more than five. Usually, the Chinese cities they connect to are central cities with tens of millions of inhabitants and trillions in GDP output, equivalent to small to medium sized countries. These railway lines have greatly shortened the market distance between the connected cities in Europe and China, creating a huge potential market for European products.

More importantly, besides the direct effect on trade volume, the opening of new railway lines enhances trade facilitation in a more fundamental way, namely a new round of institutional changes that reduces barriers for economic exchanges between China and Europe. Interestingly, a lot of railway projects were formed bot-

tom-up, driven in the first place by market demand. Then companies cooperated with different governmental enclaves to solve problems arising, among others, from multiple regional and national regulations. Since these projects have involved many countries along the Eurasian Land Bridge, sometimes even national cabinets have had to step in to negotiate with each other to reduce institutional barriers that hinder transnational transportation and trade. For example, in the past, customs inspection procedures were very complicated, requiring trains from Chongqing to Duisburg to stop in each and every country along the New Silk Road. At that time, it would take about 40 days for a train to reach Duisburg from China, which made absolutely not sense from a shipper's point of view. But customs inspection procedures have been greatly simplified – and are still being improved – so today there is no requirement for trains to have unnecessary stops on their now-less-than-two-weeks travel between China and Duisburg. In this sense, rail operations across the New Silk Road have generated positive external effects on reducing institutional barriers and hence helped to bring down transaction costs and loosen other restrictions on economic activities, in the end unlocking new growth potential for countries along the route.

Besides instant trade gains, there are also many other knock-on benefits, such as local employment. Around 300 logistics-oriented companies are based in the Port of Duisburg, accounting for 20,000 jobs supporting port activities. In addition, let us not forget international partnerships or simply public relations. After

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establishing the new railway service, and especially after the official visit of President Xi Jinping to Duisburg, a lot of Chinese local governments now want to establish some sort of cooperation ties with Duisburg, and quite a number of Chinese companies have increased their investments in

this region. For instance, in 2014, Nanjing High Accurate Drive Equipment Manufacturing launched its European headquarters in Duisburg due to the railway. Now the number of Chinese companies in Duisburg has increased to more than 50, and in the whole region of North-Rhine-Westphalia has increased to more than 900. Meanwhile, there are more than 2,700 companies from this region investing in China. It can be expected that Duisburg in particular, and North-Rhine-Westphalia, in general, will attract more and more companies from China, not to mention Chinese tourists in the future.

Because of the converging interests of various parties and win-win results from cooperation, the general perception of the BRI is quite positive here. In the beginning of 2017, the city government of Duisburg opened a Chinese WeChat public account, which was the first among all German cities. Sören Link, the Mayor of Duisburg, said in an interview that “he is planning to transform Duisburg into the center of Sino-German cooperation and even plans to make Duisburg Germany’s Chinatown”. Ralf Meurer, Director of Gesellschaft für Wirtschaftsförderung Duisburg, called “the Belt and Road Initiative” to a lucky key for Duisburg during an interview with the *People’s Daily*³⁴.

Moreover, exchanges will not just take place in the field of economics and trade. Another important associated benefit is the facilitation of cross-cultural communication and the exchange of ideas. In the past, Chinese tea and tea culture were introduced to Europe through international trade, which inspired Europe to develop its own tea practices and industry. Similarly, the way Germans brew beer has also influenced China, and given birth to China’s beer culture and business. The Chinese are curious about Europe, and the Europeans are interested in China. Through cultural exchanges, they can better understand each other’s tastes and life styles in order to better communicate, interact, and cooperate, be it in Germany, China, Italy, or any other country at both ends of the New Silk Road. And this seems to be beneficial to everyone.

³⁴ “一带一路” 是我们获得的幸运钥匙”, *People’s Daily*, 26 January 2017.

Conclusion

Finding new long-term growth drivers is of utmost urgency for a sustainable recovery of the world economy. Asia's developing countries have vast market potential, but their economic take-off is restricted by poor infrastructure and a lack of funds for catching up. For developed economies, such as Europe, although the growth of bilateral trade, investment, and other economic exchanges with China have been very impressive in recent decades, the economic potential of trade and investment relations with China is far from being fully exploited. This is mainly due to restrictions, bans, and other institutional barriers. The Belt and Road Initiative aims at fostering China's integration into the global economy, which marks a significant milestone in the country's engagement in the international community. It is China's new opening-up strategy developed in response to changing domestic and international circumstances. If all the goals of the BRI turn into reality, it will affect China and countries along the Belt and Road significantly, becoming a new white swan for global economic growth.

However, without a shadow of a doubt, the current global geopolitical atmosphere is becoming more and more strained. Recent economic and political developments in the United States, the United Kingdom, and the Eurozone have raised serious challenges to globalization and the multilateralism that have been the bedrock of the liberal international order since World War II. President Trump's withdrawal from the Trans-Pacific Partnership (TPP), his threatened pullback from the UN and NATO, and his intention to adopt major protectionist trade policies and immigration restrictions have cast doubts on the future of American hegemony and US participation in global governance. The world is again at a historical turning point. Without a new vision, a new plan and a revolution in the world's economic governance, there is a very real risk that globalization goes into reverse. In defiance of this, China has taken a clear position at a series of global summits to defend glo-

balization and boost new multilateralism³⁵. However, China is still a developing country with only one-seventh of the US's per capita GDP. China has neither the ability nor the obligation to defend and lead globalization alone. Seeking Europe as a partner is very important. The Belt and Road Initiative is an open proposal from China to Europe and all its partners in the world, to forge a platform for diversified cooperation, to integrate China's development strategies with the development strategies of other countries, to generate synergies between government policies, and ultimately to reduce the risk of the "Thucydides Trap". For Europe, such a proposal from China should be appreciated and encouraged and not disregarded or demonized. Especially, given the erosion of domestic political support for multilateralism, Europe's historical responsibility is to make multilateralism prevail again. Therefore, Europe and China should build better connectivity and more cooperation, bridging thousands-of-kilometers-long gaps for mutual benefits.

³⁵ Xi Jinping, 2017, "President Xi's speech to Davos in full", <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>

2. A Comprehensive Strategy To Strengthen China's Relations with Central Asia

Fabio Indeo

The evolution of Chinese strategy towards Central Asia since 1991

It was as part of his state visit to Kazakhstan that, at Nazarbayev University on 7 September 2013, Chinese President Xi Jinping announced the “Silk Road Economic Belt” (SREB) Initiative, one of the two main pillars of the “One Belt, One Road” (OBOR) project. During his speech (titled “Promote Friendship Between Our Peoples and Work Together to Create a Bright Future”) the Chinese President pointed out that “to forge closer economic ties, deepen cooperation and expand space for development in the Eurasian region, we should take an innovative approach and join hands in building an ‘economic belt along the Silk Road’. We may start with work in individual areas and link them up over time to cover the whole region”¹.

The SREB represents the overland route of the wider OBOR, which also includes the New Maritime Silk Road – which was announced in October 2013 during Xi Jinping’s state visit to Indone-

¹ W. Yiwei, “China’s ‘New Silk Road’: a case study in EU-China relations”, in A. Amighini and A. Berkofsky (eds), *Xi’s Policy Gambles: The Bumpy Road Ahead*, Edizioni Epoké-ISPI, Novi Ligure-Milano, 23 March 2015, p. 93, <http://www.ispionline.it/it/publicazione/xis-policy-gambles-bumpy-road-ahead-12911>

sia. In 2015, the project was formalized through presentation of an official document called the “Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st-Century Maritime Silk Road”².

The backbone of the SREB Initiative precisely represents the strategic orientations of Chinese periphery policy since 1991, within which Central Asia will play the role of key transit area, while Beijing will be able to develop profitable bilateral relations and co-operation with all Central Asian republics.

Since the independence of the five Central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) in 1991, China has adopted a political strategy – the “Zhoubian zhengce” strategy, or periphery policy – aimed at exploring common grounds with new neighbouring nations in both economic and security areas in order to develop good relations with them in a reshaped geopolitical scenario³.

Even if Russia aims to maintain its traditional influence in post-Soviet Central Asia – the so called “near abroad” – China has progressively undertaken a strategy to achieve three main goals:

1. to guarantee national security and regional stability, because China feared that the creation of independent states closer to its Western border could push the Uighur population of the Xinxiang region to support separatist tendencies and claim independence from China, considering their religious, ethnic and cultural affinities with Central Asian populations⁴.

² National Development and Reform Commission (NDRC), “Vision and actions on jointly building the Silk Road Economic Belt and 21st Century Maritime Silk Road”, Ministry of Foreign Affairs and Ministry of Commerce of the People’s Republic of China, 28 March 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html

³ Zhiqun Zhu, *China’s New Diplomacy: Rationale, Strategies and Significance*, Ashgate, Farnham, 2010, pp. 111-112.

⁴ N. Becquelin, “Pékin et l’Asie centrale après la fin de l’URSS”, *Perspectives Chinoises*, vol. 44, November-December 1997, pp. 10-21; S. Zhuangzhi, “The relationship between China and Central Asia”, in I. Akihiro (ed), *Eager Eyes Fixed on Eurasia*, Slavic Research Center, Hokkaido University, Sapporo, 2007, pp. 47-52.

2. To develop political and economic relations with the Central Asian republics, in order to improve its relations with the new border states and to develop economic and commercial relations with them, as a kind of “geo-economic strategy” to ensure stability and security in the region. China developed bilateral relations mainly with neighbouring Kazakhstan, Kyrgyzstan and Tajikistan and solved the border issues inherited after the Soviet Union collapsed. Moreover, the development of deeper economic relations proved to be relatively easy because Chinese and Central Asian economies are complementary: China imports raw materials (energy, ferrous and non-ferrous metals, and minerals) and represents a wide and alternative market for the land-locked Central Asia economies, which import from China consumer goods and finished products⁵.
3. To ensure the control of Central Asian oil and gas in order to strengthen its energy security, also because China has been a net oil importer since 1993 and these resources can allow Beijing to better promote a geographic diversification in its energy imports.

The backbone of the SREB Initiative precisely represents the strategic orientations of Chinese periphery policy since 1991

Following the launch of the SREB geopolitical project in 2013, China undertook a concrete strategy to extend its influence in Central Asia, which aimed to protect its energy and trade interests as well as to react to Russian attempts to contain Beijing's growing power in the region.

As a matter of fact, the Russian initiative to establish the Eurasian Economic Union (EEU) – a regional cooperation project in

⁵ Q. Liu, “Sino-Central Asia trade and economic relations: progress, problems and prospects”, in Y. Zhah and R. Azizian, R. (eds), *Ethnic Challenges beyond Borders: Chinese and Russian Perspectives of the Central Asia Conundrum*, Mac Millan Press, Basingstoke/London, 1998, pp. 181, 184-185, 193.

the economic sphere – was initially intended to exclude China, as it conflicted with the Chinese idea of creating a free trade zone in the Shanghai Cooperation Organization (SCO)⁶ framework (involving Russia and the four Central Asian republics – Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan – while Turkmenistan never joined this organization)⁷. However, the success of the Chinese initiative and the current geopolitical rapprochement between China and Russia (mainly in the energy sector) has pushed Russia to profitably consider a potential merger, or cooperation, between the EEU and the SREB.

The SREB Initiative envisages creating a comprehensive transportation network, consisting of railways, highways, airways, oil and gas pipelines, and transmission lines as well as communications and digital infrastructure (the so-called “digital Silk Road”) “that will cross the Central Asian region, helping China to enhance its economic integration with the West. The main goal was to create a Eurasian economic corridor – through “transportation infrastructure diplomacy”, trade liberalization, and monetary cooperation – able to further develop Central Asian economies and integrate them into both the European and Asian markets⁸.

Central Asia and the Silk Road Initiative: playing a multi-vector strategy in foreign policy

It is worth emphasizing that one of the key elements of the SREB Initiative is its inclusive nature: unlike the Russian-backed initia-

⁶ The Shanghai Cooperation Organization was created in 2001 as a regional initiative led by Moscow and Beijing to improve the cooperation in the Central Asian security field, in order to fight the so called “three evils” (ethnic separatism, religious extremism and terrorism) and to ensure regional stability.

⁷ C. Brugier, “China’s way: the new Silk Road”, European Union Institute for Security Studies, Brief Issue, 14, Paris, May 2014, p. 1, http://www.iss.europa.eu/uploads/media/Brief_14_New_Silk_Road.pdf; S. Zhuangzhi (2007), p. 57.

⁸ F. Congiu, “China 2015: Implementing the Silk Road Economic Belt and the 21st Century Maritime Silk Road”, in M. Torri and N. Mocci (eds), *The Chinese-American Race for Hegemony in Asia*, Viella editions, Roma, 2016, pp. 35-36.

tives – the EEU or the Collective Security Treaty Organizations (CSTO) – all Central Asian republics have been included in the Silk Road project, even Turkmenistan, which has progressively become the main energy partner for China.

The SREB project appears more attractive for Central Asian republics than the EEU, mainly because the Chinese initiative does not impose membership and is not an organization but a program of investments tailored to promoting the development of infrastructures, which could help land-locked Central Asian countries connect with the global economy.

On the contrary, the EEU appears to be a rigid organization, within which Russia often proposes the idea of transforming it into a supranational political organization, merging and coordinating foreign policies and with a single currency⁹.

This perspective raises fears in Central Asian states, making the Chinese initiatives much more appealing. Moreover, Chinese activism in the region has allowed Central Asian republics to contain Russian ambitions in the post-Soviet space, mainly after the redeployment of NATO military forces from Afghanistan and from the region. Enhanced economic cooperation and the implementation of strategic partnerships between China and Central Asian countries weaken Russian integration projects in the economic field (the EEU): furthermore, balancing Sino-Russian interests in the region has allowed Central Asian countries to obtain strategic gains through a multi-vector strategy in foreign policy.

The participation of Central Asian countries in the SREB Initiative is strategic for several reasons, allowing them to benefit from massive investments to develop national infrastructures also connecting them within an Eurasian economic framework.

Moreover, as transit countries between China and Europe, they will benefit from lucrative transit fees.

⁹ J. Bugajski and M. Assenova, *Eurasian Disunion. Russia's vulnerable flanks*, The James-town Foundation, Washington DC, June 2016; R. Dragneva and K. Wolczuk, "Eurasian Economic Integration: Institutions, Promises and Faultlines", *The Geopolitics of Eurasian Economic Integration* London, 2014, pp. 12-15, <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR019/SR019-Dragneva-Wolczuk.pdf>

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The Chinese-backed Eurasian trade corridor and the planned transport routes from East Asia to Europe pass through Xinjiang in China and then necessarily cross Russia or Kazakhstan. At present, there are eight Sino-European railways in regular operation, two of which start from the North-eastern city of Manzhouli in China, travel through Russia and then to Europe. The other six routes start from Xinjiang's Alataw Pass and run through Kazakhstan and Russia. The Aktau port in Kazakhstan and the Turkmenbashi port in Turkmenistan will be linked to the new Baku International Sea Trade Port (NBIST), and then westwards into Turkey and Europe, opening an alternative route and diversifying trade corridors. In August 2015, the Trans-Caspian International Transport Route (TITR) was launched; the Nomad Express carrying goods from China (Shihezi) travelled through the port of Aktau and arrived at Baku.

The inclusion of Central Asian republics in the Silk Road initiative also valorizes their exports, overcoming the structural hindrances linked to their condition of landlocked countries and allowing them to reach global markets.

Moreover, there is also a Southern rail corridor from China through Kazakhstan and Turkmenistan to Iran and the Persian Gulf, which contributes to diversifying the transport routes for China, also opening interesting new markets for Central Asian exports¹⁰.

The realization of these projects clearly highlights the role of the Central Asian region as a transit area key to the success of the SREB Initiative. In particular, the Sino-Kazakh border appears to

¹⁰ B. Lianlei, "Azerbaijan in the Silk Road Economic Belt: A Chinese perspective", *Caucasus International*, 25 July 2016, p. 30, <http://cijournal.az/post/azerbaijan-in-the-silk-road-economic-belt-a-chinese-perspective-bai-lianlei>; C. Putz, "Can China Fix Central Asia's Soviet Rail Legacy?", *The Diplomat*, 14 January 2016, <http://thediplomat.com/2016/01/can-china-fix-central-asias-soviet-rail-legacy/>

be a strategic gateway to improving SREB capacity: many of Xinjiang's cities on the border with Central Asia – Horgos, Kashgar and Alataw – have been transformed into free-trade economic zones to play the role of the largest land port along the Silk Road Economic Belt. The transcontinental highway from Lianyungang (a Chinese port in Jiangsu Province, on the Eastern coast) to St. Petersburg in Russia crosses Kazakhstan: the logistics terminal in the port of Lianyungang was jointly built by China and Kazakhstan in order to make it a platform for transporting Central Asian goods to overseas markets¹¹.

It is evident that the Silk Road initiative and China's engagement in Central Asia represent a serious geopolitical challenge to Russia's integration projects: the success of the Chinese strategy is progressively reducing the influence of Moscow in the post-Soviet space¹².

Since 2010, losing the position of semi-monopoly in Central Asian energy exports, China has progressively become the main trade partner for all Central Asian states, undermining the traditional role of Russia. For the first time since the collapse of the Soviet Union, in 2015 Moscow also lost its top trading partner status with Uzbekistan. Furthermore, compared to Russia, China is concretely fulfilling its promises of investing in Central Asia, granting loans and financing the building of important infrastructures which will contribute to developing domestic connections, to promoting an integrated regional market as well as to shipping Chinese goods to the West.

Even before the launch of the SREB, China provided economic assistance to Central Asia: in 2009 China provided the SCO with a US\$10 billion loan to help Central Asian countries mitigate the effects of the economic crisis and another US\$10 billion loan was offered in 2012¹³.

¹¹ F. Congiu (2016), p. 37.

¹² C. Rickleton, "Central Asia: Can China's Silk Road Vision coexist with a Eurasian Union?", *Eurasianet*, 12 November 2014, <http://www.eurasianet.org/node/70891>

¹³ A. Jarosiewicz and K. Strachota, "China vs. Central Asia. The achievements of the past two decades", *OSW Studies*, 45, 2013, p. 68, <http://www.osw.waw.pl/sites/default>

It is evident that the Silk Road initiative and China's engagement in Central Asia represent a serious geopolitical challenge to Russia's integration projects

Energy and trade cooperation between China and the Central Asian republics was further boosted during the visit of Chinese President Xi Jinping to Central

Asia in September 2013. Xi promoted the idea of the Silk Road Economic Belt and signed an estimated US\$48 billion worth of investment and loan agreements (US\$15 billion with Uzbekistan, US\$30 billion with Kazakhstan, US\$3 billion with Kyrgyzstan and an undisclosed sum with Turkmenistan) with a focus on energy, trade, and infrastructure¹⁴.

In November 2014, China announced the creation of the US\$40 billion Silk Road Fund to support projects aimed at building transport infrastructures and it was entirely funded by China. The Energy Development Fund was conceived to focus investments on energy infrastructure along the Silk Road land and maritime routes and is a multilateral fund open to foreign investors. Following the constitution of the Asian Infrastructure Investment Bank (AIIB), China has an influential tool to develop the OBOR strategy and SREB Initiative in both the economic and energy dimensions¹⁵.

In Tajikistan and Kyrgyzstan China has financed the development of road infrastructure, granting loans for their realization. In Tajikistan, with a US\$900 million loan, Chinese companies have been building roads linking Dushanbe with other important towns.

fault/files/prace_45_cina_vs_asia_ang-net.pdf

¹⁴ T. Rejepova, "Turkmenistan, China reach new energy deals", *Central Asia-Caucasus Institute Analyst*, 16 October 2013, <http://www.cacianalyst.org/publications/field-reports/item/12834-turkmenistan-china-reach-new-energy-deals.html>; T. Yakobashvili, "A Chinese Marshall Plan for Central Asia?", *Central Asia Caucasus Institute Analyst*, 16 October 2013, <http://cacianalyst.org/publications/analytical-articles/item/12838-a-chinese-marshall-plan-for-central-asia?.html>

¹⁵ The main strategic of the AIIB is to support the "development of infrastructure and other productive sectors in Asia, including energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics [...]" The Asian Infrastructure Investment Bank, Official Website, <http://euweb.aiib.org/html/aboutus/introduction/aiib/?show=0>

In Kyrgyzstan, China has invested in the realization of the China-Kyrgyzstan-Uzbekistan railway (to be linked to the Turkmenbashi and Baku ports) which will go from Kashgar in Xinjiang through Torugart and Kara-Suu in Kyrgyzstan, into Andijan in Uzbekistan and then across Afghanistan, Iran, the Caspian Sea, Azerbaijan, and Turkey to reach Europe¹⁶.

In 2015, Uzbekistan inaugurated the Angren-Pap railway – an infrastructure which benefited from Chinese investments and has a strategic importance for Uzbekistan – which could connect the whole national railway system, and is important also for China because the Angren-Pap will be a key factor in the One Road One Belt geopolitical strategy.

In the last few years, China has successfully signed strategic partnerships with all five Central Asian republics, which are aimed not only at deepening economic and trade cooperation but also at enhancing political and military cooperation.

The strategic partnership between Beijing and Tashkent has significant geopolitical impact in deterring Russian projects of regional integration: in September 2013 China and Uzbekistan signed a Treaty on Friendship and Cooperation and a Joint Declaration “On Further Development and Deepening Bilateral Relations of Strategic Partnership”, which stated that the two countries would not join in any alliances or blocs which could damage the sovereignty, security and territorial integrity of the other country¹⁷.

The strategic partnership between Kazakhstan and China is the most “dangerous” initiative aimed at deflecting Russian ambitions to promote integration projects in the region, mainly considering that Kazakhstan is one of the EEU founder members. This strategic partnership includes several fields of enhanced cooperation: undertaking joint efforts to fight terrorism and cooperate in the security field, developing energy infrastructures as well as to extend the ex-

¹⁶ A. Jarosiewicz and K. Strachota (2013), p. 62.

¹⁷ F. Tolipov, “What does it mean for Uzbekistan and China to be Strategic Partners?”, *Central Asia Caucasus Analyst Institute*, 13 November 2013, <http://www.cacianalyst.org/publications/analytical-articles/item/12858-what-does-it-means-for-uzbekistan-and-china-to-be-strategic-partners?.html>

port of hydrocarbons and uranium to China, and enhancing bilateral trade. Moreover, the political will expressed by the Kazakh and Chinese presidents to integrate the SREB with Kazakhstan's new economic policy, called the Bright Road, stressing the complementarity of these two projects, both focused on infrastructure developments. This type of strategic partnership shows the high level of cooperation between them, and the clear intention of Kazakhstan to undertake an independent and multi-vector foreign policy, in spite of its EEU membership, challenging the impact of Russian strategy towards the post-Soviet region¹⁸.

The energy dimension: the East-West energy corridor

In addition to the East-West trade corridor, in the recently enhanced cooperation between China and Central Asia the development of a “reverse” West-East energy corridor has progressively assumed a growing strategic importance. Central Asian oil and gas supplies play a significant role in Chinese energy security: Kazakh oil contributes to the diversification of import sources and to the implementation of alternative territorial energy routes, considering that over 80% of Chinese oil imports are delivered through oil tankers. Another significant aspect of Chinese-Kazakh energy cooperation is represented by the fact that Beijing is the main purchaser of Kazakh uranium.

