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Workshop Report

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About the Workshop

This workshop was part of a two-year project conducted by RUSI and funded by the MacArthur Foundation. The project seeks to understand in greater detail the plan behind China's Silk Road Economic Belt foreign-policy vision and its impact and implications in Russia, and Central and South Asia.

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The Economics of the Silk Road Economic Belt

ON 20 OCTOBER 2015, RUSI held a day-long workshop in Almaty, Kazakhstan, in collaboration with KIMEP University and the Friedrich Ebert Stiftung (FES). The focus of the workshop was the economics behind the Chinese Silk Road Economic Belt (SREB) and its impact in Central Asia. The key areas of discussion examined the potential benefits that the SREB could bring to participating countries, the integration of the SREB with other economic projects and the various funding mechanisms through which the SREB will be financed. The workshop brought together participants from Almaty, Astana, London, Beijing, Shanghai, New Delhi and Russia, including representatives from academia, the private sector and think tanks.

The first session discussed the real benefits of the SREB to both China and participating countries along the road. There is a risk that the SREB will simply turn Eurasia into a set of transport routes emanating from China, aimed at increasing the volume of Chinese goods going to Europe. Other than transit fees, China has not made it explicitly clear as to what other value participating in the SREB can add to economic development. Special economic and free-trade zones are one opportunity, such as that of Khorgos on the border of Kazakhstan and China, or those planned for Pakistan. However, the extent to which these are benefitting Central Asia is still unclear, and those for Pakistan are still under discussion. Kazakhstan's side of this free-trade zone is noticeably less developed than that of China's, highlighting that not all of these projects are implemented to meet maximum potential.

Furthermore, China's emphasis on connectivity as a key goal of the SREB runs the risk of over-emphasising railway development as an end goal, since not all goods are cost-effective to transport by rail. High-value goods are the ideal product: one participant from Kazakhstan noted that Kazakhstan Temir Zholy, the national railway operator, had begun transporting Apple products from China, cutting down delivery time from sixty days (by sea) to eighteen days (by rail). For the SREB project to be successful, therefore, both Xinjiang, the northwestern Chinese province, and the countries along the Silk Road route need to increase their high-tech manufacturing capacity to produce these high-value goods for transport, neither of which are currently visible.

Understanding of the project has been limited by Beijing's vagueness on practical implementation. The Chinese government's 'Visions and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road' strategy paper, published by the National Development and Reform Commission (NDRC), emphasises the objectives of the SREB, such as connectivity and greater financial integration. However, it does not give practical detail on how this will be achieved. This approach of laying out a grand vision without detail is typical of the Chinese government. So far there is not even a formally government-endorsed map of the exact routes of the SREB.

The workshop discussion highlighted a potential explanation for this. China's goal may not be to unpack the details itself but instead to seek ideas and engagement from SREB countries to determine where participation can provide most benefit to them. China does not want to limit its options or jeopardise the project's 'inclusivity' by over-defining its approach. There is an opportunity, therefore, for countries along the SREB to provide proposals back to China. However, there are some practical questions that China will need to address. Although its open-ended encouragement of connectivity is central to the SREB, certain political and geographical difficulties in implementing this are so far unresolved. Anyone who has travelled within Central Asia knows the difficulty of flying direct between most regional capitals, while land travel between the countries in the region is hindered by longstanding border disputes.

Although the SREB has broadly been received with enthusiasm by Central and South Asia, the lack of clarity around its planned implementation has led to some suspicion. India stands out as the country in the region most apprehensive of China's plans. As one workshop participant said, 'there is no Indian perspective at the moment', in part due to a perceived lack of information from Beijing. The suspicions relate to whether there is a broader Chinese geopolitical strategy behind the SREB and whether political strings will become attached to China's infrastructure investment.

India's concerns over a geopolitical strategy are mainly due to the maritime element of the '21st Century Maritime Silk Road', which runs through the Indian Ocean. It covers ports in countries located around India, such as Sri Lanka, Maldives and Pakistan, but not India itself. This has raised alarm bells in New Delhi, who perceive China as encroaching on India's waterways. China's investment into the China–Pakistan Economic Corridor (CPEC), which cuts through the disputed areas of Kashmir as well as highlighting China's strong connection with Pakistan, is also a challenge for India. There are areas where India and China can co-operate on this SREB project, such as the Bangladesh–China–India–Burma corridor or areas where both have interests, like Iran. However, India requires more detail and reassurances regarding China's intentions.

