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Workshop Report

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A View from Delhi

Raffaello Pantucci and Sarah Lain

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IN MARCH 2016, the Royal United Services Institute (RUSI) and the Vivekananda International Foundation (VIF) hosted a workshop in New Delhi to discuss the challenges of connectivity that China's strategic Belt and Road vision is intended to both confront and alleviate. The workshop covered: the various economic corridor concepts initiated by China and India that aim to enhance connectivity in Central and South Asia; how such visions will be realised; and how greater connectivity could stabilise security and economic development in Central and South Asia. The workshop focused specifically on Afghanistan and how India and China can co-operate further to help improve its stability – building on previous RUSI-led projects exploring this relationship.[1] Discussions also sought to develop an understanding of Afghanistan's central role in a number of these strategies and visions. The workshop included experts from the academic and think-tank communities, former and current government officials, as well as representatives from the business community. Participants came from India, China, Afghanistan and the UK.

A Road to Development

The context for the workshop was the growing regional push China has made across its land borders into South and Central Asia. This forms part of a larger vision laid out by Xi Jinping that has been tied to China's domestic growth. In his speech at the UN in September 2015, President Xi Jinping spoke about how the Chinese population was working to 'realize the Chinese dream of great national renewal', but that this could not be done without a 'peaceful international environment, a stable international order and the understanding, support and help from the rest of the world'. He noted that China was 'ready to share' its experience with other countries and encouraged these countries 'to board China's express train of development so that all of us will achieve common development'.[2]

From Beijing's perspective, the Belt and Road concept symbolises China's desire to be viewed globally as a responsible power. President Xi has placed a strong personal imprimatur on the vision and as his comments to the UN illustrate, he places it within a broader context of Chinese outbound investment and foreign policy. It offers a vehicle for China to shape its neighbouring environment and take a lead in Asian development. Belt and Road policy-makers

About the Workshop

This workshop was part of a two-year project conducted by RUSI and funded by the MacArthur Foundation, based in the US. 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, Central and South Asia.

1. Shisheng Hu, Raffaello Pantucci, Ravi Sawhney and Emily Winterbotham, Communication, Co-operation and Challenges: A road map for Sino-Indian Engagement in Afghanistan. RUSI Occasional Paper, February 2016.
2. Xi Jinping, 'Working Together to Forge a New Partnership of Win-Win Cooperation and Create a Community of Shared Future for Mankind', statement given at the General Debate of the 70th Session of the UN General Assembly, New York, 28 September 2015.

have emphasised the need for projects captured under the policy to be agreed through consultations with neighbouring countries. China maintains that it does not wish to dominate or dictate the Belt and Road, but that it offers an alternative to regional infrastructure investment and development routes previously offered by traditional players such as the Japan-led Asian Development Bank and US-led World Bank.

That is not to say the project is without geo-strategic motivations. The policy also counters perceived US ‘containment’ of China, since the land route (the Silk Road Economic Belt, SREB) is a road that the US cannot easily block or significantly interfere with, unlike routes through the South and East China Seas. In fact, the US is actually engaging with China in parts of the world covered by the route –in Afghanistan and Central Asia. China’s investment in capacity at the port of Gwadar in Pakistan – together with a contract to manage the operations at the site – provides Beijing with access to a friendly port on the Indian Ocean, while pipelines from Central Asia also enhance China’s energy security. This is one aspect of a much larger effort to use ‘infrastructure diplomacy’ to build Beijing’s relations with countries in its neighbourhood and enables China to diversify its trade lines as a result. This has been demonstrated by a number of high-profile projects: for instance Beijing has developed existing rail corridors to allow regular freight services to run between major Chinese and European cities. Services now operate between Suzhou and Warsaw, Lianyungang and Rotterdam, and Chongqing and Duisburg (often referred to as the Yuxinou Railway). All these routes cut across Eurasia; new routes are expected to open soon across Tehran, Turkey and the Caucasus, consolidating and extending existing lines.