Kazakhstan and China signed a deal on energy cooperation in 2005, which represents one of the most significant pillars within a bilateral comprehensive partnership, which includes strong political and diplomatic relations as well as deep trade and commercial relations. The inauguration of the Atyrau-Alashankou oil pipeline – linking oil-rich Caspian fields with Chinese markets through the energy gateway represented by the Xinjiang region – is undoubtedly the most successful result of Sino-Kazakh energy cooperation. For

¹⁸ A. Guschin, “China, Russia and the Tussle for Influence in Kazakhstan”, *The Diplomat*, 23 March 2015, <http://thediplomat.com/2015/03/china-russia-and-the-tussle-for-influence-in-kazakhstan/>

the Kazakh government, this pipeline – which currently has a capacity of 400,000 barrels of oil per day – is a strategic corridor that effectively permits the diversification of export routes: the Atyrau-Alashankou pipeline is the only overland oil pipeline which does not transit through Russian territory – unlike the Atyrau-Samara and CPC (Caspian Pipeline Consortium, from the Tengiz oil field to the Russian Black Sea port of Novorossiysk) pipelines –, while Kazakhstan's oil exports through the Baku-Tbilisi-Ceyhan pipeline are delivered by tankers across the Caspian Sea from the Kazakh port of Aqtau to the Azerbaijani port of Baku. The China National Petroleum Corporation (CNPC) has invested billions of dollars in the Kazakhstan energy sector, obtaining contracts for exploration in promising areas and also providing know-how and modern equipment.

After Chinese President Xi's state visit to Central Asia in September 2013, China obtained an 8.3% share in the North Caspian Operating Company, the international consortium that should develop the giant Kashagan oil field.¹⁹ China and Kazakhstan plan to build a new oil pipeline – which will run parallel to the existent one – in order to deliver the increasing output in the Caspian Sea oil fields (potentially including Kashagan) to Chinese markets, strengthening its energy security²⁰.

Turkmenistan is currently China's main partner in the Central Asian gas sector: in 2015, Beijing covered nearly half of its gas imports with Turkmen gas (27.7 billion cubic metres

In addition to the East-West trade corridor, in the recently enhanced cooperation between China and Central Asia the development of a “reverse” West-East energy corridor has progressively assumed a growing strategic importance. Central Asian oil and gas supplies play a significant role in Chinese energy security

¹⁹ Kashagan should hold the fifth largest oil reserves in the world, estimated at 13 billion barrels of oil, and its production should reach 1.5 million bbl/d.

²⁰ F. Indeo, “The Sino-Russian energy cooperation: a view from Central Asia”, *EGS Global Energy Monitor*, vol. 7, 2014, p. 4, www.egskorea.org

– bcm – of natural gas)²¹. The construction of the Central Asia-China gas pipeline (CAGP) – which also crosses Uzbekistan and Kazakhstan – in 2009 represented a strategic element in Sino-Turkmen energy cooperation, ending the traditional Russian monopoly on Turkmen gas exports.

Given that Turkmenistan holds the fourth largest natural gas reserves in the world – 17.5 trillion cubic metres (tcm), according to British Petroleum's estimates – China has rapidly become the main investor in development of the Turkmenistan gas fields²².

In the last few years, Beijing invested US\$4 billion to develop the Bagtyyarylyk gas field (with 1.3 tcm of estimated reserves) which is also the main source of supply for the China-Central Asia gas pipeline. This investment represents a clear success in China's foreign energy policy: the national Chinese company, CNPC, is the only foreign company to hold a Production Sharing Contract on the lucrative onshore gas field, where gas reserves are easier to calculate than the Caspian offshore gas fields.

Subsequently, China financed the development of Turkmenistan's giant Galkynysh (Renaissance) gas field by investing US\$8 billion for the first production phase and an undisclosed sum for the second phase.

During the visit of the Chinese President Xi Jinping to Turkmenistan on 4 September, 2013 (one month before the launch of the SREB Initiative) the Sino-Turkmen strategic energy partnership was enhanced through new additional gas pipelines making it possible to expand Turkmen gas exports to 65 bcm per year in 2020 as well the CAGP capacity to 85 bcm, with the contribution of Kazakhstan and Uzbekistan, which will deliver 10 bcm of natural gas each²³.

The expected realization of Line D – which will cross Kyrgyzstan and Tajikistan – will allow China to include all five Central

²¹ British Petroleum, *British Petroleum Statistical Review of World Energy*, 2016, p. 20, <https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf>

²² *Ibid.*, p. 28.

²³ T. Rejepova (2013).

Asian republics in its gas pipeline network, both as suppliers and as transit countries. However, at present this intriguing model of regional energy cooperation has faced unexpected hurdles because the realization of the Uzbekistan's section of the pipeline was suspended, while Kyrgyzstan's section has been postponed. Both Central Asian countries have adduced technical reasons, even if the main reason appears to be an attempt to compel China to increase investments for the complete realization of the infrastructure²⁴.

Security issues and military cooperation

The development of the Eurasian economic corridor needs to achieve a necessary precondition: political stability and security. At the moment, Central Asia and Afghanistan appear vulnerable and unable to fight against the serious threats represented by transnational terrorism and radical Islamist insurgency, which could propagate along the shared borders and seriously affect China's Western region, also facilitating the creation of safe bases for Uighur separatists and foreign terrorists.

Xinjiang is located in a strategic geographic position as exclusive gateway for trade and commercial relations as well as for Central Asian oil and gas imports, also playing a central role in the Silk Road initiative to connect China with Western markets.

From a Chinese perspective, the security dimension is strictly correlated to economic and development issues: economic growth in Central Asia will strengthen stability in both China and the region because close commercial relations with Central Asian countries will ensure prosperity, also preventing potential political instability and spillover into its Western territory²⁵.

²⁴ M. Casey, "Line D of the Central Asia-China Gas Pipeline Delayed", *The Diplomat*, 31 May 2016, <http://thediplomat.com/2016/05/line-d-of-the-central-asia-china-gas-pipeline-delayed/>

²⁵ International Crisis Group, *China's Central Asia Problem*, ICG Asia Report, 244, Bruxelles, 27 February 2013, p. 11.

Nevertheless, China fears that economic intervention and financial support for Central Asian governments might not be sufficient to prevent potentially explosive crises which would have an impact on its border security, dangerously affecting energy and trade corridors.

If a direct engagement of China in the regional security scenario is closely linked to the level of strategic importance of its interests in the region, the need to protect expensive investments in Central Asian transport and energy infrastructures will push Beijing to strengthen military cooperation with Central Asian republics. Furthermore, this new orientation could also depend on a revision of its foreign policy doctrine based on the principle of non-intervention and non-interference in internal affairs²⁶.

On the one hand, the Shanghai Cooperation Organization could be the main regional security framework allowing China to preserve stability in Central Asia and along its borders, even if China prefers an economic evolution of SCO as a free trade area. On the other, Russia appears to be the main security provider for Central Asian states, involved in bilateral military cooperation and in CSTO activities.

At the level of military cooperation with Central Asian republics, China cannot compete with Russia: Beijing has no military bases in the region, partly due to the fierce opposition of Central Asian public opinion fearing potential Chinese expansionism in their national territories.

In addition to the mistrust of local governments, the current geo-strategic scenario also hampers the deployment of Chinese military bases in Central Asia. Kazakhstan, Kyrgyzstan and Tajikistan – as CSTO members – cannot host a foreign military base on their territory without the full consent of all the other members of the organization, and Moscow could easily cast its veto on any future talks about opening Chinese military bases in the region. Concerning Uzbekistan – which withdrew from CSTO in 2012 – the current foreign

²⁶ F. Indeo, “China as security provider in Central Asia: a realistic perspective?”, *Central Asia Security Policy Brief*, 17, OSCE Academy-GCSP International Security Programme, Bishkek, 2015 pp. 9-10, http://www.osce-academy.net/upload/file/Policy_Brief_17.pdf

policy doctrine – according to which Tashkent rejects the deployment of foreign military bases on its territory as well as participation in any military block – excludes the possibility of establishing a Chinese military base. Not being a CSTO member, Turkmenistan could potentially host a Chinese military base, even if this significant geopolitical change would necessarily require a rethinking of the traditional neutrality in foreign policy, which will significantly reshape the regional security chessboard.

The deployment of a military base in Turkmenistan could be the best option to protect Chinese energy interests, considering the importance of Turkmen gas supplies for domestic energy security, but this significant geopolitical change necessarily requires a rethinking of the traditional neutrality in foreign policy, which will significantly reshape the regional security chessboard²⁷.

However, China has implemented bilateral military cooperation with all five Central Asian countries, even if Beijing focuses its efforts on neighbouring Kazakhstan, Tajikistan and Kyrgyzstan – which share borders with China in the Xinjiang region – providing them with several million dollars of military assistance and equipment in order to prevent potential instability and to preserve its national security.

From the Chinese perspective, military cooperation with Dushanbe aims to preserve security and stability along the Sino-Tajik border, avoiding potential incursions of militants and terrorists coming from Afghanistan, since the Tajik border with Afghanistan is weakly patrolled and is one of the main sources of security threats. In October 2016, Tajikistan and China were engaged in five-day

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²⁷ *Ibid.* pp. 11-12

counterterrorism exercises in Tajikistan's Ishkoshim region, which borders on Afghanistan.

The increasing importance of Turkmenistan and Uzbekistan in the SREB Initiative has pushed China to enhance military cooperation with them as well: Beijing has reportedly provided both Turkmenistan and Uzbekistan with sophisticated air defence systems, moreover allowing them to lessen Russia's role as main provider of military equipment to Central Asia²⁸.

Conclusion

Even if the Silk Road initiative has an economic rationale, China also aims to achieve energy and geopolitical goals within a security and stability scenario. These interlinked dimensions strengthen Chinese ambitions to extend its influence in Central Asia.

The huge investments made to develop Central Asian energy and transport infrastructure mean that China intends to transform the region according to its strategic needs. From Beijing's perspective, Central Asia represents the overland corridor of trade and energy which allows Beijing to diversify its economic strategy and reduce the importance of the maritime corridor.

In spite of the joint declaration "on cooperation in coordinating development of the EEU and the Silk Road Economic Belt" signed by Putin and Xi Jinping in May 2015 in order to build a "common economic space" in Eurasia, China and Russia aspire to achieve conflicting and colliding goals, making it difficult to draw up a common framework of cooperation in Central Asia or to agree about a division of functions – Russia in the security field and China in the economic field – mainly because both strategies focus on the economic dimension.

On the one hand, Russia's financial difficulty in investing in the region could reorient Moscow's strategy: as a matter of fact,

²⁸ J. Kucera, "Has China Made Its First Big Military Sale In Central Asia?", *Eurasianet*, 6 February 2015, <http://www.eurasianet.org/node/71971>

Moscow could benefit from the regional transport infrastructures backed by Beijing in order to promote an integrated regional market. Consequently, Russia could abandon its ambition to promote an economic union led by Moscow, focusing on coordination and cooperation between the EEU and SREB.

On the other, Central Asian public opinion is increasingly worried about China's growing activism: the threat of Beijing's hidden long-term intentions of territorial expansion and interference could push Central Asian countries to limit the cooperation.

Nevertheless, China represents a strategic partner for Central Asian countries: in the medium term, the impact of Chinese investments in the region should further promote trade and energy cooperation as well as the construction of transport infrastructures (railways, ports, highways), which will strengthen the future development of Central Asia as a connected region.

Moreover, the idea that regional security and stability can be promoted through economic growth and trade cooperation is shared by Central Asian republics, allowing authoritarian presidents and political inner circles to preserve the existent status quo and maintain power.

3. Improving Relations with Russia and Ukraine

Maria Lagutina

From approximately 2010 Chinese foreign policy has been acquiring new features and style: “It is getting more and more obvious that China is becoming increasingly more aware of its new geopolitical status, which stems from the fact that China has actually, not just potentially, become the world’s second largest economy after the United States – an economy that has an ability to move forward along the trajectory of innovation”¹. China’s actions on the international scene became more active and more open to the outside world, and this was reflected, for instance, in the “One Belt, One Road” Initiative – China’s global economic, strategic and cultural project, intended to strengthen international connections and trade flows in Eurasia.

The specific feature of the modern stage of Eurasian development is, on the one hand, its focus on the interpenetration and interconnection of the previously separated regions – Europe, the post-Soviet space, Central, Eastern and Southern Asia, the Middle East – which are supposed to be integrated into “Greater Eurasia”. On the other hand, there is a final establishment of a multipolar world order in modern Eurasia. According to the Chinese expert Yu Li, the idea of combining two projects – the Eurasian Economic Union (EEU) with Russia and the “The Silk Road Economic Belt” (SREB), which is a part of the Chinese mega-project “One Belt,

¹ V. Vorobev, “Noviy Shelkoviy kurs” [“New silk course”], *Russia in Global Affairs*, vol. 3, 2014.

One Road” (OBOR) corresponds to the concept of a multipolar world. This common integration project should create the basis for a new “Greater Eurasia”: “[...] it is a long-term global strategy, a center of geopolitical stability and development of Eurasia, which has become a global region today. A rare combination of political, economic, legal and organizational factors for the implementation of this project has emerged [...]”². This task corresponds to the modern world’s development and geopolitical transformations that have taken place over the past few years.

The OBOR project, meanwhile, has a place for European countries. According to an official Chinese action plan presented to the world community in March 2015 states that OBOR is intended “to unite China, Central Asia, Russia and Europe”³. Europe is seen as an integral part of this global infrastructural project, since its main purpose is to provide access for Chinese products to the European market via the EEU space. Therefore, the Chinese project would be incomplete without Europe more specifically without Central and Eastern Europe. Important in this context is Ukraine, which due to its geographical position between Russia and Europe may become an important strategic part of this project: an extremely promising transit hub.

Chinese researcher Li Xing⁴ believes that China’s present strategy in Eurasia was shaped by the following geo-political factors:

² Shelkoviy put I bolshaya Evrazia: politika, ekonomika, infrastruktura. Teledebaty ‘Rossiya 24’ I MDK ‘Valday’ [Silk Road and Big Eurasia: politics, economics, infrastructure, TV debates “Russia 24” and Club “Valday”], 20 June 2015, <https://forumspb.com/ru/2015/sections/22/materials/196/news/340>

³ “Videnie I deystvie, napravleniye na prodvizheniye sovmestnogo stroitelstva “Ekonomicheskogo poyasa Shelkovogo puti” I “Morskogo Shelkovogo puti 21 veka” [“Vision and action aimed at promoting the joint construction of ‘Economic belt of the Silk road’ and ‘Maritime silk road of the 21st century’”], 23 April 2015, <http://ru.china-embassy.org/rus/zgxw/t1257296.htm>

⁴ Li Xing, “Ekonomicheskii poyas Shelkovogo puti: strategicheskaya popytka realizatsii ‘Kitayskoy mechty’”, in *Rossiya I Kitay v Evraziyskoy integratsii. Sotrudnichestvo ili sopernichestvo?* [“The economic belt of the silk road: a strategic attempt to implement the ‘Chinese dream’”], in *Russia and China in Eurasian integration. Cooperation or rivalry?*, Li Xing et al. (ed), Moscow, Saint Petersburg, Nestor-Istoriya, 2015, p. 155.

- Competition of several integration projects in modern Eurasia (e.g., in 2010 Russia, Kazakhstan and Belarus announced their plans to establish the Eurasian Economic Union by 2015; the United States in 2011 proposed a New Silk Road project with a regional transportation hub in Afghanistan; Turkey is pursuing its own interests in Eurasia).
- The need to reinvigorate the exchange of goods, services and capital between Eurasian partners, thus reducing the dependence of China's economy on the Western world.
- The need to find a new driver for Chinese economic growth.

The Chinese expert believes that a combination of these factors forced China to develop its own Eurasian strategy, with the main goal of creating the most favorable environment for development of China's Western and Eastern regions and creating a regional mechanism for ensuring security and stability in modern Eurasia.

The idea of the economic consolidation of Eurasia emerged at the beginning of the new millennium, when Chinese leaders tried to advance the idea of creating, by 2017, a free-trade zone under the aegis of the Shanghai Cooperation Organization (SCO), but other participants in the bloc, including Russia, did not support this proposal. The main reason for this unenthusiastic response was the fact that at the time the SCO members lacked economic potential sufficient for integration with China on equal terms and felt threatened by China's dominance in the region. This situation regularly provoked disagreement among SCO member states concerning their vision of the future: thus, Russia had high hopes for the intensification of military and political collaboration between the SCO states while China, as mentioned earlier, mostly wanted to cultivate economic cooperation within the SCO. There was only one point of consensus regarding the SCO: it was necessary to promote the organization as an essential component of multipolar world order and an alternative to the Western model of regional and international development. However, there was not much going on within the SCO. As a result, Russia and China for a while found themselves at odds over their visions of the future of the region and the organization.

At a later point, the Russian Federation and Kazakhstan started advancing the EEU project, which at first was perceived as an attempt to counterbalance the growing Chinese influence in Eurasia. The contemporary integration project in Eurasia was inspired by Kazakhstan's President Nazarbayev, who put forward an initiative of Eurasia-based reintegration back in 1994 that would create a qualitatively new alliance of the former Soviet republics and suggested calling it the Eurasian Union (EAU)⁵. However, unfortunately, at that moment the historic chance was not duly taken up and therefore the idea failed. The idea of establishing a Eurasian Union was put back the table only in early second decade of the XXI century, endorsed by Russian leaders V. Putin and A. Lukashenko.

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The Eurasian integration idea was partially put into practice in the Eurasian Economic Community (EurAsEC) in 2000, which Belorussia, Kazakhstan, Russia and Tajikistan joined. Of all the integration structures of the post-Soviet space the EurAsEC proved to be the most effective entity. Over the years of its functioning a kind of ideological core crystallized, whose leaders were ready to assume new accountability and give part of their freedom to a supranational body for the sake of speeding up economic development of their countries. This core was constituted by Belorussia, Kazakhstan and Russia. Precisely these states established the Customs Union (CU) in 2010, and after that went on to the next integration stage – the Common Economic space (CES) (2012).

On 29 May 2014, the integration processes within the framework of the EurAsEC rose to a qualitatively new tier – in Astana the

⁵ N. Nazarbaev, *Evraziyskiy soyuz: idei, praktika, perspektivy, 1994-1997* ["Eurasian Union: ideas, practice, prospects", 1994-1997], Moscow, Fond sodeystviya razvitiyu sots. i polit. nauk, 1997.

leaders of the three states concluded a treaty establishing the Eurasian Economic Union (EEU), which came into effect on 1 January 2015⁶. In October 2014, the EurAsEC's work ceased, replaced by the EEU. The CU and CES featured pillars of the EEU. Initiation of the treaty instituting the Eurasian Economic Union on 1 January 2015 was a landmark in the evolution of Eurasian integration⁷, representing a completely new page of regulatory and economic integration in the Eurasian space. Conclusion of the treaty heralded a set of concerted economic and industrial policies that the leaders of Belorussia, Kazakhstan and Russia had been aspiring to. The institutional section of the treaty stipulated the working principles of the union, as well as its growth areas. In 2015, the organization accepted new members – Armenia and Kyrgyzstan.

China responded to the Eurasian integration with its One Belt, One Road project – yet another attempt to reach a new level of economic cooperation in Eurasia in line with the Chinese vision of the region's further development. What China proposes is not still another classic integration initiative – it is, in fact, a mega-project, comprising diverse initiatives in different areas (from economics to culture), which, when implemented, are expected to lead to the creation of “Greater Eurasia”, stretching from the Pacific Ocean to the Baltic and Mediterranean Seas.

As for geographic borders, the OBOR is a truly transcontinental project, as it is supposed to create closer links between three continents: Asia, Europe and even Africa. It is evident that China aspires to finally realize its regional as well as global economic ambitions. The project envisions the construction of infrastructure – highways, railroads, sea ports – along the whole route. But the transport infrastructure will not be simply expanded and modernized – the plans also include the creation of zones of economic development and trade near the infrastructure facilities. For example, the Chinese have invested in construction of the Ammonium plant – a producer of fertilizers,

⁶ Dogovor o Evraziyskom ekonomicheskom soyuze [The Treaty on the Eurasian Economic Union], Signed in Astana on 29 May 2014, http://www.eacunion.org/files/history/2014/2014_2.pdf.

⁷ *Ibid.*

ammonia and methanol – which is now underway in Naberezhny Chelny, although the construction of a high-speed railway has not yet started⁸. Its realization will not start from scratch – the Eurasian space already has in place several essentials required for the project:

- economic, scientific, technical and investment cooperation among the modern Eurasian states;
- cooperation within the framework of existing regional structures (first of all SCO as a platform for discussions of details of EBSR and EEU's conjugation);
- the Eurasian countries' pursuit of economic growth within the context of global competition;
- new challenges and threats (for example, international terrorism, ISIS, international criminality, climate change etc.) alongside new prospects offered by economic globalization and regional integration (for example, interregional cooperation, transcontinental economic ties etc.).

However, it is becoming more and more obvious that this large-scale project will be faced with a number of problems in the process of its realization:

- First, China will have to take into consideration the interests of other states aspiring to play a leading role in modern Eurasia (in the current geopolitical environment China has reached a consensus with Russia on the subject of linking up their two Eurasian integration projects; as to the American New Silk Road project, this issue still remains open, and cooperation with the EU countries also needs certain adjustments); in Eurasia there are countries that do not share China's vision of the region's future.
- Second, China must take into account the economic disparities between the countries that are supposed to participate in the project

⁸ O. Sukhareva, "Sopryazhenie 'Shelkovogo puti' I EAES: geopoliticheskij vyigrysh Rossii" ["Conjugation of the Silk road and the EEU: a geopolitical win of Russia"], *Rim Evrazii*, 23 July 2015, <http://www.rim Eurasia.org/news--2015-07-23--sopryazhenie-shelkovogo-puti-i-caes-geopoliticheskij-vyigrysh-rossii-18910?print=1>

(China, Russia and Central Asian countries differ dramatically in this respect); it is already quite obvious that the financial aspect of the project will most likely become China's responsibility.

- Third, for the project to be effective, it is essential to seriously upgrade existing infrastructure, build new elements of Eurasian infrastructure, and harmonize the member states' legislative frameworks.
- Fourth, the overly long duration of the project (approximately 30 years; completion is scheduled for 2049) could become a problem as well: in the coming 30 years the regional and global geopolitical situation may change yet again, and the Chinese economy may simply get "overheated".
- Fifth, in the opinion of Li Xing, Professor of Russian and Asian Affairs at the Beijing Normal University School of Government, China's experience in multilateral cooperation is rather modest⁹, which can potentially become a hindrance in the course of the project's implementation.