A large part of the day's discussion focused on the issue of integrating the SREB with other economic projects. Russia has recently voiced its desire to integrate the SREB with the Eurasian Economic Union (EEU) and Kazakhstan has proposed something similar with its 'Bright Road' (Nurly Zhol) policy. Although the Bright Road policy, which focuses on infrastructure development, is consistent with the aims of the Chinese project, SREB integration with the EEU is somewhat more complex. As one workshop participant pointed out, the EEU is an organisation with an institutional and regulatory framework, whereas the SREB is more of a 'vision' covering a variety of concrete projects. 'Integrating' these in practice may be difficult. A special economic zone may once again be an answer to this, and the EEU and China are currently exploring this idea. The EEU's external tariffs may present an immediate barrier to increased trade with China, although one benefit is that once this barrier is overcome countries gain access to a significant economic space consisting of five countries. However, to facilitate trade, China and Russia will need to address a number of bilateral trade issues. For example, the Russian–Chinese border currently suffers from excessive bureaucracy that, in particular, prevents cross-border travel and trade.

The third key aspect of the discussions examined the means by which the SREB will be funded. A major tool will be multilateral and national institutions driven by Beijing. China has allocated $29.8 billion to the Asian Infrastructure Investment Bank's (AIIB) overall $100 billion capitalisation and $40 billion to the national Silk Road Fund. Furthermore, the China Development Bank (CDB) is the lead financial body for the SREB, investing $890 billion into over 900 projects. There are also bilateral funding relations between SREB countries and Chinese provinces. For example, the recent Tbilisi Silk Road Forum held in Georgia was the first event on the SREB co-sponsored by the Chinese state held outside of China. The principals on the Chinese side were the provincial governments of Xinjiang and Shaanxi. On top of this, China is seeking to stimulate public–private partnerships to help progress the project finance, as well as exploring opportunities of collaboration with other international financial institutions like the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

Most participants agreed, however, that the predominant mechanism for SREB co-operation will continue to be bilateral agreements. As one workshop participant mentioned, China recently pledged $46 billion for the China–Pakistan Economic Corridor alone, a number that puts China's commitment into context when it is compared to the total $100 billion capitalisation of the AIIB. This highlights the degree to which China is likely to continue to prioritise bilateral agreements over its multilateral financial vehicles. A note of caution was made regarding the enormity of some of the SREB deals announced. As one participant pointed out, it seems in reality that the CPEC deal included a repackaging – or at least a reinvigoration – of some historical agreements between China and Pakistan, such as the development of Gwadar port and the Karakorum Highway, projects that have been underway for years. This demonstrates a lack of clarity in the detail behind some of these enormous declarations of financial support.

A repeated theme that came up during this discussion related to the broader transparency and governance of the SREB, particularly in participating countries outside of China. One workshop participant highlighted the need for SREB countries to ensure necessary reforms are conducted in the domestic markets to provide a degree of security and flexibility and to avoid an over-reliance on Chinese investment. The slow-down in the Chinese economy may produce constraints on China's ability to meet its ambitious investment programme. A lack of transparency as regards the relevant information has led to questions over China's asset quality. One workshop participant stated that a 'sudden large injection of external cash could exacerbate existing problems [in the domestic economy] rather than help'. Thus, SREB participants should ensure they protect and reform their own markets in preparation for any large investments from China to maximise returns and protect against a lack of transparency in the deals.

Another question mark surrounding China's funding of the SREB projects is the value this produces for China itself. The divestment opportunities or returns China makes on its infrastructure development projects in, for example, Central Asia, remain unclear. Much of the historical bilateral projects have been funded through linked loans, where China provides the funding through loans that have stipulations attached to them, such as the requirement that Chinese companies implement the projects on the ground. In other cases where China's Eximbank or

CDB has provided loans to fund projects, it is unclear whether there are any short- or medium-term returns or even security on the investment. One workshop participant pointed out that given the dominance of the state in China's economic policy and the government's long-term vision of investments, China can afford more time to sit on these investments without requiring immediate returns. Moreover, another participant noted that some projects, such as when Eximbank loaned the money for the high-voltage power line recently unveiled in Kyrgyzstan, provide the Chinese government with foreign-investment legitimacy and thus material return is not necessarily the priority.

It is clear that no one wants to be left out of China's SREB initiative. However, questions remain over the implementation plan of the project. For some SREB countries, there are significant concerns over the project's ultimate geostrategic goal as well as the detail of the various routes, both of which need more clarification from Beijing. However, it is clear that while China has ideas for how the SREB should develop, it is also seeking proposals from other countries about its development. This presents an opportunity for SREB countries to take ownership over the direction of their participation and to determine how best to maximise the benefits nationally.

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