The View from New Delhi

From an Indian perspective there is a lack of clarity around China’s plan (despite Beijing’s repeated statements about seeking consensus and consultation) – raising suspicions in New Delhi. This is understandable given the existence of longstanding sensitivities between China and India. In the maritime domain, both countries seek to exercise control – to different degrees – of the Indian Ocean, which is part of the 21st Century Maritime Silk Route Economic Belt. On land, the two countries have yet to resolve their territorial disputes along India’s northern frontier. Moreover, the China–Pakistan Economic Corridor (CPEC) holds particular concerns for India, since the point of entry between China and Pakistan runs through disputed territory in Kashmir. One speaker said ‘through the CPEC, China is stepping up interference in India–Pakistan differences in Kashmir … China’s Pakistan strategy will inevitably be a problem for India’. China is aware of this difficulty but argues that it is the only way it can implement the CPEC, which will ultimately benefit the development of the entire region. New Delhi is concerned that in developing an economic strategy that avoids offending Pakistan, China will, by default have excluded full co-operation with India. Were the CPEC route through Kashmir to be formally acknowledged and engaged with, it would finally determine the nature of borders between Pakistan, India and China in Kashmir, resolving one of the world’s long-standing border disputes.

India is in favour of improved connectivity throughout Asia and is a founding member of the Chinese instigated Asian Infrastructure Investment Bank (AIIB). However, it remains suspicious of China’s motives in backing the project. Last year, India’s Foreign Secretary Subrahmanyam

Jaishankar described Belt and Road as a Chinese 'national initiative'.[3] He said that if China wants a 'larger buy in' to this national initiative, then it needs to have 'larger discussions and those haven't happened'. At the Raisina Dialogue in March 2015, Jaishankar observed that 'connectivity should diffuse national rivalries, not add to regional tensions' hinting at concerns that China could use its drive for greater connectivity as an influencing factor.[4] New Delhi has other, broader anxieties about the China–Pakistan relationship, as well as the strategic concerns highlighted above, which were repeatedly raised during discussions.

According to Indian participants, China should do more to engage with New Delhi on Belt and Road; it should also directly seek its input regarding areas of co-operation and the desired direction of funding. India clearly has its own expectations of Chinese engagement on the strategy which differ from what China is currently offering, demonstrating a potential miscommunication between the two capitals. The AIIB demonstrates that India responds to what it perceives to be truly consultative initiatives and that its concerns are not simply a reflection of paranoia about China. The long-mooted Bangladesh–China–India–Myanmar (BCIM) corridor – a project to enhance transport links between the four countries – which is viewed positively by New Delhi (and predates the Belt and Road vision), is an example of a potential co-operative project that India has welcomed exploring in greater detail. However, to date, while this has led to much greater Chinese activity, India is still at the stage of considering various feasibility studies about some of the projects associated with the corridor.

The Challenge of Central Asia Connectivity for India

India has its own domestic and regional infrastructure and transport connectivity plans. It launched its Connect Central Asia policy in 2012 to enhance trade and educational ties, and encourage more joint commercial and security initiatives with Central Asia. It is also part of the North–South Transport Corridor, which New Delhi placed great importance on in its Foreign Trade Policy, 2015–20. This multimodal corridor will link St Petersburg with the Indian port of Mumbai via the wider Middle East and Europe. From its northern end, land routes will connect St Petersburg, through Azerbaijan, with the ports of Bandar Abbas and Chabahar in Iran. Chabahar has been identified as a major strategic investment project for both Iran and India; in February 2016 the Indian Cabinet approved $150 million for its development in order to help combat congestion at Bandar Abbas.[5] These two Iranian ports will then provide a maritime connection with Mumbai.[6] The aim is to involve wider Central Asia, where possible, in this transport corridor. With this in mind, land routes are likely to be expanded to include Armenia, Kazakhstan and Turkmenistan.