China responded to the Eurasian integration with its One Belt, One Road project – yet another attempt to reach a new level of economic cooperation in Eurasia in line with the Chinese vision of the region's further development

As to the latter consideration, the Chinese leaders working on the project intend to actively use the potential of the existing multilateral mechanisms of cooperation: the SCO, China-ASEAN ("10+1" format), Asia-Pacific Economic Cooperation (APEC), Asia-Europe Forum, Asia Cooperation Dialogue (ACD), etc. Therefore, the new economic and maritime belts are to grow from the already existing areas of regional cooperation between China and other national and regional structures, whereas the Belt and Road project itself will act as a binder for the cooperative projects of regional development already in the making.

By means of the SREB China aspires, on the one hand, to implement its economic interests and expand its market outlets, but, on the

⁹ Li Xing (2015).

other, this project allows China's leadership to lessen tension among its neighbors regarding its expansionist policy, as de-facto the project entails multilateral cooperation between all parties concerned.

The Belt and Road project is being actively discussed by analysts and politicians around the world, leading to diverse and sometimes ambiguous reactions. Many view China's actions in Eurasia as nothing more than economic expansion driven by the desire to find new markets. However, at the beginning of 2015 the Chinese government presented a practical plan of the project's implementation, as well as an official explanation of China's intentions, whereby China today continues to actively develop a system of bilateral transactions with Eurasian countries and regional organizations in such areas as infrastructure, investment and trade. All the agreements signed by China in the course of the OBOR are already having a strong impact on the architecture of world markets. Actually, there is a new economic reality taking shape in Eurasia and the world, characterized by a redistribution of global financial and investment flows. The OBOR is a long-term and complex project, and in the course of its realization China will have to combine the nation's interests, political strategies of domestic development and foreign-policy strategies. In this context, relations with reliable partners, including Russia, become an issue of strategic importance.

Chinese-Russian relationships in the context of China's OBOR Initiative

The crisis in relations with the West objectively forced Russia to intensify its relations with China. As a result, Russia and China officially agreed to harmonize the Eurasian Economic Union and the Silk Road Economic Belt.

In Russia, the idea of restoring the Silk Road in modern Eurasia was met with genuine interest from the very start, though until recently it was viewed mostly as a rival project of the EEU. Firstly, Moscow worries about any new Chinese initiatives in Eurasia. Secondly, SREB was initially considered in Moscow as a threat to Eur-

asian integration (the EEU) and Russia's positions in Central Asia. In addition, from the point of view of some Russian officials, the implementation of this project interferes with the plans to develop the Baikal-Amur Mainline and Transsib. When the idea of One Belt, One Road was first presented in public, the Russian media produced a series of publications in which experts shared their concerns about Russia losing its positions in Central Asia and probably the post-Soviet region in general in case the Chinese plan is fulfilled¹⁰. Besides, just a couple of years ago the Russian leaders still had great expectations about the creation of a common economic space shared with united Europe ("Greater Europe"), but the political crisis of 2014 effectively terminated all joint Russian-European projects. In the judgment of Russian analyst Dmitri Trenin, this caused Russia to radically change its strategy in Eurasia: "Putin's concept of 'Greater Europe' from Lisbon to Vladivostok, consisting of the EU and Russia-led Eurasian Economic Union, is being replaced with the concept of 'Greater Asia' from Shanghai to St. Petersburg"¹¹.

The Chinese leadership, for its part, from the very beginning sought to soothe the Russian partners' anxieties concerning its new Eurasian strategy, mounting an extensive campaign to explain the goals and implementation mechanisms of One Belt, One Road. China had declared repeatedly that it recognized and respected Russia's special role in Eurasia, and eventually China offered Russia a chance at economic cooperation within the OBOR project. The Russian leaders supported this initiative. Leaders of both China and Russia believe that the present regional and global geopolitical situation is favorable to the development of economic cooperation between these two major powers, and in the present situation Russia's and China's strategic positions largely coincide. As a result, Russia

¹⁰ A.V. Rijova, "Ekonomicheskiy poyas Shelkovogo puti ili 'arkhimedov rychag', kotoriy sposoben perevernut ves mir". ["Silk Road Economic Belt or 'Archimedes lever', which is able to change the world"], 4 March 2016, <https://spb.riss.ru/analytics/3518/>

¹¹ D.V. Trenin, "Ot Bolshoy Evropy k Bolshoy Azii? Kitaysko-rossiyskaya Antanta" ["From the Great Europe to the Great Asia? Chinese-Russian Allies"], *Russia in Global Affairs*, 14 May 2015, http://www.globalaffairs.ru/ukraine_crysis/Ot-Bolshoi-Evro-py-k-Bolshoi-Azii-Kitaisko-rossiiskaya-Antanta-17462

and China officially agreed to harmonize the Eurasian Economic Union and the Silk Road Economic Belt. On 8 May 2015 Russian President Vladimir Putin and Chinese President Xi Jinping signed a Joint Statement of Russian Federation and People's Republic of China on Cooperation in Harmonization of the Eurasian Economic Union and Silk Road Economic Belt, thus setting in stone the Russian-Chinese plans to expand economic cooperation in Eurasia. Thus, China and Russia again suggested a project of global development alternative to the Western paradigm – if realised, it will once and for all establish a multipolar world order.

The cooperation between Russia and China seems to be mutually beneficial. Today the SREB project is almost impossible to carry out if Russia and China compete for influence in the region. It is expected that Russia will not be just a transit hub; much of infrastructure is to be located in Russia. However, it is worth emphasizing that integration will not start from ground zero. Russia has a unique geographical location: it occupies more than 30% of the territory of the Eurasian continent. Russia's transportation network is quite well developed in all segments: railways, airlines, airports, modern roads, seaports etc. This is Russia's potential for providing a transport corridor between Europe and Asia. Special attention should be given to the following routes:

- *The “Transsib”, Trans-Siberian Railroad, or the Great Siberian Route* – it is a railway route across the entire Eurasian continent, connecting the European part of Russia, its largest industrial regions and the capital, Moscow, with its median (Siberia) and eastern (the Far East) regions; it is the railroad that holds Russia together ‘into a single economic organism, and what is more important, into a single military-strategic space’¹². It is the world's longest railway line – approximately 9,300 km. The most important advantage of Transsib is that it passes through the territory of one country (up to 90% of the route passes through the territory of the Russian Federation) without border crossings,

¹² “Что ест Транссиб?” [What is the Transsib?], <http://www.transsib.ru/cat-geo.htm>

reduces the shipping time of goods by more than twofold, has low levels of political risk, etc. In the West, it can access European countries via Russian ports (for example, Saint Petersburg) and border crossings with the former republics of the Soviet Union. In the East, the Trans-Siberian provides access to the railway networks of North Korea, China and Mongolia. In fact, SREB already works on the northern direction. Today Transsib promotes routes from China to European cities (Lodz, Warsaw, Duisburg, Hamburg, Madrid). There is a route to Finland and from China to the Finnish border train transit takes 8 days.

- *The “North – South” transport corridor* – a multimodal route of transporting passengers and cargo, 7,200 km long from St. Petersburg to the port of Mumbai (Bombay). It has been outlined for attracting transit goods flows from India, Iran and other countries of the Persian Gulf to Russian territory (via the Caspian Sea) and further to Northern and Western Europe¹³. This route was agreed upon by India, Iran and Russia even back in 2002. It has several branches. Currently, the “North-South” transport corridor runs through Buslovskaya – St. Petersburg – Moscow – Ryazan – Kochetovka – Rtishchevo – Saratov – Volgograd – Astrakhan. After that it splits up into three branches: the Trans-Caspian, via the ports of Astrakhan, Olya, Makhachkala; the Eastern, via the railway networks of Kazakhstan, Uzbekistan and Turkmenia with an entrance to Iran along the border-crossing point Tedzhen – Serakhs; the Western, directed to Astrakhan – Makhachkala – Sagmur, Azerbaijan and with entrance to Iran via the Astara station. Unfortunately, until recently this project was frozen because of the sanctions imposed on Iran, but after the lifting of sanctions there are plans to return to this project.
- *The Northern Latitudinal Railway (“Severny Shirotny Khod”)* – is a project to create transport infrastructure in the Urals Federal District, an initiative to build a 707 km East-West connec-

¹³ “Mejdunarodniy transportniy koridor “Sever-Yug””. Spravka. [“International transport corridor “North-South””. Notes.], http://www.mid.ru/foreign_policy/economic_diplomacy/ism_communication/-/asset_publisher/fajfwCb4PqDA/content/id/187770

tion between Nadym and Labitnangy. It includes a new railway connection between Novy Urengoy, the powerful gas hub, and the Yamal capital of Salekhard; in addition there will be an extension of the Bovanenkovo railway to Sabetta, the new port on the Yamal coast. A main line will connect the Northern railway with the Sverdlovsk railway and will provide access to the

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Northern Sea Route. The line would cross the Ob River and consequently link two of Russia's key Arctic railway lines: the Northern Line from Arkhangelsk and the line between Nadym and Tyumen. This project began in 2011. This transport corridor 'will open the shortest approach to

the Northern Sea Route for the country, will increase transport security of Russia, will provide timely and full-scale fulfillment of the state strategy on development of the Russian arctic zone, will strengthen geopolitical and macroeconomic positions of the country in the Arctic'¹⁴.

- “Belkomur” (*White Sea – Komi – Ural*) – is a route that involves construction of an Arkhangelsk - Syktyvkar - Solikamsk (Perm) railway. The length of the “Belkomur” is 1,161 km¹⁵. It was begun in 2009. The railway should connect Northwestern Russia and Scandinavia with the Asian parts of Russia, Central Asia and Pacific countries. The representatives of Scandinavian, Chinese and South Korean businesses expressed their interest in this project. For example, in 2015, the Arkhangelsk oblast and the Chinese company “Poly Technologies, Inc.” agreed on joint implementation of the “Belkomur” project¹⁶. According to the

¹⁴ “The Northern Latitudinal Railway is a route to the future”, <http://www.sever-press.ru/in-english/item/23678-the-northern-latitudinal-railway-is-a-route-to-the-future>

¹⁵ О проекте Belkomur [About the project Belkomur], <http://www.belkomur.com/belkomur/2.php>

¹⁶ “Kitay primet uchastie v stroitelstve jeleznoy dorogi ‘Belkomur’” [“China will

agreement the Chinese company will become the main contractor in the project. “Belkomur” is seen as an integral, basic part of the Northern transport corridor¹⁷, which was opened in 1995. This corridor is intended to be another logistic alternative that can promote reduced transportation costs for consignors within the global framework of world commerce.

- *The Northern Sea Route* – the most promising marine route for international commercial navigation as the climate changes – a transit transport corridor servicing goods flows between the European countries (for instance, Germany, France, Italy, etc.) and the Asian (e.g., China, India, Japan, South Korea, Singapore).

Nowadays, a range of projects has been already launched in the context of the integration of the EEU and SREB. In particular, the high-speed railway venture in Russia, with the first stage of the “Moscow-Kazan” section in construction, which would run through the territory of 7 sub-federal entities of the Russian Federation, and further expansion of the line implies extension to Yekaterinburg.

As for the advantages that Russia stands to gain, Chinese investments are one of them – in particular, they may help upgrade Russia’s transportation networks and modernize Russia’s Far East. However, thinking about the prospects of linking up the Chinese and Russian-Kazakh projects one should bear in mind the disparity between them: this is not the linking up of two equal projects – this is the EEU’s regional economic structure being incorporated, as a constituent element, into the OBOR mega-project. Considering this, the Russian leadership is faced with a challenging task of keeping the EEU as an efficient, fully featured element of the global Eurasian project, and preventing its complete dissolution.

At the same time, there are some difficulties in combining the EEU and SREB. Firstly, the Russian model of modernization is

take a part in the construction of the railway ‘Belkomur’], <http://ria.ru/economy/20150907/1234745295.html>

¹⁷ E. Ushenin, “‘Belkomur’ – zona tyagoteniya” [“‘Belkomur’ is a attraction area”], <http://www.transportrussia.ru/transportnaya-politika/belkomur-zona-tyagoteniya.html>

clearly less effective than the Chinese, which inevitably makes Russia fall behind China in economic and technological development. Unlike Russia, where there was a dramatic change to a new model of development, China moved to the market economy gradually: successfully combining its planned and market mechanisms and selectively borrowing some Western methods of effective management. As a result China has moved from the strategy of catching-up development to the strategy of an innovative economy, based on its own technologies. But can we expect Russia to be an equal partner of China in this case?

Another difficulty is connected with the fact that the EEU does not have sufficient institutional independence. This situation creates a number of challenges that require a response from the Russian side, if Russia does not want the “dissolution” of the EEU into the Chinese mega-project. In particular, many normative documents of the EEU refer to national legislation; this means that its member

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states can change the rules on their own. But in this case it is hardly possible to fix any unified standards that create a basis for a mutually beneficial cooperation within the EEU.

The agreements on future trade and economic cooperation between China and the EEU have yet to be signed and Russia needs to organize effective coordination with its partners. In the wake of the Ufa Declaration of 2015 the negotiations on a free trade zone have started. However, there is no consensus between Russia and the EEU partners on this issue, because they understand that the opening of the EEU markets to Chinese products can destroy its local production due to the lack of domestic competitiveness. If China is interested in cooperation in any form, then it is more beneficial for Russia to present the consolidated position of its partners in the framework of the dialogue between the EEU and China.

Chinese-Ukrainian relationships in the context of China's OBOR Initiative

An important component of China's OBOR project is the participation of European countries, some of which have already been competing for the opportunity to become a logistics hub for China (for example, the Baltic countries, Ukraine, etc.). These countries are planning to create an alternative to Russian ports for SREB goods.

In 2015, Ukraine declared its intention to participate in the SREB project as a transit country for cargo flows from China to Europe. Ukrainian politicians regarded this initiative as a promising strategic direction for economic cooperation between Ukraine and China. Until recently, economic relations between Ukraine and China were in the shadow of Europe-China economic cooperation and a trade war with the Russian Federation. Meanwhile, China, which was comparable with Egypt or Poland for the Ukraine market in 2013, became the second largest trade partner of Ukraine in 2015: bilateral trade between Ukraine and China amounts to US\$6.18 billion. In 2015, Ukraine attracted US\$22.6 million worth of investment from China in its industrial, agricultural, transport and trade sectors¹⁸. Although the volume of exports decreased due to unfavorable prices on world markets in 2016, the trend towards intensifying relations between Ukraine and China was preserved. However, as a Ukrainian expert, S. Koshevoy, notes: "unfortunately, the indicators of trade revenue between the countries do not correspond to the existing opportunities"¹⁹.

One of the key elements of the SREB is transit through the territory of different countries and Ukraine has a unique geopolitical position: it is located at the centre of the Eurasian continent, from

¹⁸ "Ukraine announces trade mission to China to unlock cooperation potential", China-Europe, Xinhua, 5 November 2016, http://news.xinhuanet.com/english/2016-11/05/c_135806963.htm

¹⁹ S. Koshevoy, 25-letie otnosheniy mejdu Ukrainoy i Kitayskoy Narodnoy Respublikoy: itogi i perspektivy vzaimodeystviya [25 anniversary of relationships between Ukraine and China: results and prospects of cooperation], http://www.niss.gov.ua/public/File/2016_table/koshevaya.pdf

East to West connecting Europe and Eurasia, from South to North connecting the Baltic Sea and the Black Sea. In addition, Ukraine has 13 ice-free ports on the Black Sea, plus an extensive network of railways and roads. The Odessa seaport is the largest in Ukraine, which is a part of the IX Trans-European corridor. In addition, reconstruction has been completed of the strategically important Beskid tunnel, which is a part of V Pan-European transport corridor (Italy-Slovenia-Hungary-Slovakia-Ukraine). Ukraine could offer services in the field of rail, sea and air transport and become an important transport hub for the supply of Chinese goods to European markets and vice versa – European products to China.

Nowadays Ukraine has the most favorable conditions for traffic through the seaports of the country, including the train “Viking” and “Zubr” trains and ferry crossings on the route of the Trans-Caspian international transport corridor. Thus, Ukraine, together with its partners, focuses on the formation of new transport routes and the integration of national transport networks into a global network of international transport.²⁰ At the same time Ukraine has a good basis for industrial, agricultural, scientific and technical cooperation, valuable potential in know-how and human resources, which provides a huge opportunity for further development. According to the Chinese diplomat Du Wei “In the future Ukraine will be able to play an important role in the ‘One Belt, One Road’ project, using its unique advantages”²¹. However, it is clear that the most part of its infrastructure requires serious modernization.

In 2016, Ukraine and China signed a Memorandum of Understanding in the application of trade defense instruments. According to this document Ukraine and China are planning to intensify their cooperation in trade, investment, technical regulation, transport, energy, tourism and high-tech. The parties agreed to negotiate the list of goods for each other’s exports and imports, to support the par-

²⁰ *Ibid.*

²¹ D. Wei, “Ukraina mojet igrat vajnyuy rol v proekte ‘Odin poyas – odin put’” [“Ukraine can play an important part in the project ‘One belt, One road’”], 19 January 2017, <https://www.rupor.info/news/119917/ukraina-smozhet-igrat-vazhnyuy-rol-v-proekte-odin-poyas-odin-put-du-vey/>

ticipation of enterprises in fairs and conduct mutual visits and trade missions. Ukraine and China have agreed to promote the creation of industrial enterprises for the export of goods to the European Union market. Thus, Ukraine and China have agreed to intensify cooperation in the development of the SREB and approve of the plan of joint actions within the framework of the creation of the SREB.

Thus, the attractiveness of Ukraine for the Chinese project is due to the following factors:

- geographical location makes Ukraine a very promising transit hub for the SREB, but the main obstacle here is its undeveloped infrastructure;
- EU-Ukraine Association Agreement: Chinese exports to the EU were estimated at US\$300 billion a year and in this case a considerable part of goods traffic can be routed through Ukraine, but an unfavorable regulatory field, as well as military actions in Eastern Ukraine remain the key obstacles to Chinese investment²²;
- the rich agricultural potential of Ukraine: China is extremely dependent on food supplies because of its huge population and Ukraine is a promising import partner (meanwhile, grain exports to China are one of the most marginal sectors of the economy: in 2015, it was approximately 35%; today 90% of Ukrainian exports to China are in raw materials, but China began to consume more imported foods because it associates them with being more environmentally friendly than the Chinese products)²³;
- there is a political factor²⁴: the Chinese “game” with Ukraine, undoubtedly, strengthens the Chinese position in negotiations with Russia.

²² M. Shevchenko, “From China to Ukraine: The new Silk Road”, Unian Information Agency, 10 April 2016, <https://www.unian.info/economics/1552901-from-china-to-ukraine-the-new-silk-road.html>

²³ Konferenziya ob eksporte produktov pitaniya iz Ukraini v Kitay [Conference on exports of food from Ukraine to China], <http://china-ukraine.info/ru/конференция-об-экспорте-продуктов-пи/>

²⁴ A.V. Rijova (2016).

The Ukrainian interests in the SREB include:

- the modernization of Ukrainian infrastructure and Chinese investments in the Ukrainian economy;
- participation in the SREB project will promote “the exit from the Russian transit blockade” (the SREB project could give Ukraine the technical ability to avoid the Russian limits of transit in the countries of Central Asia)²⁵;
- China becomes a new market for Ukrainian agricultural products instead of the lost CIS market.

However, at this stage the development of relations between Ukraine and China in the framework of the SREB is facing serious obstacles and has mostly a “problematic” character. So, there are a number of obstacles on the way to the full integration of Ukraine in

Ukraine and China have agreed to promote the creation of industrial enterprises for the export of goods to the European Union market. Thus, Ukraine and China have agreed to intensify cooperation in the development of the SREB

the SREB project that make the possibility of a large-scale entry of Ukraine into the project extremely unlikely.

First of all, Ukraine is not a full member of the EU unlike, for example, Bulgaria and Romania, and this fact complicates the border issue. Ukraine also has a nontransparent and long-lasting mechanism of customs services that, with the lack of good roads to the EU, makes it less attractive in comparison with other European countries.²⁶

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In early 2016, with the support of China, Ukraine launched its first test train to Kazakhstan via Azerbaijan and Georgia to bypass the Russian Federation. This route is not in great demand

²⁵ M. Shevchenko (2016).

²⁶ “Noviy Shelkoviy put I Ukraina: 5 kluchevih voprosov” [“New Silk Road and Ukraine: 5 key questions”], http://cfts.org.ua/spetsproekty/novyj_shelkovyy_put_i_ukraina_5_klyuchevykh_voprosov

because of its relatively high costs²⁷; however, Ukraine attempted to organize the delivery of goods bypassing Russia and launched the train from Ilyichevsk to China. But, unfortunately, the attempt was unsuccessful because the train was only partially loaded; the ferry company went not directly to Georgia, but to the Bulgarian port of Varna that is located in the opposite direction for loading the ship by other goods. As a result, the train arrived in China late (the entire route took 15 days). In China the train stood idle for a few months due to the lack of orders and was forced to return empty²⁸.

The route travelled by the Ukrainian train is a part of a famous transport corridor Europe – Caucasus – Asia called TRACECA (**T**ransport **C**orridor **E**urope-**C**aucasus-**A**sia). The TRACECA was created in 1993 by Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Armenia, Azerbaijan and Georgia. The agreement on development of TRACECA was signed in 1998 by 12 countries of the CIS and Eastern Europe, including Ukraine. However, from the beginning the TRACECA, or “South silk road”, is a promising, but not competitive project, because of the high cost (the cost of delivery of goods through TRACECA from Odessa to Shanghai will reach US\$12.000 for 1 container, it is in 5-7 times more expensive than maritime routes)²⁹. At this moment the Northern routes of the SREB win – Transsib through Russia and Belarus and through Kazakhstan (Dostyk), Russia and Belarus. The cost of transportation through TRACECA due to the large number of borders and transits from rail to ferries did this route in 2-3 times more expensive than transportation via the Russian Trans-Siberian railway³⁰.

²⁷ “Nachalis pervie problem s realizatsiey Ukrainoy proekta ‘Shelkovogo puti’” [“There are the first difficulties with the realization of the project ‘Silk Road’ with Ukrainian participation”], 27 February 2016, <http://ukraina.ru/analytics/20160227/1015736125.html>

²⁸ V. Tarasevich, “Noviy Shelkoviy Put’ proydet cherez Rossiyu, a ne Ukrainu” [“New Silk Road’ will pass through Russia, but not Ukraine”], 1 April 2017, <http://ukraina.ru/news/20170104/1018119821.html>

²⁹ “Nachalis pervie problem s realizatsiey Ukrainoy proekta ‘Shelkovogo puti’” [“There are the first difficulties with the realization of the project ‘Silk Road’ with Ukrainian participation”], 27 February 2016, <http://ukraina.ru/analytics/20160227/1015736125.html>

³⁰ O. Sukhareva, “Shelkoviy put: bezalternativnoe severnogo marshruta” [“Silk Road:

The second unsuccessful project of Ukraine is the “Viking” container train. It is a joint project of Lithuania, Belarus and Ukraine railways, connecting Baltic and Black seas with railways and with the Chinese SREB. The initiative is not relevant because over the last 5 years transit of Russian goods through the territory of Ukraine fell by more than 50%.