3. Comments by Subrahmanyam Jaishankar, available at International Institute for Strategic Studies, 'IISS Fullerton Lecture - India, the United States and China', Youtube, <https://www.youtube.com/watch?v=et2ihw8jHaY&feature=youtu.be&t=46m27s>, accessed 26 May 2016.
4. Subrahmanyam Jaishankar, 'Speech by Foreign Secretary at Raisina Dialogue in New Delhi', Ministry of External Affairs, 2 March 2015.
5. *Express Tribune*, 'India Approves $150 Million Chabahar Port Plan in Iran', 25 February 2016.
6. Bipul Chatterjee and Surendar Singh, 'An Opportunity for India in Central Asia', *The Diplomat*, 4 May 2015.

Although Central Asia is a significant part of the Belt and Road plan, India faces connectivity challenges regarding land routes to Afghanistan and Central Asia more generally, given its poor relations with Pakistan. As Indian participants continually reminded the group, this hinders New Delhi's capacity to participate in Belt and Road and limits direct communications and routes between the two. There is a joint working group between India and China on Central Asia, and India has participated in relevant multilateral regional organisations, such as the Shanghai Cooperation Organisation (SCO). India and Pakistan's escalation to full membership from their current 'observer' status in this organisation may focus attention on relieving the connectivity bottlenecks. However, there is huge scepticism of any progress on this issue given the tensions between Pakistan and India – and their membership of the SCO is still a little ways off.

Questions of Viability of Belt and Road

China has moved forward with its specific funding mechanisms for the Belt and Road strategy, such as the recently established international financial institution AIIB and the national Silk Road Fund (a new national policy bank), as well as pre-existing funding vehicles such as Export-Import Bank, China Development Bank and other state-owned banks. However, concerns were raised in New Delhi about how funding for the project will be managed. More clarity on how the Belt and Road – or individual projects under its umbrella – will function and how, for example, tenders will be managed, is required. One businessperson said 'there needs to be comfort that there will be fair play'.

Questions around quality control and maintenance of projects were also raised. Although the track record of Chinese infrastructure has improved both at home and in Central Asia, there have been examples of Chinese companies running into trouble. China Overseas Engineering Group Co (Covec) was the primary project contractor tasked with constructing the A2 highway between Warsaw and Berlin in 2012. However, the project was abandoned after Covec was unable to complete it, supposedly due to a lack of management and financial skills. One of the issues identified was the company's failure to understand the importance of regulation and record-keeping in public works in Europe.[7] Looking at Central Asia, concerns were raised as to whether Chinese investment has been a true positive for the region or whether it has simply enriched local elites. For infrastructure to ensure stability, there need to be visible and actual benefits for local populations.

There are still concerns about the practical delivery of enhanced connectivity. For example, when the Yiwu to Madrid train was launched in 2014, the cargo had to change tracks three times due to gauge differences. There should be broader discussions on the interaction and harmonisation of certain tariff systems, such as those of the World Trade Organization, the Eurasian Economic Union and the European Union. Thought also needs to be given regarding the kinds of goods transported from China. For rail transport to be cost effective for instance, it has to focus on high-value goods. Examples of things China is already transporting by rail to Europe include technology products, such as tablets, ATM machines, 3D printers and industrial printers.

7. James T Areddy, 'European Project Trips China Builder', *Wall Street Journal*, 4 June 2012.

The question of the economic rationale behind the soft loans China has traditionally given to Central Asian states for infrastructure development was raised. Many of the loans China has given to Central Asian states are unlikely to be paid back and the returns on these investments are unclear. Not all of China's investments have necessarily been based on commercial logic. One analyst said that Chinese officials 'privately admit they expect to lose 80 per cent of their investments in Pakistan, 50 per cent in Myanmar and 30 per cent in central Asia'.[8] There has also been some confusion in the past as to whether some of this money is given as a real loan, if it is, in effect, given as aid – or, like China's similar projects in Africa, whether it is ultimately written off as debt. This causes some concerns in India given the questionable rationale behind the selection of China's economic investments, an issue which could affect decisions in, for example, AIIB funding. One speaker stated 'connectivity does not exist in a vacuum – there needs to be economic rationality behind it'.