After these failures China is continuing to develop new routes in the framework of the SREB without the participation of Ukraine. For example, on 18 January 2017, the first train from China arrived in London. The route of this train ran through the territory of Kazakhstan, Russia, Belarus and Poland to Western Europe.

In addition, the foreign Ministry of China stated in January this year that China intends to invite into its infrastructure project a number of African States (Madagascar, Zambia, Tanzania, Congo and Nigeria)³¹. In this case the direction of the Southern route of the SREB will be dramatically changed.

Conclusion

In conclusion, it should be noted that today it is too early to say how things will turn out, as the OBOR is still at the stage of discussion and design. Yet it is obvious that China's Eurasian strategy would have a great impact on the architecture of world markets. Currently there is a new economic reality taking shape in Eurasia and the world, characterized by a redistribution of global financial and investment flows. The world order has changed: OBOR is presented as the Chinese alternative to the Western model that dominated the world until now. At the same time, we believe that there is a risk inherent in a long duration (30 years approximately) of the One Belt, One Road mega-project: the project's participants may find

no alternative to the Northern route”], 30 June 2016, <http://www.ritmeurasia.org/news--2016-06-30--shelkovyi-put-bezalternativnost-severnogo-marshruta-24422>

³¹ “Kitay prolojit ‘Noviy Shelkoviy Put’ cherez Afriku...” [“China will pave ‘New Silk Road’ through Africa...”], 8 January 2017, <https://newinform.com/41255-ukraina-snova-ne-u-del-kitai-prolozhit-novyi-shelkovyi-put-cherez-afriku>

themselves at odds if the geopolitical situation in Eurasia and the world radically changes again.

Meanwhile in practice the SREB already works on the northern direction. Today Transsib successfully promotes routes from China to European cities, while the Ukrainian attempt to organize the delivery of goods bypassing Russia through TRACECA was unsuccessful. Thus, at this stage the northern directions of development of transport routes within the framework of the SREB are more profitable for China from the economic and logistic points of view.

At present prospects for the implementation of plans to harmonize two integration projects – the EEU and the SREB can be evaluated as, at least, ambiguous. Uncertainties arise over several dimensions. First of all, the specific plans and integration strategies both in Russia and in China are not yet defined. The legal framework and organizational structure of integration projects are also under development as well as the harmonization of methods and mechanisms of interaction that involve not only China and Russia, but European countries and post-Soviet states too.

Ukraine is a slightly different example of cooperation with China. Ukraine, undoubtedly, has great potential in the context of the development of the Chinese mega-project. In recent years relations between Ukraine and China have made good progress. However, today we can talk about “missed opportunities”. At this stage the development of relations between Ukraine and China in the framework of the SREB is facing serious obstacles and has mostly a “problematic” character. So there are a number of obstacles on the way to the full integration of Ukraine into the SREB project that make the possibility of a large-scale entry of Ukraine into the project extremely unlikely. But the role of Ukraine as a “bridge” between post-Soviet Eurasian space and the European Union in the framework of OBOR is still welcome.

As far as the EU is concerned, European countries are willing to contribute in the OBOR project, although distant from the initial concept of the Eurasian alliance of Russia, Kazakhstan and Belarus, which envisioned the future creation of an EEU-EU free-trade area, as the “united Greater Europe from Lisbon to Vladivostok”.

Though the question of building cooperation between the Eurasian countries and the European Union is very important, it is obvious that the Ukrainian crisis of 2014 and the attendant sanctions imposed by Western countries on Russia (which, in turn, led to a deep crisis in the dialog between Russia and Europe), have made cooperation along the usual lines very difficult for a long time to come. Lack of trust between the two unions has reached alarming proportions. However, it is very likely that in the distant future the EU and the EEU will establish closer ties, although in a totally different environment – namely, in the context of reconstruction of the Great Silk Road in modern Eurasia, and the project is not likely to build a “Greater Europe from Lisbon to Vladivostok” but rather, a “Greater Eurasia from Lisbon to Shanghai”.

4. The MENA Region: Where the Belt Joins the Road

Filippo Fasulo, Valeria Talbot

Analysing the impact of the “Belt and the Road Initiative” (BRI) in the Middle East is useful to understand the real essence of such a project, given their geographical location, many Middle Eastern countries would not fit into the larger infrastructural projects within BRI. However, many Chinese investments in the region become more understandable under the greater framework of the BRI which is pursued throughout the Middle East within a context of rising Sino-Arab relations in recent decades. Whatever influence BRI will have on the relationship between China and the Middle Eastern countries, it will have to deal with both historical trade flows and political agreements. In addition, the growth of Chinese economic interests in the region has already led to the birth of major security concerns. For this reason the Chinese government is enhancing strategic cooperation in the security field with some of the regional powers in order to limit the risks for its own economic interests.

Historical routes, main corridors and financial institutions

As is geographically self-evident, the Middle East plays a “central role” within the framework of the old and the new Silk Road. Part of OBOR’s success – at least in rising expectations around the world – is in fact attributable to its strong linkage to a shared historical tradition. The legacy of the Silk Road is well perceived in all the

countries lying between China and Europe. The Chinese government directly makes this statement in its China Arab policy paper released on January 2016. The document's foreword starts with the following words: "Friendship between China and Arab states dates back to ancient times. Over two thousand years ago, land and maritime 'silk roads' already linked the Chinese and Arab nations. In the long stretches of history, peace and cooperation, openness and inclusiveness, learning from each other, mutual benefit and win-win results have always been the main theme of exchanges between China and Arab countries"¹.

For these reasons, the Middle East could not be excluded from the re-boot of the Silk Road, a project that subsequently enlarged its reach even to Australia and New Zealand. According to the main document issued by the National Development and Reform Commission, titled "Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st-Century Maritime Silk Road"² the Middle East is involved in both the terrestrial and maritime routes. The former, which is officially called the Silk Road Economic Belt, is not a single route but, instead a mixture of six corridors running from Southeast Asia to Northern Europe. The Middle East is the last section of the so-called China-Central Asia-West Asia Economic Corridor that runs from China's Xinjiang province and through Central Asia reaches mainly Iran and Turkey. Moreover, the maritime section of the project, which is called the 21st Century Maritime Silk Road, will go past the Eastern shores of the Arabian Peninsula before reaching the Mediterranean Sea, passing through the Red Sea and the Suez Canal. Therefore, geographically speaking, all of the Middle East is well centred within China's connectivity project. For its unique geographical position, the Middle East is sometimes referred to as

¹China's Policy Paper Arab, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1331683.shtml

² NDRC, MOFA, MOFCOM, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", http://en.ndrc.gov.cn/news-release/201503/t20150330_669367.html

“the place where the Belt joins the Road”³, meaning the terrestrial and the maritime routes.

As will be better explained in the next section, the project of revamping the ancient Silk Road is extensively detailed within the most important document assessing the relations of China with the Middle East, which is the aforementioned China Arab policy paper. The Silk Road is cited twice in the foreword, both as legacy and prospect, and is presented as the cornerstone on which to build “pragmatic cooperation in the principle of mutual benefit and win-win results with Arab states”

and it has its own importance as the first among investment and trade cooperation projects. According to this model, enlisting OBOR as an investment opportunity means that cooperation not only refers to building infrastructure but

The Middle East is the last section of the so-called China-Central Asia-West Asia Economic Corridor that runs from China’s Xinjiang province and through Central Asia reaches mainly Iran and Turkey

also to a wider range of projects. Indeed, taking as example the six investment projects under the OBOR label listed by the Hong Kong Trading Council (HKTDC)⁴ – a list that is self-declaredly partial, but still useful for a preliminary survey – among those located in the Middle East there are not only projects for logistics and infrastructure, but also for green cities and local endeavors.

However, at least in the short term, infrastructure projects are thought to have the biggest share. The same holds true also looking at the projects approved by the Asian Infrastructure Investment Bank (AIIB). As declared on the bank’s website⁵, two out of the nine projects that received approval are located in in the Middle East, in particular in Oman, and fall into the category of “sector: transport”. The first one is the Duqm Port Commercial Terminal and Operational Zone Development Project, whose estimated cost is more than

³ Shi Ze and Yang Chenxi, *China’s Diplomatic Efforts to Promote Energy and Resources Cooperation Along the “One Belt and One Road”*, CIIS Report, no. 5, May 2015.

⁴ HKTDC Belt and Road Portal, <https://secure.beltandroad.hktdc.com/en>

⁵ AIIB website, aiib.org

US\$353 million and is 75% financed by the AIIB (\$265 million). The second is the Railway System Preparation Project and it will cost US\$60 million, 60% of which financed by the AIIB (US\$36 million).

The AIIB also gives us another insight into Middle Eastern involvement in OBOR. In fact, the AIIB is considered the main financing institution for the infrastructure projects along the Silk Road. Among the Middle Eastern countries, only a few did not join the bank – Lebanon, Syria, Iraq, Yemen and Bahrain – and three out of twelve AIIB directors come from the region. In order to learn the priorities and aspirations for implementing the Belt and Road Initiative across the region it is useful to know which countries were entitled to nominate their own representatives for the board of directors and what the countries' percentages of shares are. Among those who nominated a director, Turkey holds a 2.66% share, just below the top 10 shareholders, where United Kingdom is tenth with 3.11%. The second Middle Eastern country with a representative as director is Saudi Arabia, which comes right after Turkey and Italy (2.62%) with a 2.59% share. Finally, Egypt – thanks to the fact that it is not considered a regional member of the bank, being “African” and not “Asian” – can nominate a director with only a 0.66% share less than countries like Iran (1.61%) or the United Arab Emirates (1.21%)⁶.

More projects regarding the Middle East within the OBOR framework are those in the energy sector. According to a report published by the China Institute of International Studies (CIIS)⁷, there are two main ways for enhancing cooperation between China and its regional partners in energy and resources. The first category is that of so-called “physical project cooperation” in which can be listed: expanding energy and resources trade, cooperating on exploration and infrastructure construction, cooperating on energy and resources supply, road transportation, co-building and co-managing oil and gas pipelines, smelting, processing and market cooperation, co-building and co-managing new energy facilities and related cooperation on technology, and more. The second cat-

⁶ *Ibid.*

⁷ Shi Ze and Yang Chenxi (2015).

egory is, instead, cooperation on soft environment improvements that includes projects like, among others, facilitating investment and trade, using local currencies for trade, creating new cooperation models, enhancing bilateral relationships, constructing a good environment of international laws and public opinion. In China's view, there are structural problems in its energy cooperation with Middle Eastern countries, such as "a limited stock ownership and real share of the resources, low proportion of equity oil in the overall imported energy, and daunting geopolitical challenges in investment and supply security"⁸. OBOR might be helpful to addressing those issues. Specifically, investing in the energy sector will contribute both to securing quality oil and to expanding gas cooperation in the region, as well as to increasing the share of equity oil in China's total oil imports. Secondly, larger Chinese investments in the region will result in stronger leverage in maintaining regional stability. Gas cooperation is very important in regard to the Gulf countries, as will be explained in the next section.

However, the hopes and dreams of Middle Eastern countries to gain something from OBOR are not only found in interconnectivity projects but, first of all, in opportunities to become financial hubs for rmb internationalization. In particular, Dubai has aspirations to follow Qatar and become the second country in the Middle East to host a yuan clearing and settlement facility⁹. However, the United Arab Emirates would also like to be part of China's efforts in boosting cooperation in production capacity and equipment manufacturing with other countries, as part of its ongoing global strategy¹⁰. Being a financial hub, combined with a huge development programme in building and infrastructure, might also lead to increasing use of the public-private-partnership instrument¹¹.

⁸ *Ibid.*

⁹ <http://www.financemagnates.com/institutional-forex/execution/dubai-to-become-second-middle-east-clearing-hub-for-chinas-yuan/>

¹⁰ http://www.ciis.org.cn/english/2016-12/21/content_9235629.htm

¹¹ N. Cuthbert and A. Choudhary, *One Belt One Road: PPP Alchemy - is the Silk Road paved in Gold?*, Dentons, <http://www.dentons.com/en/insights/guides-reports-and-whitepapers/2016/december/22/one-belt-one-road-ppp-alchemy-is-the-silk-road-paved-in-gold>

The hopes and dreams of Middle Eastern countries to gain something from OBOR are not only found in interconnectivity projects but in opportunities to become financial hubs for rmb internationalization

Egypt is one of the first countries in the region to benefit from China's huge development projects. Indeed, the country, – which has a long history of relations with China and hosts the headquarters of the Arab League – will build a new capital city requiring US\$45 billion just for the first phase.

China's contribution consists of shareholdings in two state-owned enterprises, with commitments of US\$20 billion and US\$15 billion respectively¹². From the viewpoint of Middle Eastern states, as for example in the aforesaid case of the United Arab Emirates, cooperating with China within the framework of the One Belt, One Road Initiative is a major opportunity to achieve the shared goal of reducing dependence on oil and to promote local industrialization¹³. Iran represents an example of this kind, thanks to China's investment in the automotive sector. Indeed, Chery Automobile, a leading Chinese company, in 2004 started manufacturing in Iran for the domestic market, in 2016 achieving production capacity of 60,000 vehicles per year. The company is now looking to expand its activities to Egypt, where it has sold 80,000 cars since it entered the market a decade ago¹⁴.

Belt and Road in the ME in historical perspective: trade, energy, and security issues

OBOR is the next stage of relations between China and the Middle East that have a thousand-year horizon. Since the founding of the People's Republic of China (PRC) in 1949 there has been a suc-

¹² <http://edition.cnn.com/2016/10/09/africa/egypt-new-capital/index.html?sr=fbmoney101116egypt-new-capital0938AMStoryGalLink&linkId=29774609>
<http://www.independent.co.uk/news/world/middle-east/chinese-developers-build-egypt-new-capital-city-cairo-a7355886.html>

¹³ <http://www.mei.edu/content/article/gcc-iran-look-sea-trade-reduce-dependence-oil>

¹⁴ http://news.xinhuanet.com/english/2016-01/23/c_135038730.htm

cession of phases. The Chinese refer to the start of relations with the Arab world in 1956, when diplomatic relations were established with Egypt. During Mao's leadership there was a highly influential ideological component and the real breakthrough came in the decades after Mao's death (1976). That shift was based on increasingly important economic relations. In the 1980s a first opportunity for China and the Middle East to cooperate involved the sale of weapons¹⁵, which was followed in the 1990s by the growth of Chinese imports of hydrocarbons. The new millennium has revealed a new trend still in force, namely the exponential increase in economic interchange between China and the Middle East. OBOR might definitely lead to a possible increase in China's strategic interest in the region, given its need to protect the economic interests that have developed over the past decades.

From the China-Arab States Cooperation Forum

Since the early 2000s, the relations between China and Arab countries have experienced a gradual institutionalization, first through the establishment of a dialogue mechanism, then with publication of a document defining China's policy toward the Arab world.

The current relations between China and Arab countries are framed around the China-Arab States Cooperation Forum (CAS-CF), a cooperation mechanism established in 2004 by President Hu Jintao during a visit to the headquarters of the Arab League. This cooperation mechanism is not unique in the panorama of Chinese diplomacy, since China has already developed similar policies with different areas of the world¹⁶. A key event was the fourth ministe-

¹⁵ Y. Shichor, 'Mountains out of Molehills: Arms Transfers in Sino-Middle Eastern Relations', *Middle East Review of International Affairs* (MERIA), vol. 4, no. 3, September 2000, pp. 27-39.

¹⁶ Among the Chinese regional multilateral cooperation mechanisms we highlight the Forum on China-Africa Cooperation (FOCAC, created in 2000), the China-Central and Eastern European Countries Cooperation Forum - known as 16 + 1 (2012), and the China- CELAC (Community of Latin American and Caribbean States) Forum (2015). See A. Ekman, *China's regional Forum Diplomacy*, Alert 44, EIUSS, in November 2016.

rial meeting that was held in 2008 in Tianjin¹⁷. On that occasion, in the wake of the economic crisis that had just begun, members of CASCFC decided to transform the relationship from a simple “new type of partnership” to a “strategic partnership”, a term that within the complicated Chinese diplomatic rating indicates a substantial strengthening of relations. In 2004, Hu Jintao outlined four fundamental principles for China-Middle East cooperation: 1) to promote political relations on the basis of mutual respect; 2) to tighten economic and trade ties to achieve common development 3) to expand cultural exchanges for mutual benefit; 4) to strengthen cooperation in international affairs with the goal of safeguarding world peace and promoting common development.

A turning point in China's relations with the Middle East took place in early 2016. In January of that year President Xi Jinping visited the major regional players, namely Saudi Arabia, Egypt and Iran¹⁸. The visit was preceded by the publication of a paper titled *China Arab States Policy Paper*¹⁹ in the wake of what had already been presented in previous years on the relations, for example, with Latin America and Africa. The document incorporated the concepts expressed by Hu Jintao and referred openly to non-intervention and non-interference in internal affairs as stated according to the five principles of peaceful coexistence that define the guidelines of Beijing's foreign policy. The document presents China as a partner on a par with the Arab countries, in contrast to what could be a critical attitude attributed to the United States or European countries. Moreover, China declared full support for

¹⁷ Kuangyi Yao, “China-Arab States Cooperation Forum in the Last Decade”, *Journal of Middle Eastern and Islamic Studies* (in Asia), vol. 8, no. 4, 2014.

¹⁸ Xi Jinping's visit to the region was topped by trade agreements aimed to increase trade with Tehran up to \$US600 billion and by energy and financial contracts with Riyadh. International observers considered the visit to be of great importance also because its arrangement was complicated since a previous meeting scheduled for 2015 was postponed. The reason was due to the worsening of the relations between Saudi Arabia and Iran, not only in reference to the Syrian and Iraqi events, but also to the outbreak of civil war in Yemen, fought by factions linked to both of the two main powers in the Gulf.

¹⁹ China's Policy Paper Arab, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1331683.shtml

the Arab League, a claim strengthened also by its endorsement of an independent and sovereign Palestine, with the 1967 boundaries and with East Jerusalem as its capital. Nevertheless, China – unique in the world – maintains excellent relations with Israel as well, thanks to important trade relations. The paper also expressed the guidelines for China-Middle East economic relations on the basis of a model called “1 + 2 + 3”. This terminology refers to an economic cooperation platform that is built on energy as a core, on infrastructure and on trade as “two wings” and, finally, on new technologies such as nuclear energy, aerospace and new energies as “three turns.” The interest, therefore, is to promote economic relations that are not just limited to trade in oil, but that help to achieve a more structured economic partnership.

Key themes in China-Middle East relations

China’s focus on the Middle East has been growing steadily since the 1980s, but only in 2000 was fully involved in structuring the CASC. Since then, China has sought to promote the advancement of economic relations, trying not to limit them to trade in fossil fuels. Growing economic interdependence increases the stakes for China’s regional stability, an issue that raises new questions for President Xi Jinping in the face of the gradual American disengagement in the region.

Economic relations: energy and trade

Economic opportunities that might develop from OBOR will not arise from zero, but will be built on expanding cooperation both in energy and trade. The year 2014 is the one in which China overtook the US as the first destination of the Middle East’s oil exports. According to an estimate by the China National Petroleum Corporation (CNPC)²⁰ in 2016 China imported about 62% of

²⁰ Xinhua, “China’s dependency on foreign oil Exceeds 60 percent”, 26 January 2016,

its oil supplies; of this, 52% came from the Middle East. According to data from EIA²¹, in 2014 China imported crude oil mainly from, among others, Saudi Arabia (16%), Oman (10%), Iraq (9%), Iran (9%), the United Arab Emirates (4%) and Kuwait (3%). Thus there is strong dependence on the Middle East, although China's diversification prospects, cannot be easily changed. Diversification to safeguard energy security is strongly felt by the Chinese government because of recent experiences that affected contracts already signed, as happened for example in Iran in 2012 and in South Sudan in 2013²². In addition, after the fall of Gaddafi the international community learned of the presence of 36,000 Chinese nationals repatriated due to deteriorating security conditions. The fall of the regime also cancelled important deals signed by Chinese companies. This event is therefore considered a turning point for China's awareness of the risk Chinese investments run in the area.

Natural gas consumption is growing rapidly in China – although still accounting for only about 5% of its energy mix – especially in light of the carbon reduction plans as required by the Paris Agreements on Climate Change. Currently, about a third of the natural gas consumed is imported from abroad and, of this, 34% comes from Qatar alone, while the 5% imported from Yemen was put at risk by the civil war that broke out in 2015.

China and Middle East relations are not only based on energy but on trade as well. In fact, between 2001 and 2016, China's trade with the Med area countries rose from around €16 billion to over €191 billion, overtaking the United States as a regional trading partner in 2010²³. In 2015, exports to the Gulf countries amounted to €61.2 billion while exports to the Southern Mediterranean were €51.3 billion, an increase over the previous year of 18.6% and 22.6% respectively. In detail, the first countries as des-

http://www.china.org.cn/business/2016-01/26/content_37668744.htm

²¹ Energy Information Administration (EIA), Country report, *China*, 14 May 2014, <http://www.eia.gov/beta/international/analysis.cfm?iso=CHN>

²² *Ibid.*

²³ *Economic relations between Italy and the Mediterranean Area* - 6th Annual Report, SRM, 2016.

tinations for Chinese exports are Turkey and Egypt in the Mediterranean and the United Arab Emirates and Saudi Arabia in the Gulf. The growth of China's trade with the region is even more significant when compared with the trends of other regional actors. In fact, in light of the exponential multiplication of the value and volume of trade to and from Beijing, it can be seen that, in fifteen years, only Germany, the United Kingdom and the United States managed to double trade with the region, while France and Italy grew by about half. China's trade with the Middle East is even more important because it is not only justified by the growth in demand for China's energy industry. In fact, China is not only greatly in surplus (in 2015 China imported goods worth €8.5 billion, and exported goods worth €53.7 billion) with countries of the Southern Mediterranean, but it is substantially balanced with the Gulf countries (imports for €61.4 billion; exports for €61.2 billion) despite the data on how much the energy trade weighs mentioned earlier, an element that confirms China's commercial strength in the region²⁴.

Even more important for OBOR is the rise of the *maritime economy*. In fact, some of the goals declared by the maritime segment of OBOR have already been achieved in the last decade thanks to several acquisitions of shares in ports located in the region. The first operation dates back to 2004, when COSCO took over 25% of operating the *Antwerp Container Terminal* in the Netherlands but it experienced a sustained boost in the last two years with seven operations among which – in addition to the case of the Italian Vado Ligure port – the most prominent one was acquisition of 67% of the Greek port of Piraeus. The transaction, which has an estimated value of about €1.5 billion, is not limited to the acquisition of shares in the *Piraeus Port Authority*, but contains a pledged commitment to make it a major hub in the Mediterranean Sea²⁵.

²⁴ *Ibid.*

²⁵ *Ibid.*

Security issues on the rise with BRI

A rise in economic interests will fuel the rise of strategic interests. Even if, as mentioned above, Chinese foreign policy has traditionally been based on, – and officially cites – principles of non-interference and non-intervention in the internal affairs of other countries, China will have to deal with increasing threats to its expanding interests abroad. The evolution of the economic scenario described above and, in addition, American disengagement in the region, have raised questions about the role that China could play in Middle East security or whether it might possibly replace the US as a regional power. So far the latter scenario should be disregarded since Beijing greatly fears the risks arising from direct action in the Middle East, in terms of political, economic and military costs. The Chinese army's involvement in bringing peace to conflict areas would be an occurrence with few precedents; as well as having an economic cost, it could jeopardize relations with other regional countries with which it had built relations based on non-interference. In addition, it is in China's interest that Americans remain in the Middle East to take on the burden of regional stabilization, thereby reducing the pressure in the Pacific.

This consideration, however, does not prevent the launch of forms of security cooperation with regional actors, such as the joint military exercises conducted with Saudi Arabia in the Chinese municipality of Chongqing in October 2016. Again with Saudi Arabia on 7 October 2016 China signed a 5-year military cooperation agreement. These are clear signals that, despite China's preference for leaving most security commitments to the United States, it is still expanding its reach in terms of surge capacity.

In light of these concerns, China is committed to developing a response to the regional security crisis that is not in contradiction – at least on a rhetorical level – with its traditional lines of foreign policy. An initial step in this direction can be seen in China's increasing engagement in peacekeeping operations under the UN mandate. A leading example is South Sudan, where in 2014 China

deployed an infantry battalion of 700 soldiers with direct responsibilities for the stabilization process during the civil war²⁶.

Counterterrorism is a second Chinese response to regional instability in areas where China has economic interests, and this is strongly connected to OBOR and its domestic and regional outcomes, especially within Xinjiang province and Central Asia. In fact the threat posed by Daesh is of concern to China for two reasons. On the domestic level, Beijing has in recent years faced an increase in attacks on its territory by members the Uighur ethnic minority, Islamic in faith and driven by separatist sentiments²⁷. The repression and prevention of radicalization activities within Chinese borders did not prevent the formation of a large group of *foreign fighters* in Syria that, according to different estimates, numbers between 100 and 300. The economic opportunities promoted by OBOR are often seen as a way to improve economic conditions in Xinjiang and thereby reduce a source of radicalization. At the same time, since 2004 there have been cases of attacks on civilians and Chinese companies around the world²⁸. The latest episode was a car bomb exploded at the

The evolution of the economic scenario and American disengagement in the region, have raised questions about the role that China could play in Middle East security or whether it might possibly replace the US as a regional power

²⁶ C.J. Fung, *China's Troop Contributions to UN Peacekeeping*, Peace Brief 212, USIP, Washington, 2016, <http://www.usip.org/publications/2016/07/26/china-s-troop-contributions-un-peacekeeping-#>; D.J. Blasko, *China's Contribution to Peacekeeping Operations: Understanding the Numbers*, China Brief, The Jamestown Foundation, vol. 16, no. 18, 5 December 2016, <https://jamestown.org/program/chinas-contribution-peacekeeping-operation-understanding-numbers/>; N. Bariyo, "China Deploys Troops to Defend South Sudan Oil Fields, Workers", *Wall Street Journal*, 9 September 2014, <http://www.wsj.com/articles/china-deploys-troops-in-south-sudan-to-defend-oil-fields-workers-1410275041>

²⁷ Merics, *New Threats, New Responses. How China Fights Terrorism*, Web Special, 2014, <https://www.merics.org/en/merics-analysis/dossierweb-special/new-threats-new-responses-how-china-fights-terrorism/>

²⁸ M. Duchâtel, *Overseas Terror: Understanding China's evolving counter-terror strategy*, Policy Brief, ECFR, 26 October 2016 http://www.ecfr.eu/publications/summary/terror_overseas_understanding_chinas_evolution_counter_terror_strategy7160

Chinese embassy in Bishkek, Kyrgyzstan, in September 2016, an attack that was allegedly perpetrated by terrorists linked to the galaxy of pan-Turkish nationalist factions. This episode also reveals one of the big risks that China will need to prepare to face over the next few years with growth in investments along the revamped Silk Road: possibly violent resistance from local communities in some way damaged by Chinese investments. Being aware of these risks, China has begun revising its counterterrorism laws, leading to the possibility of using its armed forces in operations abroad. The principle of non-interventionism, a pillar of Chinese foreign policy, is safeguarded by the clause saying that such operations would be carried out in agreement with the governments of countries where such operations were undertaken. China therefore has initiated a process of militarizing its strategy for combating terrorism, accompanied by what has been called the Chinese army's "counterterrorism diplomacy"²⁹. Possible Chinese military interventions in neighbouring countries in accordance with local governments might be presented as a contribution to the global public good of international security.

Turkey: looking at China through the OBOR lens

As in the past, Turkey represents a vital link between East and West along the new Silk Road. Ankara is very interested in the project. While economic reasons are the main driver, political interests are also at stake. First, OBOR would offer important investment opportunities in infrastructure, especially in transportation infrastructure. It is true that in more than a decade Turkey has developed modern domestic infrastructure (from motorways and railway networks to well-equipped ports), but much remains to be done to satisfy Turkey's aspiration to be a bridge between Asia and Europe. A great amount of foreign investment is needed to realize the ambitious domestic infrastructure projects planned by the Turkish government.

²⁹ *Ibid.*

Second, OBOR would meet the need to open new trade routes and new markets for Turkey's export-oriented economy and to diversify its trade partners. Prolonged tensions with Europe on the one hand and the increasing instability of the Middle East on the other – the two regions together account for 70% of Turkey's total exports – spur Ankara to look for new partners as well as to deepen existing relations with Asian countries. Indeed, although over the years bilateral trade relations have impressively intensified and China has become Turkey's second largest trade partner after Germany, there is a great imbalance between the two countries: Turkish imports from China – \$US25.4 billion in 2016 – greatly surpass exports that last year amounted to just \$US2.3 billion³⁰. It is worth noting that while China is Turkey's first supplier, it ranks nineteenth among the top twenty countries exporting to China. One obstacle is the lack of land connections between the two countries and it seems that most of Turkey's \$US27.7 billion in trade with China currently goes through the port of Rotterdam³¹. The development of road and railway corridors between Turkey and China within OBOR could also benefit Turkish interconnection projects with Central Asia in search of investments. Initial Turkish-Chinese cooperation in the infrastructure sector began with construction of a high-speed railway between Ankara and Istanbul that was launched in 2015. The Chinese state-owned railway company and a private Turkish company realized the project³². Furthermore, China and Turkey are planning to build a 2000-km high-speed railway between Kars and Edirne, connecting eastern and western Turkey. In October 2010, the two countries signed an agreement to undertake development of the project³³, whose realization would be very important to developing both domestic and regional interconnection networks. In fact, Kars is the Turkish terminal of the

³⁰ See Turkish Statistical Institute, www.turkstat.gov.tr

³¹ See S. Koru and T. Kaymaz, *Turkey: Perspectives on Eurasian integration*, ECFR, 8 June 2016, http://www.ecfr.eu/article/essay_turkey_perspectives_on_eurasian_integration

³² G. Lavi and G. Lindstrauss, *China and Turkey: Closer Relations Mixed with Suspicion*, Strategic Assessment, vol. 19, no. 2, July 2016.

³³ <http://www.construction-ic.com/HomePage/Projects?returnUrl=%2FProjects%2FOverview%2F117021>

Baku-Tbilisi-Kars (BTK) railway project linking Turkey with Azerbaijan and Georgia, which should be completed by mid-2017³⁴. According to Turkey's Transport, Maritime and Communications Minister, Ahmet Arslan, this 826-km project will become an important connector of the OBOR Middle

OBOR would meet the need to open new trade routes and new markets for Turkey's export-oriented economy and to diversify its trade partners

Corridor. It also is likely to double Turkey's railroad transportation capacity³⁵. Furthermore, it should be added that the transport of goods from China to Europe through the Middle Corridor will

be much faster – 15 days – compared to the northern corridor of OBOR that will take from 45 to 62 days³⁶. Through this project Turkey, which is at the crossroads of the Caspian Sea, the Middle East, the Mediterranean Sea and Europe, could aspire to become a hub in the Middle Corridor³⁷. Such transportation infrastructure would allow Turkey to strengthen its ties with Eurasian countries.

The Eurasian dimension of Turkish foreign policy has been acquiring increasing importance in the Turkish government's political discourse. On the one hand, Turkey's shift towards a rising Eurasia – particularly Russia and China – appears to be the result of the changing geopolitical power axes in the region and beyond; on the other, the country has a number of strategic, economic and energy interests in deepening relations with Eurasian countries. At the same time, the eastward shift is part of the multidimensionality of Turkish foreign policy in the era of the AKP (Justice and Development Party) that has been ruling the country since 2002. Indeed, a multi-option foreign policy to counterbalance Turkey's dependencies on the West is

³⁴ *Opening of Baku-Tbilisi-Kars railway postponed again*, Jam News, 13 February 2017, <https://jam-news.net/?p=18470>

³⁵ A. Unal, *Baku-Tbilisi-Kars railway works end in 2 months*, Daily Sabah, 22 January 2017, <https://www.dailysabah.com/business/2017/01/23/baku-tbilisi-kars-railway-works-end-in-2-months>

³⁶ *Ibid.*

³⁷ Ö. Nur Ögütçü, "Baku-Tbilisi-Kars railway and regional connectivity", *Daily Sabah*, 20 February 2017, <https://www.dailysabah.com/op-ed/2017/02/20/baku-tbilisi-kars-railway-and-regional-connectivity>

a key component of the “strategic depth” doctrine elaborated by the former AKP Prime Minister and Foreign Minister Ahmet Davutoglu in 2001. Today the eastward shift would also reflect the vicissitudes in relations with the country’s traditional Western partners – the United States and the European Union (EU) – that would encourage Turkey to diversify its foreign relations even more³⁸.

Turkish President Erdogan’s aspiration to join the Shanghai Cooperation Organization (SCO) as an alternative to EU membership is not new. In 2013 Turkey had already obtained SCO dialogue partner status. Whether or not as a way to pressure the EU, the Turkish government repeatedly cited the SCO possibility. Recently this proposal has resurfaced due to strains between Turkey and the EU on the one hand and rapprochement with Russia on the other.

While OBOR has great potential to strengthen China-Turkey relations, some critical issues could cast a shadow over warming bilateral ties. First, political Islam could become a divisive issue because, while Beijing considers it a threat, Turkey is governed by an Islamic party and is a state championing political Islam in the Middle East³⁹. A more critical issue between Beijing and Ankara is China’s Uighur minority, which the Chinese government sees as a threat to national integrity, accusing its members of involvement in terrorist activities inside China and elsewhere. On the contrary, Turkey supports this Turkic minority in China, and this support was the cause of tensions between the two governments after Beijing’s crackdown on Uighur riots in 2009, to which Ankara vehemently reacted. However, recently the Turkish President toned down statements and adopted a more conciliatory approach. “Given the similar concerns regarding the Kurdish minorities, the Turkish government seems to have pragmatically understood the need to minimize principled stances that might be ill-received in China”⁴⁰.

³⁸ See S. Koru, T. Kaymaz, *Turkey: Perspectives on Eurasian integration*, ECFR, 8 June 2016, http://www.ecfr.eu/article/essay_turkey_perspectives_on_eurasian_integration

³⁹ M. Singhm, *Is Turkey Pivoting to China?*, The Washington Institute Policy analysis, 24 October 2016, <http://www.washingtoninstitute.org/policy-analysis/view/is-turkey-pivoting-to-china>

⁴⁰ F.S. Montesano, “The role of Turkey and Cyprus in OBOR”, in *The Geopolitical Rel-*

Cooperation would have potential in the military field. However, China is very cautious about deepening military ties after Turkey cancelled purchase of a Chinese missile system in 2015, due to pressure from NATO partners.

The eastward shift would also reflect the vicissitudes in relations with the country's traditional Western partners – the United States and the European Union – that would encourage Turkey to diversify its foreign relations even more

Despite these issues, pragmatism and economic interests seem to prevail in both Ankara and Beijing, as attempts to enhance bilateral relations have intensified. From a Turkish perspective, OBOR offers a unique opportunity to increase its strategic importance on the

one hand and its economic development and geo-economic projection on the other.

During a sideline meeting at the G20 summit in Antalya in 2015, Turkey and China signed a MoU on the harmonization of OBOR with the Middle Corridor Initiative, as well as a 'railroad cooperation agreement'⁴¹. The interest of both sides in developing such a link between the two initiatives was reiterated last November during the visit of Foreign Minister Wang Yi to Ankara where he met the Turkish Prime Minister Yildirim⁴². In addition, in December 2015, DHL Global Forwarding, a leading provider of air, sea and road freight services, inaugurated its China–Turkey intermodal corridor as part of OBOR.

Turkey would be keen to play a role in the Maritime Silk Road as well, although the Greek port of Piraeus will be pivotal in the Chinese strategy. The acquisition by a Chinese consortium (including COSCO and CIC) of 65% of the Kumport container terminal – Turkey's third largest port located on the European side of Istanbul – could be interpreted as a sign of its potential involvement.⁴³

evance of Piraeus and China's New Silk Road for Southeast Europe and Turkey, Clingendael Report, December 2016, https://www.clingendael.nl/sites/default/files/Report_the%20geopolitical_relevance_of_Piraeus_and_China%27s_New_Silk_Road.pdf

⁴¹ *Ibid.*, p. 40.

⁴² http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1416141.shtml

⁴³ *Chinese consortium acquires 65 pct stake in Turkish port terminal*, <http://www.hurriyetdai>

Pairing OBOR with the Saudi “Vision 2030”

In March 2017, Saudi King Salman met Chinese President Xi Jinping in Beijing. On that occasion several agreements worth \$US65 billion were signed to strengthen cooperation between the Saudi Kingdom and China. This visit represented a significant step in the process begun in early 2016 with Xi Jinping’s Middle East tour – including Riyadh, Cairo and Teheran – to reinforce partnerships and promote the New Silk Road (see paragraph). OBOR aroused great interest in the Saudi royal family, engaged in a major restructuring of the country’s oil-based economy. Under the “Vision 2030”⁴⁴, announced by Deputy Crown Prince Mohammad bin Salman Al Saud in April 2016, Saudi Arabia aims at diversifying the economy to reduce its dependence on oil. This ambitious plan requires huge investments at a time of dearth for the Saudi state coffers, severely affected by lower oil revenues on the one hand and its costly military engagement in the Yemeni conflict on the other.

In this context, OBOR gives plenty of scope for cooperation between China and Saudi Arabia, which is looking for more investments to finance its economic reform and privatization plans. In fact, the Saudi National Transformation Program (NTP), approved in the summer 2016, intends to double foreign direct investment by 2020⁴⁵. The NTP’s strategic goals would include, among other things: increasing non-oil commodity exports by creating an attractive environment for investors, and improving the performance of real state sector⁴⁶.

Begun in 1990, Saudi-Chinese relations considerably intensified after Chinese President Jiang Zemin’s visit to the Saudi Kingdom in 1999. Since then, energy has been the main component of the relationship. Indeed, China is Saudi Arabia’s largest oil customer

lynews.com/chinese-consortium-acquires-65-pct-stake-in-turkish-port-terminal.aspx?pageID=238&cnid=88636&NewsCatID=345

⁴⁴ <http://vision2030.gov.sa/en>

⁴⁵ M. Marray, “China, Saudi Arabia sign US\$65 billion in deals”, *The Asset*, <https://www.theasset.com/belt-road-online/32612/china-saudi-arabia-sign-us65-billion-in-deals>

⁴⁶ *Ibid.*

while Saudi Arabia is China's largest provider of oil, covering around 20% of Chinese demand⁴⁷. Furthermore, in 2015 China became Saudi Arabia's top trade partner.

Beyond oil, the two countries recently took steps to strengthen cooperation in other sectors, from economy to defense and security. After President Xi Jinping's visit to Saudi Arabia the two countries

In December 2015, DHL Global Forwarding, a leading provider of air, sea and road freight services, inaugurated its China–Turkey intermodal corridor as part of OBOR.

agreed on a comprehensive partnership including cooperation in the economic, political and military fields⁴⁸. Although significant steps to enhance broader cooperation have been already taken, the pairing of the Saudi Vision 2030 with

OBOR provides great potential to maximize a comprehensive relationship. However, some factors could create hurdles for a broader and deeper relationship. The first one is China's interest in improving relations with Iran, which would play a significant role in OBOR's development. This could add further tension to Saudi-Iranian geopolitical and religious rivalry, and China has no desire to get involved in the antagonism between Riyadh and Teheran. On the Saudi side, the kingdom's eastwards shift does not only focus on China but also includes other Asian countries like Japan.

Conclusion

Even before the full exploitation of OBOR's opportunities, the presence of China in the Middle East is already a reality from an economic perspective and a growing trend from the viewpoint of security policies. In addition to the dynamics of oil imports, China is having an increasingly significant impact on the role of trade and investment in infrastructure. As regards the maritime side of

⁴⁷ Wang Jin, "China and Saudi Arabia: A New Alliance?", *The Diplomat*, 2 September 2016, <http://thediplomat.com/2016/09/china-and-saudi-arabia-a-new-alliance/>

⁴⁸ *Ibid.*

OBOR, trade flows are likely to increase in the Mediterranean basin through the acquisition of ports on both sides and thanks to the opportunities arising from the doubling of the Suez Canal in 2015.

As for cooperation in the area of security, there is a strong convergence of interests in maintaining regional stability. As mentioned, despite China's distrust of a possible military option in the event of conflict, Beijing is still expanding its capacity for intervention. However, still prevailing is the Chinese tendency to prefer an approach that promotes stability through economic development, and the globalization promoted by OBOR entirely accomplishes this goal.

5. New Belts and Roads: Redrawing EU-China Relations

Xavier Richet, Joël Ruet, Xieshu Wang

At the 2017 Davos Economic Forum, Chinese President Xi Jinping asserted the merits of globalization and called for more effective measures and structural reforms to establish equitable governance and build new growth models. The “One Belt, One Road” (OBOR) Initiative accelerated with the Chinese presidency of the G20 in 2016, advocating for more inclusive regional cooperation and offering ambitious plans to further tighten connections across Eurasia and North Africa.

Although perhaps not always on the best of terms, Europe and China have nonetheless long enjoyed stable political, diplomatic and economic exchanges of considerable intensity and quality. The presence of Chinese companies in Europe has become more noticeable since the last financial crisis and cooperation between China and Europe has significantly increased in all domains. With the Trump-governed US withdrawing from the Trans-Pacific Partnership Agreement (TPP) at a time when trade contents are deemed to be radically changing due to ecological transitions¹, it becomes even more crucial for Europe and China to work together to safeguard the advances of globalization and to maintain a technological and economic edge in the changes to come. The Chinese government has emphasized that OBOR is complementary to existent national and European plans to develop infrastructure and boost connectivity in Europe and beyond. Given the current

¹ Aa. Vv., *The Impact of Energy Transformation on the Resource Industry, Trade, Growth, and Taxes May Be Mistaken for ‘Secular Stagnation’*, T20 Policy Brief, preliminary draft 16 February 2017.

geographical, sectorial, institutional and cultural *divergences* between the EU member countries, a single strategy and mechanism might not work for every country. China's inclusive approach does not mean that it regards all EU member states as equally important for OBOR. Does China have different plans regarding different EU zones? Will they impact integration of the EU? How is OBOR influencing the activities of Chinese companies and how is this perceived by host countries? Is the cooperation between

With the Trump-governed US withdrawing from the Trans-Pacific Partnership Agreement at a time when trade contents are deemed to be radically changing it becomes even more crucial for Europe and China to work together to safeguard the advances of globalization

the EU and China having positive impact on other regions outside the EU? In this chapter, we will focus on the role of OBOR in setting the *contours* of a new EU-China relationship. After some brief observations on the increasing exchanges between the EU and China since the recent global economic crisis, we will discuss what role OBOR is

playing in the new EU-China relations. We also underline efforts between the Chinese government and the European Commission for finding an integrated approach. Some insights are shared on the positive role the EU and China could jointly assume in other countries. In extremely uncertain times, we chose to mostly analyse, and to partly take up the wager of (moderate) optimism.

The role of OBOR in the European Commission coordinated EU-China relations

Even before the emergence of the OBOR Initiative, the EU and China already held regular dialogues on railway, maritime, aviation, customs facilitation, as well as other issues related to connectivity. Interestingly, during the negotiations on the EU-China 2020 strategic agenda for Cooperation in 2013, the Chinese government did not advocate an inclusion of the OBOR Initiative (announced

in the same period) in the Agenda, although it contained a number of ambitious goals in fully developing interconnected infrastructure systems and smart supply-chain logistics networks between Asia and Europe. It was during President Xi's visit to the EU in March 2014 that the Chinese leadership began to officially include the EU in the initiative. OBOR-related projects were quickly developed in Central Europe under the CEE 16+1 mechanism, in Greece regarding investments in the port of Piraeus, and in Germany for the Chongqing-Duisburg railway, but were almost inexistent in the Western and Northern EU.

Globalization is also about shared standards, and these are an integral part of WTO discussions and agreements, even though sometimes a few exceptions can be granted. Investment rules have been much more model-specific to date, and the very state-driven dimension of the OBOR (an "initiative", literally, more than a mere policy framework, EU-style), raises questions of a new type. More bluntly, perhaps, for Chinese actors, the European Commission, with its emphasis on rules and regulations, could be a potential problem for projects in the OBOR framework, while seen from the EU's viewpoint (inherited from anti-trust, free-competition dogma), after having long overlooked investments at the specific / project / unit level, OBOR might suddenly turn out to be problematic if seen as a whole. The Chinese model of infrastructure financing generally involves state guarantees and requires direct contract offers to Chinese companies without an open tender. This is against the EU's rules on state aid and public procurement, but this is the practice Chinese companies are most familiar with because it has been as central in Chinese technological catching-up as was the whole ecosystem of state technological and policy support².

Two developments summarize China's approach regarding OBOR at the EU level: the search for tangible projects for cooperation; and slow acceptance of the EU's role in shaping the rules

² J. Ruet, *Des Capitalismes Non Alignés : Les Pays Émergents, ou La Nouvelle Relation Industrielle*, Raisons d'Agir, Paris, October 2016, p. 224; Idem, "Un facteur déterminant de la géopolitique des matières premières : la stratégie industrielle de la Chine", *Responsabilité & Environnement*, no. 82, April 2016.

for China's engagement with individual EU member states. After the first period of a generally slow advancement of OBOR projects in Europe, the Chinese government has realized that EU institutions play a central role in the dialogue of EU-wide rules regarding Chinese investments and in coordination of different projects with EU member states. For successful accomplishment of the project, it is crucial that the EU officially endorses OBOR and that OBOR complies with the framework of the EU. For the EU, the opportunities for cooperation with China under OBOR would materialize only if the cooperation is based on open and transparent rules. The EU's approach with OBOR is based on the objective of seeking a level playing field and channelling Chinese investments in accordance with EU frameworks and priorities. The decision of EU member states to join the China-led AIIB in an uncoordinated way successfully triggered a joint EU action in designing the rules governing the AIIB during negotiations for its articles of association. Both the European Commission and the European External Action Service quickly understood that OBOR had strong political support in China and that it was going to be implemented regardless of the position that the EU took³. This forced the EU to adopt a proactive approach to seek engagement and to try to influence decisions.

Although the EU has not communicated a comprehensive strategic approach in responding to the impact of OBOR on regional dynamics, some high-level initiatives to achieve more transparency were made. In September 2015, the European Commission and the Chinese government signed a Memorandum on the EU-China Connectivity Platform to enhance synergies between China's OBOR Initiative and the EU's connectivity initiatives such as the Trans-European Transport Network. The Platform will promote cooperation in areas such as infrastructure, equipment, technologies and governance standards. It will help coordinate infrastructure plans in Europe through information exchange and ensure a level playing field for all investors. It will also help identify investment op-

³ "Europe and China's New Silk Roads", European Think-tank Network on China (ETNC) Report, December 2016.

opportunities through the European Fund for Strategic Investments (EFSI), open to the Chinese Silk Road Fund. It promotes high standards in terms of government procurement and environmental protection not only inside the EU but also for countries along the OBOR. On this occasion, China also announced its intention to

contribute to the European Commission's €315 billion Investment Plan for Europe. Since then the EU and China have had further discussions on policies, access for investments, and a shortlist of pilot projects under the Connectivity Platform. However, the 18th EU-China Summit in July 2016 did not result in a joint communiqué settling important issues, probably due to China's reluctance to accept open public procurement rules for the projects.

Here clearly the focus of the conversation is on whether or not to link the macro-economics of the Investment Plan with the micro-economics of project financing. While the EU is willing to welcome the Chinese contribution to the Investment Plan, it wants to retain what it considers sovereignty. This kind of issue arises when European countries bring bilateral "aid" to "developing" countries with bound aid for quite a few aiding countries (and the EU would tend to adopt un-bound practices). A possible way out is a deal-based capital call scheme allowing the Chinese fund to gradually contribute to the Investment Plan and providing the chance for Chinese partners to negotiate on deal-specific conditions. Another solution the authors might venture (as creative policy-making would be needed), and which is adopted by some emerging countries – but would be a major departure from the post-Reaganomics practice established in Europe and raise huge issues, given the EU's legal framework – is the reservation of some share of the consortium to their national companies.

It is hoped that OBOR-related financial cooperation between China and Europe may further expand as a result of China's mem-

Two developments summarize China's approach regarding OBOR at the EU level: the search for tangible projects for cooperation; and slow acceptance of the EU's role in shaping the rules for China's engagement with individual EU member states

bership in the European Bank for Reconstruction and Development (EBRD) since January 2016 and the recent opening of the European Investment Bank Beijing office. Finally, the EU encourages deepened collaboration between China and the EBRD, including the examination of a possible membership in the EBRD in line with its rules. At any rate, these multi-trillion dollar questions pave the way for a potential opening into existent globalization and frame new avenues of approach.

The impact of OBOR on different EU zones

Leaving (near)-future questions aside, where does Europe as “not a whole” stand today? Generally, EU members welcome a closer engagement with China and Chinese firms, seeing this as a potential way of complementing insufficient local sources to finance growth and to export European products to Asian and global markets; and also, with aging demographics and lack of bank support for young entrepreneurs, as a solution to the succession problem of many family businesses. It is also hoped that Chinese capital together with its corporate investors could help industrial development in NMSs and the western Balkan regions. Therefore, when One Belt, One Road was officially announced by the Xi Jinping-led Chinese government in 2013, some EU member states embraced it with enthusiasm. Theoretically, Western Europe, situated at the very symbolic end of the New Silk Road and being an important final market for Chinese goods, should be given a primary place in the OBOR project. However, China’s inclusive approach does not mean that it regards all EU member states as equally important for OBOR. Within Europe, OBOR-labelled projects are in fact concentrated in two particular regions: Central and Eastern Europe and the European Mediterranean countries. Meanwhile, President Xi also addressed OBOR in speeches delivered in Germany and Belgium in 2014 and the United Kingdom in 2015. Some OBOR activities go beyond these two regions, such as the rail services to Germany and other Western European countries. China also con-

siders the RMB internationalization process in London as highly important for OBOR. While promoting OBOR, China has understood that a EU-led integrated Europe must be respected.

In fact, EU states have rather divergent opinions about OBOR. A survey in the ETNC 2016 December Report on the New Silk Road showed that a majority of governments seem to have a “neutral” to “rather positive” attitude and many of them consider OBOR not important enough for their country⁴. Therefore, few states show strong incentive to take the initiative although they may be cautiously positive about OBOR. Meanwhile, some local or regional authorities, such as the city governments of Duisburg, Hamburg and Lyon, are proactive as they perceive concrete potential interest in attracting Chinese investment under OBOR. The most consequential response to OBOR so far by European governments, in particular those in the West, has been joining the AIIB. On the other hand, various European companies have responded positively to the new opportunities that come with OBOR. For the moment, many of these opportunities involve container terminals, railways and logistic services. Direct railways have been opened to link Poland, Germany, the Netherlands, France and Spain to China. The privatization processes taking place in the public transport sector in some Southern European countries also offers acquisition and investment chances to Chinese firms. COSCO and other Chinese port companies are investing in seaports in Belgium, the Netherlands, Croatia, Slovenia, Italy, Portugal, Spain, Latvia and Lithuania. As one feature of OBOR, it is worth noting that many of these projects date from before the launch of OBOR and have been given the OBOR label since 2013.

China’s inclusive approach does not mean that it regards all EU member states as equally important for OBOR. Within Europe, OBOR-labelled projects are in fact concentrated in Central and Eastern Europe and the European Mediterranean countries

⁴ ETNC (2016).

Western and Northern EU: limited impact

In general, Western and Northern EU states' engagement with the OBOR initiative remains mainly limited to their membership in the Asian Infrastructure Investment Bank (AIIB). The Chinese government also appears not to consider this part of the EU one of its priorities regarding OBOR implementation. Still, some states or local governments are more actively involved, trying to take advantage of potential Chinese investments. We selected a few examples to demonstrate how OBOR is impacting or could impact China's relations with these countries.

Among the Western EU members, Germany is probably the most directly concerned by OBOR as five German-Chinese railway projects (Leipzig-Shenyang, Duisburg-Chongqing, Hamburg-Zhengzhou, Hamburg-Harbin and Nurnberg-Chengdu) have been put in place and more OBOR-labelled railway projects are envisaged. The railway connection between Duisburg and Chongqing has received great attention and strong promotion from both municipalities, leading to regular political and business delegations visiting on both sides. OBOR-related investment forums and research conferences were held in Duisburg in 2015 and 2016. However, while trains importing merchandise from China are generally fully laden with electronic and other products, trains back to China often have problems finding sufficient goods. Russian sanctions on European goods further complicate the situation. Public and private efforts have been made to increase the efficiency and frequency of these railway connections, but there are still technical details, such as the refrigeration system and temperature variations, to be solved. Since so far, except for the railways, OBOR has not led to further infrastructure investments, nor M&A investments, nor greenfield investments in Germany, Germany has been advocating in Brussels the EU-China Connectivity Platform as a way to ensure that OBOR-related Chinese investments in Europe comply with EU rules and standards. A German director together with two French and Dutch alternative directors hold 15% voting rights on the AIIB board on behalf of the Eurozone members, which could also play an

indirect role in shaping OBOR activities. Berlin will certainly take advantage of its G20 presidency in 2017 to integrate OBOR with its development policy and to push forward EU-China connections and cooperation based on mutual interest.

Compared to Germany, France has received much less attention from the Chinese government and few Chinese investments within the OBOR framework. China's strategy has been very low-key in France, consisting mostly of discussing potential economic opportunities and brainstorming with businessmen, officials and researchers. The French government also lacks a clear position on the topic. More actively involved are a few French regions. Lyon, the French "City of Silk", has welcomed its role as a historic, commercial and political hub in Europe, and seeks opportunities to attract Chinese investment and open the Chinese market. The Chongqing-Duisburg Yuxinou express was extended to Lyon in April 2016. The region of Normandy tries to interest Chinese investors in its deep-water port, Le Havre, and connections to the inland ports of Rouen and Paris. In fact, in recent years, in order to attract Chinese investors many French regions and municipalities have taken active action to promote their local advantages and business ecosystem. A few recent Chinese investments in France have also made headlines, such as the Symbiose Consortium's acquisition of a 49.9% stake in the operator of the Toulouse Blagnac airport in 2014, Fosun's full acquisition of Club Med, and Jin Jiang International's takeover of the Louvre Hotels Group in 2015. Aging French infrastructure and reduced public resources provide privatization potential. Opportunities are also present in sectors such as transportation, telecommunications, tourism and pharmaceuticals. It is, however, rare to find OBOR-labelled projects in France. The only symbolic step has been a Silk Road partnership agreement signed in June 2015 between French shipping company CMA CGM and China Merchants Holdings International. CMA CGM obtained a US\$1 billion credit line from the Export-Import Bank of China to purchase Chinese container ships⁵.

⁵ ETNC (2016).

The Netherlands is one of China's largest trade partners in the EU. Imports from China account for 1/3 of all goods arriving at the port of Rotterdam, which plays a crucial role for the Dutch economy. Schiphol Airport, opening direct links with various Chinese cities in recent years, has spurred fast growth in air freight from the Netherlands to China. Yet on his first visit to the Netherlands

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in March 2014, President Xi did not mention OBOR, while during his subsequent visit to Germany at the inland port of Duisburg he publicly called for Sino-German cooperation to expand the Silk Road's overland route. Nevertheless, some companies are actively

promoting OBOR-related businesses. One is China COSCO Shipping's acquisition of a 35% stake in the Euromax Terminal at Rotterdam in May 2016. Another is the weekly freight train between Chengdu and Tilburg started in April 2016, which was further extended to Rotterdam in September 2016. Trains from Chengdu contain consumer electronics from companies such as Sony, Samsung and Fuji, while trains from Tilburg carry products for the oil industry, cars, wine and trees. In July 2016, three Dutch transport companies launched a joint venture called New Silkway Logistics (NSWL), providing service for end-to-end transport of goods via the Duisburg-Chongqing railway.

Although the impact of Brexit is still uncertain, the UK's engagement in OBOR as a major European country is affirmative. Also, the geographic limits of OBOR have not prevented the UK government and businesses from responding proactively to the initiative. A good demonstration is that the UK was the first European country to join the AIIB in March 2015, which was a political message supporting a Beijing-led institution that the UK sees as being useful in the long-term economic development of Asia and Europe. The primary logic behind the desire to engage with the OBOR initiative is the opportunities it could bring for British companies and

for the financial services sector in London. The main focus is an “infrastructure alliance” with Chinese companies in third markets through the role of financial hub for OBOR. A major report entitled “One Belt, One Road” issued in 2015 by the CBBC (China-Britain Business Council) highlighted particular opportunities in a range of sectors. The CBBC has produced another report of OBOR case studies in collaboration with Tsinghua University⁶, citing cooperation between British companies, such as HSBC, BP, Linklaters and KPMG, and Chinese partners in forms of consultancy, engineering, technological know-how and construction expertise. The UK’s proactive attitude indicates the primacy it gives to economic and commercial diplomacy, as well as its pragmatic response to the growth of Chinese influence in global affairs.

Regarding the Northern EU, OBOR’s impact has been even more limited. There are hardly any diplomatic exchanges on the topic of OBOR and few references to OBOR in the public sphere. Although a Swedish high-speed railway and two private windfarm projects are labelled OBOR projects by the Chinese, there are no current OBOR projects in Sweden according to the Swedish Foreign Ministry. It is more likely that these states, already frequently present in Central and Southeast Asia, could contribute to OBOR through participation in activities in third regions and by providing green technology to infrastructure and energy projects.

Central and Eastern Europe: the “16+1” frame

The “16+1” mechanism is a platform created in April 2012 by the Chinese leadership that seeks a stronger connection between China and the 16 CEE (Central and Eastern European) countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Republic and Slovenia. Under this approach, China and the 16 CEEC are working closely to in-

⁶ China-Britain Business Council, “China-Britain Belt and Road Case Studies Report: Global Partnership in Action”, 2016.

crease trade volume; a US\$10 billion special credit line was established in 2012; an investment fund between China and the CEEC was set up with the goal of raising US\$500 million in the first stage; a three-year currency swap of €1.2 billion was made with Hungary, and another €240 million with Albania⁷. The main driver of China's new focus is the Eurozone crisis and the promising growth performance of CEE countries. Trade between China and the CEE countries reached \$56.2 billion in 2015, up 28% from 2010. Chinese investment in the 16 CEE countries exceeded \$5 billion, while the CEE nations have invested more than US\$1.2 billion in China. CEE countries increasingly import higher technology products from China, while exports to China remain largely low-tech.

From the CEE perspective, the OBOR initiative can be described more as an ad-hoc integration of the previous regional CEE 16+1 project into a broader framework, which is only distantly linked to the EU-China strategic partnership. In the same logic, many previously agreed upon joint projects were given the OBOR label later. Still, CEE countries showed that they are able to adopt an active policy of cooperation with China and the status of Central Europe within the region and in the EU has been raised. Countries that hosted 16+1 summits, such as Serbia and Romania, also saw increased interest from enlarged foreign investors. However, there are evident discrepancies between EU and non-EU members, especially in terms of investments and infrastructural projects. The Chinese credit line has been used mostly by non-EU countries due to regulatory frameworks, for example, in Bosnia and Herzegovina for the construction of a thermal power plant, in Macedonia for building highways, in Serbia for a Belgrade bypass, and in Belgrade for building a bridge over the Danube⁸. Overall, the level of Chinese investments has been modest until now and the manufacturing bases that China has announced it would set up in Central Europe are still to be located.

⁷ "China's Approach to the CEE-16", Short Term Policy Briefing 85, Europe China Research and Advice Network (ECRAN), January 2014.

⁸ "Prospects for China-CEE Relations in the 16+1 Format", Polish Institute of International Affairs, Bulletin no. 76 (926), 18 November 2016.

The 16+1 flagship project and the most visible OBOR project so far in the CEEC is reconstruction of the railway line between Budapest and Belgrade by a consortium of the China Railway Group, China Railway Corporation and the Hungarian State Railways. The project was first agreed upon in 2013 and according to the original plan should be completed by late 2017. However, by the end of 2016 there had been little progress. Many agreements are not yet implemented and there are concerns that the US\$1.9 billion credit line provided by the Export-Import Bank of China could increase Hungary's national debt. Moreover, given that the consortium is based on an inter-governmental agreement but not through tender procedures, the European Commission has initiated preliminary infringement proceedings against Hungary.

At the recent Riga summit it

was agreed that the consortium will announce a tender and sign agreements with contractors. In fact, besides obvious connection advantages, this project would also be an opportunity for Chinese construction companies to create a track record within the EU and to mitigate their overcapacity problem.

Another important project under OBOR and "16+1" is Adriatic-Baltic-Black Sea seaport cooperation, announced at the Suzhou Summit in 2015, which aims to integrate the development of ports, including those in the hinterland, as well as logistic hubs, economic zones and transport corridors in the related regions. Still in the planning stage, it is regarded as complementary to the land transport developed under the OBOR Initiative.

Poland, Hungary and Slovakia were among the first countries to sign a memorandum with China on the OBOR initiative. In Poland, one of the leading economies of the CEE 16, OBOR is perceived as an opportunity to expand exports to China and to attract Chinese investments for improving local infrastructure and for reindustrialization. But there has been no specific strategy or institution devoted to OBOR so far. Polish companies are not very active regarding

From the CEE perspective, the OBOR Initiative can be described more as an ad-hoc integration of the previous regional CEE 16+1 project into a broader framework

OBOR because they do not have enough knowledge about the Chinese market. To date, China has rather recast existing projects under the OBOR, in particular the Lodz-Chengdu line, launched in April 2013 and further extended to Xiamen in August 2015, and the Warsaw-Suzhou line, launched in September 2013. The Lodz-Chengdu-Xiamen railway is operated by a Chinese-Polish joint venture. A future plan is to link Lodz to Małaszewicze in Belarus and to include the Lodz terminal in the Lodz Special Economic Zone so that goods arriving from China could enjoy customs-free treatment.

Hungary has the chance to be one of the first CEE 16 to host a major OBOR-labelled project. But besides the Budapest-Belgrade railway, Hungary so far has attracted fairly little interest from Chinese companies in other domains such as infrastructure, industry and investment. Local companies are too small to join construction projects in third countries and their knowledge of OBOR is very limited. Meanwhile, Hungarian politicians have been actively promoting Hungary's position as the tourist and cultural centre in the CEEC region, which led to the opening of the first office of China National Tourism Administration in Budapest in March 2016 and an advertisement campaign of "Beautiful China, Silk Road". The Europe China OBOR Culture & Tourism Development Committee was also formed in Brussels in April 2016.

Similarly, Slovakia has offered China cooperation opportunities in a number of fields, including constructing a terminal at Bratislava airport and extending the express railway from Belgrade-Budapest up to Slovakia and beyond (which, however, failed to gain interest from Chinese partners). The only deal so far made in Slovakia was the purchase of a 10% stake in J&F Finance Group, operating in banking, property and energy and active in the markets of the Czech Republic, Slovakia, Croatia and Russia, by CEFC China Energy Company Limited in 2015.

The Czech Republic has attracted Chinese investments in financial services, healthcare, aviation, transportation, media, tourism and real estate, even though the share of Chinese FDI represents only 0.35% of its total FDI in 2015 and might not have an impact on national economic performance. Many of these deals were made

or led by the CEFC China Energy Company Limited, which is increasing its investments in the CEE region and has chosen Prague as the strategic centre of its expansion. It is expected that Chinese investments would bring both financial resources and political influence to Czech groups. However, these deals mostly do not match the country's need to increase exports, boost high-tech industries and create employment. So far, the only OBOR-related investment is the plan to connect the Danube, the Oder and the Elbe through a canal over Czech territory.

At the China-CEE summit in November 2016, with issuing of the Riga Declaration, China and CEE leaders agreed to further enhance cooperation and increase people-to-people exchanges within the OBOR and 16+1 frames. The Riga Guidelines are a clear attempt to find synergy between the 16+1 and EU-China relations. It stressed that infrastructure and logistics projects under the OBOR Initiative are in line with the EU-China Connectivity Platform, including the Investment Plan for Europe and projects within the Trans-European Transport Network (TEN-T) policy. Potentially, Chinese equipment, European technology and CEE markets combined will be a great model for cooperation between China and CEE countries. To this end, a €10 billion investment fund was set up during the summit (with the aim to raise €50 billion in total), which will be run by the financial holding of the Chinese bank ICBC (Industrial and Commercial Bank of China) (PISM, 2016). There are also plans to set up a 16+1 inter-bank association.

For China, even though OBOR has a grander application, the 16+1 remains a useful instrument for gaining knowledge about the region, obtaining investment opportunities, and leveraging political support on international issues. China has been recently promoting the 16+1 as "open". With more countries joining the 16+1, China may enjoy greater international status and attract more allies for its interests. For example, Hungary has declared support for granting China market economy status and earlier than other EU states supported China's position on the South China Sea issue. It is obvious that the 16 countries will certainly continue to use the format to strengthen bilateral relations with China and secure their own in-

terests. Meanwhile, China is becoming more proactive in seeking opportunities for OBOR. During a recent visit to Poland, the Chairwomen of the Foreign Affairs Committee of the Chinese Parliament urged Central European countries to loosen administrative barriers for OBOR projects in exchange for the status of the Silk Road logistical hub.

Southern Europe: strategic investment

Southern Europe is uniquely situated at the intersection of the Chinese geopolitical, commercial and investment strategies that have evolved into OBOR. Since the announcement of the OBOR Initiative, the Chinese government has maintained a more proactive attitude towards Mediterranean countries. As we have shown, the interest and actual engagement in OBOR not only differs a lot among EU members but also varies significantly inside each country regarding different municipalities and regions based on their own logistical and business connections with OBOR. Even among different sectors and businesses, those with stakes in Eurasian trade are much more actively involved in promoting OBOR-related activities. Regarding Southern Europe, the actual deployment of OBOR is more of a cherry-picking Chinese strategic investment in some important and undervalued ports and facilities in the region, rather than a clearly defined cooperation program among China and local governments and business. One particular condition in Southern Europe is the ongoing privatization of public transport and large facilities due to the economic slowdown and public debt crisis, and diminished financial resources.

Greece hosts one of the few large-scale OBOR-labelled projects in Europe: a potential US\$4.3 billion investment by the China Ocean Shipping Company (COSCO) in the port of Piraeus that aims to promote Chinese commodities in Southeast and Central Europe. The following table shows COSCO's the progressive action. Consequently, the annual throughput of COSCO's subsidiary Piraeus Container Terminal (PCT) nearly quadrupled from 0.88 million TEU (Twenty-foot Equivalent Unit) in 2010 to 3.36 million TEU in 2015,

making it the world’s fastest-growing container port. COSCO Shipping is now the majority shareholder, taking over the port’s management and operation and the sale gives COSCO rights to run Piraeus until 2052. The deal was signed by COSCO and the Hellenic Republic Asset Development Fund (HRADF), which is in charge of privatizing public utilities, given Greece’s current severe fiscal crisis. The investment will help boost Greek GDP and create new jobs.

The Piraeus OBOR project is a key driver of Sino-Greek relations and Greece is certainly an important gateway to sea routes between Asia and Europe. Nevertheless, there is no clear OBOR strategy from the Greek government or from China’s side regarding Greece. After winning the bid for Piraeus port, COSCO was expected to integrate Greece’s rail network in order to build a major transshipment hub and access to markets in the North. However, the bid was won by the Italian State Railway group, probably because COSCO was concerned about the political uncertainty in Greece aggravated by the migrant crisis. Another privatization scheme regarding the Thessaloniki Port Authority (THPA) in Northern Greece could enter China’s OBOR strategy and interest COSCO.

Both the Spanish government and big Spanish companies have shown interest in OBOR, particularly regarding three sectors: construction and the management of large infrastructures; cultural tourism; and food exports. So far, the most developed OBOR-related project in Spain has been the train connection between Yiwu and Madrid through Kazakhstan, Russia, Belarus, Poland, Germany and

TABLE 1 - COSCO INVESTMENTS IN THE PIRAEUS PORT AUTHORITY

2009	COSCO invested in the port’s infrastructure and brought in other leading operators (Hewlett Packard, Maersk and the Mediterranean Shipping Company).
April 2016	COSCO gained the majority 51% stake of the Piraeus Port Authority for €350 million.
August 2016	COSCO increased its current acquisition to a 67% stake of the Piraeus Port Authority for a total €368.5 million.
2016-2025	COSCO will invest €350 million over the next decade to improve the port’s facilities.

Southern Europe is uniquely situated at the intersection of the Chinese geopolitical, commercial and investment strategies that have evolved into OBOR

other low-cost goods are sent from China, while olive oil, juices and food products are shipped from Spain. The train from Madrid is generally not entirely filled. Russian economic sanctions on the EU also preclude selling EU agricultural products to China. The railway is not yet able to be self-sustainable. Other OBOR-labelled projects concern the Spanish Mediterranean ports. A few investments have been made by Chinese groups in the Barcelona Europe South Terminal. However, China has also invested US\$3.3 billion to build a deep-sea port in Cherchell, Algeria, which would compete with the Spanish ports. Regarding cultural tourism, Valencia has been given the label of “City of Silk”. Together with other historic Spanish cities, Valencia could attract more Asian, and particularly Chinese, cultural tourists in the near future.

The “Five Ports Alliance”, a major container terminal project by the Northern Adriatic Port Association (NAPA) that involves ports in Italy (Venice, Trieste and Ravenna), Slovenia (Capodistria) and Croatia (Fiume), appears to be a regional response to the OBOR Initiative. The project aims to create a docking system by building a giant offshore platform at the city-port of Malamocco near Venice in order to allow the huge Chinese cargo ships coming via the Suez Canal to unload goods and send them by railway connections through Germany and Switzerland to markets in Central and Northern Europe. It has attracted large interest from Italy and China and is financed by the Italian government and OBOR capital from the Chinese government and Chinese SOEs. Potentially, the “Five Port Alliance” will challenge the position of Piraeus and Istanbul in Southeastern Europe and Rotterdam, Antwerp and Hamburg in Northern Europe. Apart from this flagship project, OBOR has not aroused much media and public attention in Italy. The few Italian companies that are lobbying their government for

France, which is the world’s longest railway. Differently from the Chongqing-Duisburg railway, the Yiwu-Madrid railway carries low added-value goods: toys, stationary and

TABLE 2 - CHINESE INVESTMENTS IN SPANISH PORTS

	Chinese investor	Spanish ports	Investment amount
2012	Hutchison Port Holdings	Barcelona Europe South Terminal	€300 million
2014	Hutchison Port Holdings	Barcelona Europe South Terminal	€150 million
2016-2017	COSCO/China Merchants (potential investors)	The Port Authority of Valencia	€500 million

a more positive involvement in OBOR are those operating in the logistics and infrastructure sectors. Another move that attracted the attention of some Italian political and business leaders was the takeover of Italy's premium tyre maker Pirelli by China National Chemical and the Silk Road Fund in 2015. The ICBC also opened a few branches in Italy recently to provide loans to OBOR-related projects. However, as for many other EU states, an overall OBOR strategy is lacking, which keeps more companies from taking concrete actions.

Even though Portuguese authorities have not produced any statement indicating an official OBOR strategy, this has not prevented China from taking an interest in making Portugal part of the Maritime Silk Road. Under the pro-privatization stance of the Portuguese government, Chinese FDI in Portugal, mainly by large SOEs, has registered considerable growth in the last five years (see the following table). Moreover, these investments are mostly strategic investments, as Portugal can help China expand into markets in Africa and Latin America because of its colonial history. The Chinese government and companies perceive Portugal as important to enhancing connections between China, Western Europe and Africa. Recently, a Chinese delegation from Ningbo-Zhoushan, which ranks fifth in the world in terms of container handling, visited the Port of Sines in search for investment opportunities.

TABLE 3 - CHINESE INVESTMENTS IN PORTUGAL

	Chinese investor	Portuguese company	Shareholding
2011	China Three Gorges Corporations	Electricidade de Portugal (Portugal's public electrical power supply company)	21% stake
2012	State Grid Corporation of China	Rede Energética Nacional (Portugal's national electrical grid operator)	25% stake
2014	Fosun International	Caixa Seguros e Saude SGPS SA (Portugal's largest insurance group)	80% stake
2016	China Hainan Airlines	TAP Portugal (Portugal's national air carrier)	23% stake

Conclusion

The context of EU-China relations has dramatically changed over the past five years. China's interest in Europe has expanded geographically and substantially. While some common patterns exist, new trends in investment and trade relations with China are highly differentiated across Europe and across sectors. China is following its own distinct and flexible foreign policy approach when dealing with the EU. The lack of clearly defined OBOR-response plans in most European countries is weakening the bargaining power of their cities and companies. Chinese players are constantly examining new developments in European markets and are attentive to seizing opportunities whenever they emerge. The EU is important for China as an economic partner but the individual member states are also key players in China's broader global strategic initiatives, in particular the ongoing OBOR project, and probably each of them has a different role to play given their wide divergence. We are now witnessing the reconfiguration of multilateral and international institutions, as well as the emergence of a multi-polar global order that precisely expresses itself and draws from concrete projects like OBOR.

According to The Ministry of Commerce (MOFCOM) of the Government of China, during 2016 Chinese firms invested US\$14.5

billion in non-financial projects in countries along the OBOR, with the majority of investment directed to Singapore, Indonesia, India, Thailand and Malaysia. At the same time, Chinese firms won US\$126 billion project contracts in 61 countries, marking a significant 36% periodic growth⁹. However, three years after the launch of the OBOR initiative, the economic impact of concrete OBOR projects in Europe remains relatively limited. Meanwhile, in some sectors, in particular railway transport, maritime ports, public facilities and financial investments, we observe the active expansion of Chinese shareholders. Their actions generally follow the connectivity logic of the OBOR while privileging undervalued strategic investment opportunities. As a result, a two-axis connectivity map of OBOR in Europe starts to emerge, with an East-West railway network between different Chinese cities and several terminals in western and Southern Europe, and a South-North logistics network linking the Piraeus Port of Greece, ports in Italy and the Baltic region through Central Europe.

Differentiated attitudes are manifested by individual member countries of the EU. While Western and Northern European countries often adopt pragmatic and wait-and-see attitudes, CEE 16 countries and Mediterranean governments are more engaged with OBOR and offer substantial opportunities to attract Chinese investment. Departing from its previous focus on the large EU member states, China and Chinese investors are now paying more attention to countries in Central and Southeastern Europe. At the same time, China's increasing economic impact on these regions also results in Beijing's stronger capacity to influence the political positions of these states, which will challenge the EU's rule-setting power and complicate diplomatic relations among member states.

OBOR increases China's presence in Europe's neighbouring countries and in critical areas of European interest, such as the Middle East and North Africa. Therefore, the OBOR Initiative should also be a platform for EU-China cooperation in third markets, including Central Asia, the Middle East, Southeast Asia and Africa.

⁹ <http://hzs.mofcom.gov.cn/article/date/201701/20170102504429.shtml>

China could also leverage European countries' knowledge and experience regarding these regions. Even though third-country cooperation is still in the early stages, some joint actions are already underway: Germany and China plan to launch joint projects to support Afghanistan with regard to infrastructure, energy, transport, environmental protection, agriculture and health; a joint declaration for "trilateral" cooperation between France, China and Africa was signed in June 2015 in addition to a vehicle for developing "roads of green growth"; the Silk Road Fund has financed the development of the Yamal liquefied natural gas terminal in Russia, in which Total has a 20% stake. As China's interests abroad expand along with the deployment of OBOR, the need to

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provide security to both railways and seaways and to protect the interests of Chinese companies inevitably grows. China has built its own blue-water navy and has made investments in ports throughout the Indian Ocean (Colombo in Sri Lanka and Gwadar in Pakistan), around the Horn of Africa (Djibouti) and in the Mediterranean (Cherchell in Algeria)¹⁰. A Chinese military logistics facility was opened in Djibouti in 2016, alongside the existing French, American and Japanese facilities. These movements are within the rationale of OBOR and are coherent with China's ambition to participate more actively in global affairs, but could be felt as a potential threat by states in nearby zones and by foreign troops already present.

At the broader diplomatic and strategic level, OBOR has come to symbolize China's growing significance in international affairs, reshaping regional dynamics and renewing global order. It best manifests China's increasing willingness to take a proactive

¹⁰ ETNC (2016).

part in regional and global issues, including trade, infrastructure development, project financing, governance reform and international security. The AIIB is already an alternative to the traditional Western-institution-led development financing. The EU, as a perfect representative of Western institutions, has met with some difficulty in engaging with the very Chinese-style OBOR Initiative. The EU's core values, which emphasize civil laws and human security, are still very different from the Chinese government's emphasis on regime stability and state-centric security. The EU's insistence on regulations and procedures sometimes conflicts with the flexible pragmatism of Chinese capitalism. But their responsibilities as regional powers, their shared interest in promoting a rule-based and inclusive global order, forms a solid foundation for EU-China dialogue and cooperation on OBOR-related issues. With the US getting more concentrated on its own territory, a more proactive and engaged EU-China relation revitalized by the OBOR initiative will be an indispensable catalyst for deeper Eurasian trans-continental economic integration and greater regional security.

6. Towards a New Geography of Trade?

Alessia Amighini

Geostrategic motivations behind the BRI

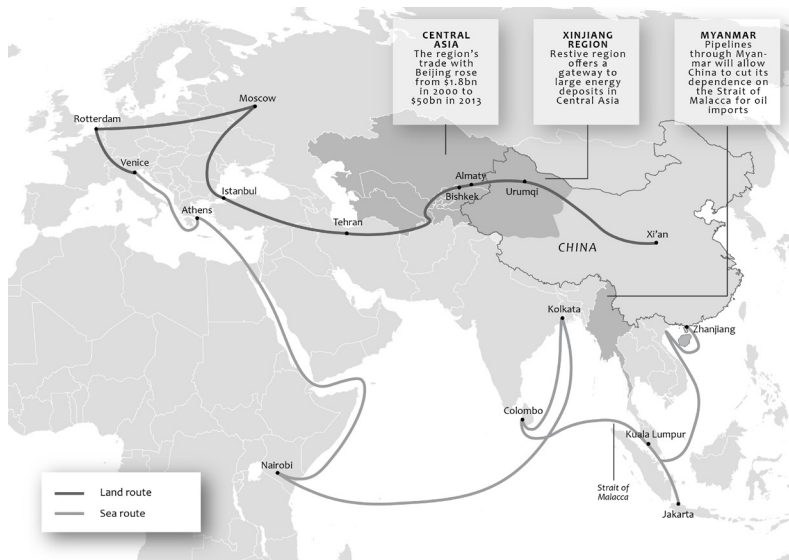
After Xi Jinping's announcements of the Silk Road Economic Belt and the Maritime Silk Road, which together go under the English name of "One Belt, One Road" (OBOR), also called the "Belt and Road Initiative" (BRI), there has been much speculation about the rationale behind that initiative¹. The BRI aims at improving connectivity between Asia, Europe, and parts of Africa in five main areas: policy coordination, infrastructure construction, trade facilitation, financial integration and people-to-people exchanges. As thoroughly described in the previous chapters, important geo-political and strategic rationales are at work behind the BRI. In launching the BRI, China is determined to strengthen its relationships with neighbouring countries in Central and Southeast Asia, while at the same time securing the support of regional powers, i.e. Russia, India, Japan, and South Korea, to the exclusion of the United States. However, most of the numerous goals pursued by the initiative, according to official Chinese statements, refer to improving economic relations between Asia, Europe and Africa while at the same time forging a new growth driver for the domestic economy. In fact, the BRI aims at giving

¹ This chapter is an updated and revisited version of A. Amighini, *Belt and Road: A Game Changer in International Trade?*, in Nomos & Khaos, 2017.

a comprehensive framework to many of the policy goals that the Chinese authorities have been pursuing over the last few years with the aim to address the various challenges the country faces both domestically and internationally. First of all, the BRI aims at searching for new export markets for Chinese production, most notably in Central Asian economies whose trade with China rose from US\$1.8 billion in 2000 to US\$50 billion in 2013 and are increasingly important sources of imports from China. Moreover, the BRI allows exporting not only goods, but also excess productive capacity in transport and infrastructure sectors, by building new railways and facilities abroad. A further goal of the whole initiative is to improve digital connectivity in Eurasia, so that China shall be connected to Central Asia and ideally Europe through digital besides traditional trade. Giving the renminbi an international stature is also a goal of the BRI, to expand trading and bond issuance abroad. An important strategic goal is securing China's energy supplies, currently imported mainly by sea through the South China Sea, notably an area with geopolitical tensions. On the domestic side, contributing to internal economic rebalancing is also an objective of the BRI, whose overland routes start from inner provinces where economic and industrial development should have historically lagged behind compared to the rapid growth in coastal provinces. Last but not least, the BRI aims at reducing transport costs, which are particularly high for China's trade compared to the world's average. All of those goals now look strongly intertwined in the BRI, which has since become the core of China's economic diplomacy (Figure 1).

Looking for new export markets. Infrastructure development in countries along the Belt and Road routes will increase growth in their economies and thus contribute to a growing demand for China's goods and services. Many of the Asian countries along the New Silk Roads are likely to become the next generation of emerging economies, with a strong potential for demand growth. According to the *Industrialization of the Belt and Road Countries Report* published by the Chinese Academy of Social Sciences, the BRI will extend across up to 65 countries, accounting for more than near-

FIGURE 1 - THE BELT AND ROAD INITIATIVE COMPARED TO THE OLD SILK ROAD MAIN ROUTES



Source: elaborated from Financial Times (2015)

ly two-thirds of the world’s population, one-third of global GDP, 75% of known global energy reserves and around one quarter of world merchandise trade. They already share good economic and trade relations with China, mainly in the form of exports of raw materials and natural resources in exchange for the import of manufactured goods. Therefore, reducing trade barriers and opening up to new trade routes will likely increase bilateral trade with China. This explains why China’s president Xi Jinping, in March 2015, stated that annual trade with the countries along the

the BRI aims at giving a comprehensive framework to many of the policy goals that the Chinese authorities have been pursuing over the last few years with the aim to address the various challenges the country faces both domestically and internationally

Belt and Road Initiative would double over the next 10 years, and surpass US\$2.5 trillion by 2025.

Vent for surplus to export overcapacity. The Chinese economy has grown increasingly dependent on domestic infrastructure investment, especially since 2009, when the global recession led to a reduction in foreign demand for Chinese exports, and Chinese authorities intervened by increasing investment in the transport, infrastructure and real estate sectors, to compensate for the drop in manufacturing output. In 2014, that policy eventually became unsustainable due to the saturation of domestic demand, and those sectors found themselves in dramatic overcapacity. In order to alleviate the problems created by excess capacity in the construction and associated sectors, Chinese construction companies are encouraged to look elsewhere for opportunities. This is a key motivation for the Belt and Road Initiative, and in fact Beijing expects that its own companies will plan, build, and supply the projects it funds. While OECD countries have committed to untying their development aid, Chinese financing institutions are still practising the so-called ‘tied lending’. For example, according to King and Wood Mallesons²: “For China-sponsored infrastructure projects in developing regions such as Africa, the China Development Bank (CDB), C-EXIM and Sinosure often structure the financing package, obtain export credit insurance and bring in Chinese companies to build the infrastructure. Many of their concessional loans are conditional upon Chinese enterprises being awarded construction or export contracts. For example, the CDB previously lent Nigeria US\$200 million on condition that it was used to purchase products from Chinese telecoms giant Huawei. Loan conditions often require that 50% of loan proceeds be applied towards acquiring Chinese goods and services, although in Angola’s case the figure has reportedly exceeded 70%”.

Improving digital connectivity. Part of the BRI is improving connectivity among the countries involved by means of soft in-

²L. Handel, L. Zhigang and T. Coles, *Out of China: The activities of China's export credit agencies and development banks in Africa*, King & Wood Mallesons, <http://www.kwm.com/en/es/knowledge/insights/out-of-china-the-activities-of-chinas-export-credit-agencies-and-development-banks-in-africa-20140723>

infrastructure to create the so-called “digital Silk Road”, i.e. an Internet community that would facilitate cross-border e-commerce and Internet banking. This is in fact one of the less discussed aspects of the New Silk Roads, perhaps because hard infrastructure investment has so far dominated projects and communication. According to Ren Xianliang, vice minister of the Cyberspace Administration of China, the digital Silk Road should be undertaken in addition to implementing the country’s Internet Plus plan, whereby everything will be connected to a superfast broadband network³. One of the main obstacles to a digital Silk Road is the still high level of China’s services trade barriers, including licensing requirements, complex regulations and product quotas⁴. As regards digital infrastructure, different standards, platforms and service providers are competing with one another to set the dominant rules in the future.

International stature for the renminbi. China has set the goal of making the renminbi a global reserve currency. In 2015, it joined the European Bank for Reconstruction and Development and founded the Asian Infrastructure Investment Bank and the New Development Bank. Moreover, the International Monetary Fund added the renminbi to the basket of Special Drawing Rights currencies. The Chinese currency is increasingly used in loans and the infrastructure focus of BRI will further help increase the number of loans granted in renminbi. Moreover, some Middle Eastern countries along the New Silk Road have recently become offshore trading centres for the renminbi, such as Qatar, with clearing centres that also allow Panda bonds issuance. Significant growth in trade between China and the Arabian Gulf is helping to pave the way for *Dubai* to become another *offshore* trading centre for the Chinese currency. In this effort, China has the backing of Russia and other

³ Liu Jia and Gao Shuan, “China, EU to promote digital Silk Road”, *China Daily*, http://www.chinadaily.com.cn/world/2015-07/07/content_21202745.htm

⁴ C. Bergsten, G.C. Hufbauer and S. Miner, *Bridging the Pacific: Towards Free Trade and Investment Between China and the United States*, Washington, Peterson Institute for International Economics, 2014, and https://www.oecd.org/trade/services-trade/STRI_CHN.pdf

emerging economies that share the goal of diminishing US dollar dominance, but whose currencies are too volatile to serve the same function.

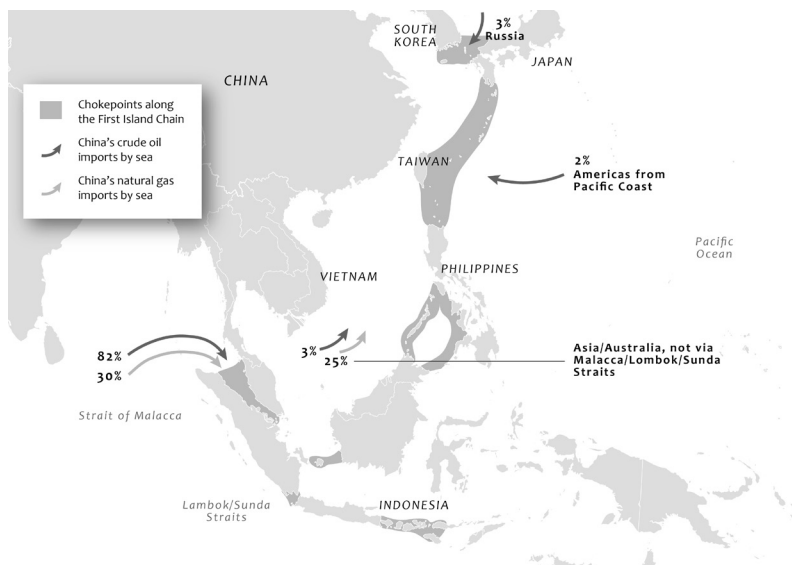
Securing energy supply. China's geo-political strategy also has an important energy dimension. While the economic corridor serving China's commercial expansion in foreign markets runs westward, an energy corridor unfolds east to west, from the Central Asian oil- and gas-producing republics to China. Turkmenistan, in particular, is currently the leading natural gas supplier, covering in 2014 almost 50% of Chinese imports through the China-Central Asia gas pipeline opened in 2009. Energy demand has increased more than 500% since 1980, and China has become the world's largest energy consumer and the second-largest oil consumer behind the US. According to the International Energy Agency, China will need additional 6.6 million barrels per day (mbpd) of oil by 2040, i.e. accounting for more than 20% of new demand (from 90 mbpd in 2012 to 121 mbpd). Not only is China dependent on energy imports, but 90% of these imports travel through the near seas – the Yellow Sea, the East China Sea and the South China Sea (Figure 2). These are enclosed by the so-called "First Island Chain", a series of islands that stretches from Japan to the Philippines to Indonesia, some of which are controlled by US allies. A strategic rationale of the BRI is to secure China's energy supply through new pipelines in Central Asia and Russia as well as via Southeast Asia's deep-water ports, thus reducing China's dependence on US-secured choke-points. Moreover, importing oil and commodities from the Middle East through the Gwadar Port in Pakistan, instead of through the South China Sea, reduces the distance travelled by 90%, which could yield very valuable economic benefits.

Support China's economic rebalancing. Domestically, the BRI will serve a major goal, i.e. giving greater impetus to the long-standing go west policies aimed at rebalancing economic development between the industrialised coastal provinces and the inner provinces. Most of the growth potential for domestic demand is in the relatively underdeveloped inland provinces, where the central government aims to foster industrialisation by shifting manufactur-

ing away from the coast. The BRI would link inland cities to global markets through a modern network of overland routes and energy pipelines, serving as alternatives to existing sea-lanes that cross the South China Sea and the Straits of Malacca. Geographic rebalancing will help resolve related macroeconomic imbalances between consumption and saving, because most of the consumption growth potential lies in the inner provinces.

Reducing trade costs. As the world’s biggest trading nation, China’s main interest is to reduce the transport costs of shipping its goods abroad, an important part of which is accounted for by time-to-destination. Therefore, not less importantly than other motivations presented above, the BRI aims at reducing transportation time and costs, considering that the EU is China’s main trade partner. More specifically, the EU was China’s main import partner

FIGURE 2 - CHINA’S IMPORT TRANSIT ROUTES AND MARITIME CHOKEPOINTS



Source: elaborated from Stratfor

in 2015, accounting for 12.5% of total Chinese imports, and the second largest export partner after the United States, as the destination for 15.6% of Chinese exports. The vast majority of these exports (92.3% of the total value) currently travel by sea, leaving very little to air, rail and road transport (Figure 2). Similarly, China is the EU's main import partner, providing 17.6% of total EU imports, and the second largest export partner after the United States, accounting for 9.3% of total EU exports. Almost all EU exports to China (96.4% of total value) travel by sea. Currently, the average shipping time from China to European partners is 730 hours, 20% more than China's average shipping time (about 610 hours, much longer than the world average of 406 hours). Switching to railway transport has great potential for saving transport time: according to data provided by GEFCO, infrastructure construction would reduce railroad travel time from China to Europe to 16-21 days (depending on departure and arrival location), compared to 37-45 days for sea freight, port-to-port (Figure 3)⁵.

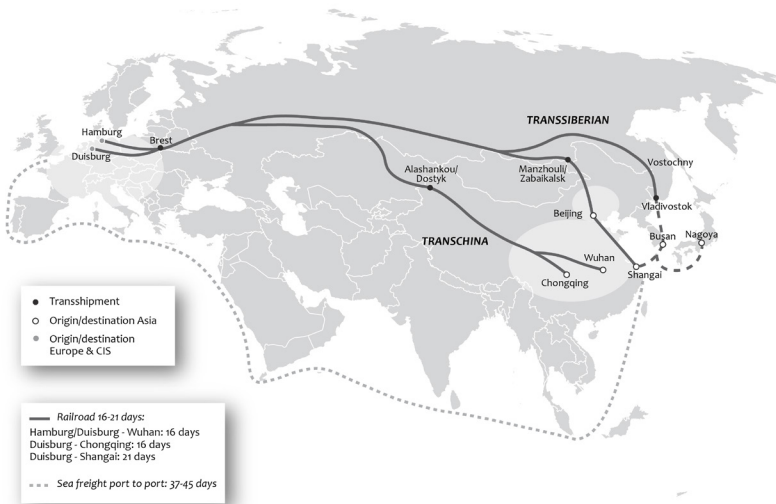
As China currently faces higher-than-average shipping times and trimming them is an important goal of the projects funded within the BRI, documentation for projects aiming to be approved under the umbrella of the BRI must include statistics on the reduction in travel time and cost expected from project completion. Because such upgrading will affect all cargo plying these transport routes, the BRI is also of interest to countries beyond the designated Silk Road routes.

Impact of the BRI on international trade and economic relations

As one of the main goals of the BRI is to build new transport infrastructures, such as railways, highways, seaports, airports, etc., to connect China with Europe, the transport costs between China and

⁵ The Yuxinou Railway, in particular, runs from Chongqing to Duisburg in Germany in only 288 hours. 'East Wind' travelled from Yiwu, south of Shanghai, on January 1st 2017 with 68 containers and reached London 16 days later.

FIGURE 3 - RAILROAD VS SEA FREIGHT MERCHANDISE TRAVEL TIME FROM CHINA TO EUROPE



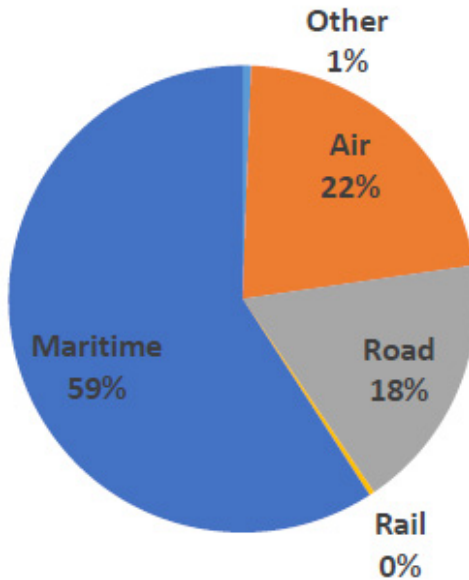
Source: elaborated from GEFCO

Europe will be significantly reduced. Insofar as missing transport infrastructure acts as a major barrier to trade flows, especially for those countries where infrastructure facilities are more underdeveloped, the BRI's most evident and direct impact will be on the *size* of trade among the countries covered by the initiative. The implementation of the BRI should increase the flow of goods between China and Europe through the reduction of transport costs. This will apply to all bilateral trade in principle, that is, to both Chinese exports to Europe and European exports to China. Assuming the structure of trade follows the historical pattern, both imports and exports will increase. The consequences in terms of net effects on the size of the trade balance between Europe and China, currently showing a trade deficit for Europe, is uncertain. On the one hand, the increase in China's exports of goods to Europe might have a negative impact

on Europe's net exports. However, this depends on whether there is still unexploited potential for Chinese goods on European markets. Considering that Chinese goods mostly compete on price and not on quality, the net effect could be an increase in demand for Chinese goods in Europe. On the other hand, recent research shows that Chinese demand is more and more oriented towards foreign goods than domestic goods, and this will likely increase Chinese imports from Europe. Therefore, it is very important that European countries pursue reciprocity in market access with China together with the development of the BRI, so that bilateral trade relations do not grow biased to the detriment of European trade balance.

A further impact of the BRI will be on the routes of international trade. Currently, 60% of China's trade (in value, and a much

FIGURE 4 - SHARE OF CHINESE TRADE BY TRANSPORT MODE



Source: Garcia-Herrero and Xu (2016) from China Customs data

higher share in volume) travels by sea, due to the lower transport costs associated with international shipments compared to railway transport and to the lack of infrastructure for land transport across Central Asia (Figure 4). To the extent that infrastructure improvement will change the relative cost of seaborne trade compared to shipment by railroad (i.e. it will make it cheaper to ply overland routes than use the current sea-lanes through the Malacca Straits), an additional impact of the BRI will be on the *routes* and *transport modes* of China's foreign trade.

The countries relying mainly on the export of raw commodities to China (which in turn is their most important trade partner) will not be satisfied with just increasing such business ties, especially given the recent drop in commodity prices. China has tried to allay these concerns by linking construction of Silk Road projects to investments in industries that potentially could export more to China, thus diversifying the host economies.

The dynamics of this relationship, however, are far from a win-win situation. Many countries along the Silk Road (most notably in Central Asia) run a trade deficit with China, and should be concerned that denser and better transportation links with China will result in an even more unbalanced trade balance. Trade between China and the five Central Asian states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – has already grown dramatically since 2000. In particular, imports from China have grown much more rapidly than exports (mainly natural resources) from these countries, so that now the region has a growing trade deficit with China. Through the BRI, China now wants to build the roads and pipelines needed to ensure smooth access to the resources it imports from the region.

Although there is still no precise information about the cross-border infrastructure projects to be financed under the initiative, from the announcements made so far it is quite evident that most of them aim to increase the prospects for land connectivity between China and Europe. Transportation costs for bilateral China-Europe trade are significantly higher than the world's average. This explains why in some high-tech sectors such as electronics international freight

forwarding agencies are already switching to railroad, e.g. HP is planning to rely solely on railway transport by 2017 for shipping its made-in-China PCs to Europe. This runs counter to recent trends and near-future expectations, and has prompted shipping agencies and major port authorities to redesign sea-lanes to reduce shipping times and improve the interconnectedness between the ports and the inland railway network.

On the other hand, China's average cost of shipping by sea to European countries is only US\$922 for a 40-foot container, about half as much as China's average shipping cost, while railway transport is three times as expensive as maritime transport⁶. Therefore, switching to railway transportation entails a trade-off between time and cost. Given that it can lead to a large decrease in transit times and the fact that technology now allows for a reduction in railroad costs, the BRI has the potential to become a game changer in international trade by moving large volumes of commerce from sea to land lanes.

Formulating scenarios is not easy, however. While economics acknowledges the importance of efficient and peaceful trade relations in global growth, the understanding of geographic patterns of international trade remains sketchy. The literature has extensively analysed the determinants of individual countries' access to international markets and bilateral trade flows, and has found support for the hypothesis that trade and infrastructure costs are important, but not the choice of transport modes, let alone the efficiency of the global network of trade routes. Furthermore, it is widely acknowledged that in choosing among alternative modes, firms consider predictability in transport costs a valuable feature. Therefore, a further element that can affect the trade-off between cost and time in different transport modes is the high volatility of sea freight rates compared to rail tariffs. This is because sea freight rates depend on the overall trade volumes much more than rail tariffs, which is why sea freight rate volatility has increased dramatically since the

⁶ DB Schenker, *Rail based transports between China and Europe*, International Chamber of Commerce, 2012, available at <http://www.iccwbo.org/Data/Documents/Transport-and-logistics/6-Rail-based-transports-between-China-and-Europe/>

beginning of the world trade slowdown associated with the recent economic crisis since 2009.

Investment in infrastructure under the Belt and Road Initiative will increase maritime connectivity and lead to major trade-creating effects. Moreover, international cooperation and partnerships with the financing institutions related to the BRI will make it possible for countries to afford the financial outlays required by infrastructure investment, something that they are unable to do individually. International cooperation is also required to create incentives for shipping companies to serve destinations that are currently not profitable⁷. Besides building infrastructure to improve land routes, the BRI also aims at intensifying trade along existing sea-lanes as well as improving access to the sea for land-locked countries.

Maritime connectivity is particularly important because maritime transport is at the core of international trade in merchandise⁸. According to UNCTAD, around 80% of the volume of goods traded in the world travels by sea⁹.

Maritime transport has become the dominant mode of transport in international trade following what has been called “the effects of the container revolution on world trade”¹⁰, i.e. an exponential intensification of containerised transport services. Containerisation allows exporters and importers from far away countries to trade with each other, even when individual trade transactions are not large enough to justify bearing the cost of individual shipments. Today, global container shipping services allow all countries to be connected to each other, either directly or indirectly, through transshipment services, facilities and hubs. Containerisation has been the single most important revolution in world trade over the last 20 years, with cumulative effects on trade creation that are much larger

⁷ M. Fugazza, *Maritime connectivity and trade*, Policy issues in international trade and commodities, Research Study Series no. 70, United Nations, New York and Geneva, 2015.

⁸ M. Fugazza (2015).

⁹ UNCTAD, Transport Newsletter #38, March 2008

¹⁰ D.M. Bernhofen, Z. El-Sahli and R. Kneller, *Estimating the effects of the container revolution on world trade*, CESifo Working Papers no. 4136. CESifo, Center for Economic Studies and Ifo Institute, 2013.

than GATT membership; with regard to North-North trade, containerisation increased trade by 790%, more than twice the effect of GATT membership (285%)¹¹.

With the exception of China, developing countries are still far below their potential in terms of connectivity, particularly maritime connectivity, with only half of the average number of direct maritime connections (i.e. without transshipments) of developed countries. This situation persists, despite their growing share in seaborne trade, which rose from 18% to 56% of the world total between 1970 and 2010, according to UNCTAD¹². Recent literature has emphasised the importance of maritime transport connectivity and logistics performance (most notably, ports efficiency) as very important determinants of bilateral trade costs¹³. Together they are a more important source of variation in trade costs than geographical distance, particularly for trade relations involving developing countries. Fugazza has recently found that the existence of a direct maritime connection (and not simply of maritime connectivity *per se*) plays an important role in determining trade costs¹⁴. The absence of a direct connection is associated with a drop in exports value of 55% and any additional transshipment is associated with a drop in exports value of 25%.

Trade creation along the Belt and Road will occur through two major channels: on the one hand, through the expansion of trade ties between pairs of countries that are already important trade partners, facilitated by the decrease of transport costs and trade barriers; on the other hand, through new trade routes that will unlock potential trade ties among hitherto mutually isolated trading partners.

¹¹ *Ibid.*

¹² UNCTAD, *Review of Maritime Transport*, Geneva, United Nations, 2013.

¹³ J.F. Arvis, Y. Duval and C. Utoktham, *Trade costs in the developing world: 1995-2010*, Policy Research Working Paper Series no. 6309, The World Bank, 2013.

¹⁴ M. Fugazza (2015).

Densifying the main routes of China's trade

The main trade creation effect of the BRI will work through the reduction in transportation costs (especially railway and maritime), which should boost trade both between China and Europe and among Belt and Road transit countries, especially the landlocked ones. As there is no comprehensive information available on the improvements to infrastructure or the construction of new infrastructure, it is difficult to estimate how much transportation costs will be reduced. One recent study by Garcia-Herrero and Xu used information on the few finalised projects¹⁵, such as the Yuxinou Railway (from Chongqing to Duisberg), which allows a 50% reduction in transportation time¹⁶. In the case of maritime transport, the cost savings stem from increased port efficiency, of which only a few examples already exist, such as the Qingdao port, where transportation costs are expected to decrease by about 5%. Accordingly, the authors apply a 50% reduction in railway transport costs and 5% reduction in sea transportation costs over the whole area covered by the project and estimate that a 10% reduction in transportation costs throughout the BRI countries will foster an increase in trade by 1.3%. While the exercise is interesting, these estimates are severely bi-ased in at least two important aspects. First, it is very arbitrary to generalise that there will be a similar reduction in transport costs for all bilateral trade relations throughout the countries involved, even more so when such a wide gap exists between the improvements across land and sea-lanes. Sec-

Trade creation along the Belt and Road will occur through two major channels: through the expansion of trade ties between pairs of countries that are already important trade partners, through new trade routes that will unlock potential trade ties among hitherto mutually isolated trading partners

¹⁵ A. Garcia-Herrero and J. Xu, *China's belt ND Road initiative: can Europe expect trade gains?*, Bruegel Working Paper No. 5, 2016.

¹⁶ According to a declaration by Chongqing's mayor in 2015 which is in line with the reduction in transportation time from 17-18 days to 12-13 days reported by the Yuxinou official website and official Chinese media outlets.

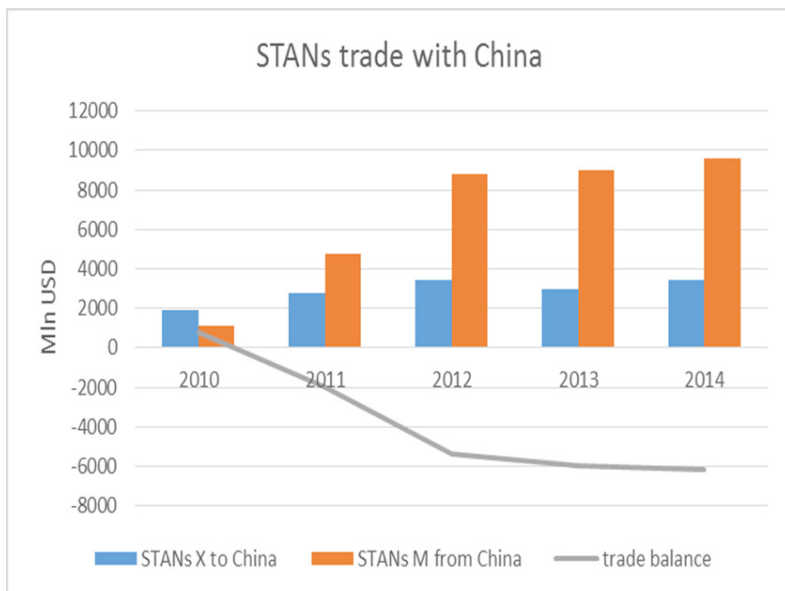
ond, building new road and railway infrastructure could divert some trade from sea-lanes to land routes.

Whatever the precise figure might be, Italy holds a strategic position in the overall BRI as a terminal point in southern Europe. Several major port authorities in China have been actively looking for partnerships with Italian counterparts. For example, the Shanghai-Basel shipping time would be reduced by an estimated time of seven days (out of an average shipping time of 40 days), by travelling through either the Adriatic or the Tyrrhenian sea to the north of Italy, instead of travelling to Rotterdam through Gibraltar, and this could significantly alter the relative convenience between rail and sea trade. In this regard, an improvement in Italian port efficiency and interconnectedness between the ports and the inland railway network would significantly increase the chances that seaborne trade maintains some attractiveness compared to railway transport in the trade-off between time and cost.

Expanding trade ties across Eurasia

A further trade-creation effect is likely to take place through new trade routes that will unlock potential trade ties with new trading partners. The most unexploited potential trade seems to be between Central Asian countries and their largest neighbouring economies, i.e. China and Europe. Central Asia is a fast-growing emerging region, with promising demographic (with a projected 4.45% of world population by 2030) and economic prospects (4% average GDP growth projected through 2017) (World Bank Global Economic Prospects). Poor connectivity and expensive logistics rank high in the list of factors that act as obstacles to growth, because all of the countries (except Pakistan) are land-locked. Pakistan has in fact the highest potential, and its economy is projected to become 16% larger than Italy's by 2050 according to PWC. At the other extreme, Uzbekistan is one of the only two countries in the world that are "double landlocked", i.e. surrounded entirely by one or more landlocked countries and requiring the crossing of at least two national borders to reach a coastline.

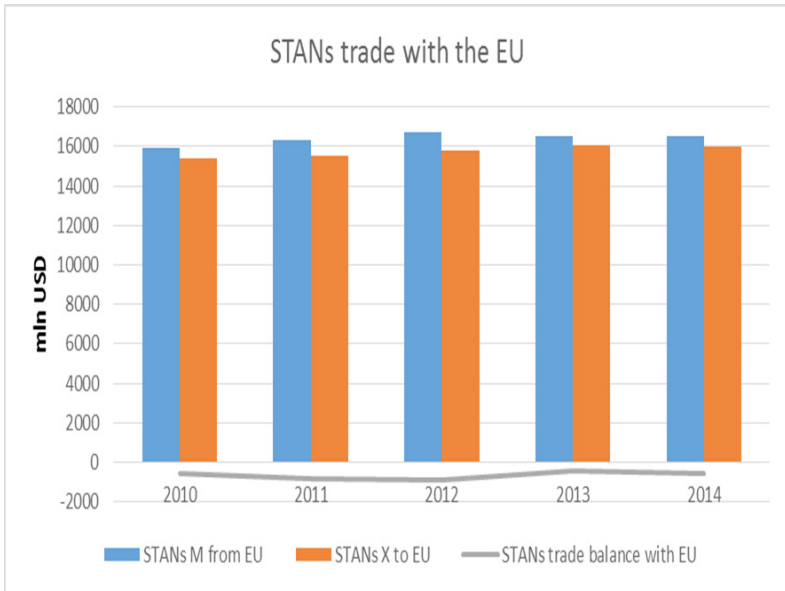
FIGURE 5



Source: author's elaboration on UNComtrade data

As already indicated, improving infrastructure across Central Asia would increase connectivity and will allow the region to exploit further trade potential with both China and the EU, its main trading partners. Currently, the EU shows much higher import and export values than China's trade with the region (Figures 5 and 6), but the STANs' imports from China have been growing very rapidly since 2010, so the region's trade balance with China has progressively deteriorated. Better infrastructure will intensify trade with China, with the STANs selling fairly similar goods and therefore expected to face even stronger competition with one another in the region in the future. This is partly a source of concern for the STANs as a group, as it could lead to an excessive dependence on China for consumption and capital goods.

FIGURE 6



Source: author's elaboration on UNComtrade data

Some Central Asian countries – most notably Kazakhstan – are part of other regional initiatives, such as the Eurasian Economic Union, an economic union of five states in northern Eurasia (Belarus, Kazakhstan, Russia, Armenia and Kyrgyzstan), which might become a competitor in the global economic space. However, the trade complementarity of these countries vis-à-vis one another is rather low (according to UNCTAD) (i.e. their export profiles do not match the import profiles of any others within the group), which means that a preferential trade agreement would not lead to any significant trade expansion or creation, and at the same time would not divert any of the trade of these Central Asian countries with other major trade partners.

Conclusion

OBOR is a major programme launched by the Chinese government in 2013 with many goals: to overcome domestic overcapacity in many industrial sectors through expansion on foreign markets, to support China's economic development and growth in its transition from an investment-led model to a consumption-based economy, and to improve the security of trade routes, especially for energy products. It is particularly focused on infrastructure development, currently the major bottleneck to further economic integration across Eurasia, most notably between China and Central Asia, and between Central Asia and Europe. As such, it symbolises a historical juncture of stronger convergence of interests between China and Central Asia and greater competition between China and Europe in the region. At the same time, the strategic importance of energy supplies and political stability in the region are creating the political conditions for China and Russia to cooperate and coordinate in Eurasia (as is already seen through the Shanghai Cooperation Organisation).

Policy Recommendations for the EU

Alessia Amighini

Since its announcement in 2013, the BRI has become the core of China's economic diplomacy and has since then exerted a deep influence on most of the rest of the world's diplomatic activities as well. Although the Chinese government officially prefers to call it an Initiative, inspired by a spirit of broad inclusiveness of many other countries all over the world, it should also in fact be regarded as the country's new opening-up strategy, developed in response to changing domestic and international circumstances.

The Initiative aims at integrating China into the global economy along much deeper avenues – far beyond trade and investment flows - than ever before. Along with the flourishing of bilateral agreements signed by the Chinese government with individual partner countries since the 1990s (now up to 202 international investment agreements and 14 free trade agreements), aimed at reducing institutional barriers to trade and investment flows, the BRI intends to build a great Eurasian continent along lines that are very different from any other traditional paradigm of regional integration. While the world has so far experienced rule-based regional integration arrangements, the Chinese way to regional integration tends to be less rule-based and more coalition-based along country-specific interests. As such, the BRI will have profound implications on international economic and political relations for the rest of the world and more specifically for the EU, as the latter is the ultimate destination of the vast network of land routes and sea-lanes starting from various Chinese provinces.

The BRI will likely contribute to economic development and regional stability in Eurasia from which both China and the EU could benefit in terms of new markets and energy security. Therefore, Europe should consider the Initiative as a much broader vision than the simple improvement of physical and digital connectivity. To this aim, the following policy recommendations could be drawn for the EU:

- **The broad scope of the BRI deserves a much higher political-level dialogue between the EU and China, which is now absent in Europe.** The EU-China Connectivity Platform is the main institutional arrangement where dialogues currently occur between the EU and China about how to coordinate large and long-term infrastructure projects, so that the Trans-European Transport Network (TEN-T) develops in a way consistent with the aims of the BRI to reach Europe from Asia. Since the early 1990s, TEN-T has been the infrastructure policy at the Community level meant to support the functioning of the internal market through continuous and efficient networks in the fields of transport, energy and telecommunications. While China is very active in organizing summits and fora among the countries along the Belt and Road, the risk for Europe is to lose part of the decision-making power about its own internal goals and about its relations with neighbouring countries. Moreover, paving the way to improved connectivity between the EU and China without progress on institutional barriers to trade that still exist between the two parties could exacerbate the currently large differences in bilateral market access.
- **The EU has an historical responsibility to open a high-level dialogue on current competing initiatives for regional integration in Easter Europe and Central Asia.** In fact, the BRI is a regional integration effort alternative to the Eurasian Economic Union (EEU) and an important absence in the BRI is the lack of relationships between the EEU and the EU. The BRI could open new opportunities for the EU to pursue its geostrategic ambitions in Central Asia by deepening the EU-China stra-

tegic partnership through cooperation in security fields, possibly paving the way to EU-Russia reconciliation. At the same time China, Russia, Ukraine and the EU have some common economic and security interests in Eurasia that they could follow together in spite of different approaches. Under these conditions, it is better for European countries to try to find a common language with former Soviet republics and China than to passively observe how the existing order is being replaced by something unfamiliar to European values and interests.

- **Similarly, the EU should address the issue of the 16+1 mechanism as a source of possible inconsistencies for the European integration process.** The “16+1” mechanism is a platform created in April 2012 by the Chinese leadership that seeks a stronger connection between China and the 16 CEE (Central and Eastern European) countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Republic and Slovenia. Nowadays, many previously agreed-upon joint 16+1 projects were given the OBOR label, which may pave the way for diverging perceptions towards EU internal integration policies. CEE countries have shown that they are able to adopt an active policy of cooperation with China and an issue has been raised about the status of Central Europe within the region and in the EU. There are evident discrepancies between EU and non-EU members, especially in terms of rules and procedures related to investments and infrastructural projects. This poses serious challenges to the extent that EU and non-EU member countries develop common interests under the China-led 16+1 mechanism but perceive the divergent rules and regulations in EU vs. non-EU members as a source of bottlenecks in their development process.
- **The EU should seriously consider the consequences of the lack of a common framework for bilateral investment with China.** In fact, the BRI will further accelerate Chinese investment activity in various infrastructure projects in European countries. Before the BRI was announced, China’s infrastructure

investment in Europe targeted individual EU countries and many non-EU members in Central and Eastern Europe, mainly in the manufacturing and services sectors. Recently, Chinese firms have started to invest in large infrastructure projects backed by their inclusion in the BRI project list. Coalition building around individual projects now tends to prevail over the legal rules and procedures that are at the heart of the EU competition policy, as the core principles around which the internal market has been developed.

Although the BRI should be appreciated and not disregarded, Europe's historical responsibility is to make multilateralism prevail against closed and competing initiatives towards regionalism. Only along those common avenues will Europe and China be able to build long-lasting cooperation, bridging thousands-of-kilometers-long gaps for mutual benefits.

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