Securing Infrastructure

China is aware that it will need to ensure the security of the infrastructure of the SREB once it has been built. The recent stand-off between Kyrgyzstan and Uzbekistan due to disputed access to water sources is an example of a security issue that could have turned into an open conflict. This is particularly problematic given the prospect of disputed political succession and instability in at least two Central Asian states.[9]

The likelihood of infrastructure access being blocked by countries with poor bilateral relations is high. This has already caused issues of connectivity in Central Asia where, for example, it is not possible to fly directly from Dushanbe to Tashkent, due to political tensions between Tajikistan and Uzbekistan. As one participant mentioned, the 'sheer force of economics is not enough to ensure security and stability'. Both China and the countries of Central Asia will need to do more to plan for the security and political risks that could threaten the infrastructure Beijing plans to fund and co-build.

The CPEC has also experienced issues over internal political rivalries, which has threatened the viability of projects within the corridor. Internal disputes over the CPEC's route obliged the government of Pakistan to hold a series of meetings and engagements at numerous different levels to ensure that all regions of Pakistan felt they were receiving a fair share of the massive Chinese investment. Khyber Pakhtunkhwa (KP) for example expressed a great deal of anger at the perception that most of the early deals and routes were going to Punjab. In fact, KP did have a role, but later in the process. The KP provincial government appealed directly to the Chinese Embassy demanding a public response to its complaints. This led to to an awkward situation where the Embassy had to issue a statement emphasizing that China was simply planning an infrastructure project and that it left local politics to one side. This assurance was not enough and served to escalate the crisis, with the result that the government of Pakistan

8. James Kynge, 'How the Silk Road Plans Will be Financed', *Financial Times*, 9 May 2016.
9. This would appear to be an issue of some concern in the cases of President Nazarbayev of Kazakhstan and President Karimov of Uzbekistan – though regime stability is by no means certain in the other capitals as well.

had to establish a number of high level committees to reassure the leadership in KP. China has learnt that abstention from any involvement in the internal affairs of the countries in which it operates is no longer feasible.

China–India Co-operation: Afghanistan

As previously mentioned, a significant part of the discussion was dedicated to better understanding opportunities for co-operation between China and India in Afghanistan. China believes that Belt and Road and specifically the SREB in this context, will achieve stability through economic investment and greater economic connectivity. This will in turn produce prosperity and increased inter-dependencies that should reduce the likelihood of conflict. One of the first questions raised however, was whether Afghanistan is included in the SREB. Although there is no definite single route for the SREB and China has emphasised its 'all inclusive' nature, Afghanistan could easily be left out of the land route. This is something Beijing should clarify.

There was some scepticism as to how much China and India can genuinely co-operate in Afghanistan. The main obstacle is, unsurprisingly, China's strong relations with Pakistan, and India's equally tense relationship with the latter. Both New Delhi and Kabul would like to see Beijing using its influence to persuade Pakistan to be a more constructive player in Afghanistan. However, China's desire to include so-called 'moderate' parts of the Taliban in these conversations was met with scepticism from the Indian side. One speaker noted that the more groups you bring to the table, the more you 'deprive the Afghan state of legitimacy'. China would argue, however, that reconciliation is required for Afghanistan to move on.

General Security

The first major issue to be discussed in the context of the stability and security of Afghanistan was the situation at the national level. Apart from the fragmentation of the Taliban (the discussions in Delhi took place before Mullah Mansour's death), which has led to a surge in violence, and the appearance of Daesh in certain regions, the stability of the country is further complicated by the strong influence of outside powers. One participant described this as a return to 'great game politics' noting that many of the roots of the problems in Afghanistan are 'across the border'. The use of Afghanistan as a site for a proxy war between different countries and groups further complicates the ability to stabilise the situation; in turn, this deters investment.

Despite efforts by NATO, the continued lack of capacity within the Afghan National Security Forces has made the country more vulnerable. NATO's withdrawal has left a security vacuum that undermines both defence and the credibility of the central government. Divisions within the state institutions are causing people to 'hedge' and 'secure their own positions' within government, which in turn 'saps the state of vitality' and can exacerbate corruption. China and India could each do more on a bilateral basis with Afghanistan, as well as trilaterally, to train Afghan forces, provide equipment and co-operate on counter-terrorism. This would need to be delivered according to a systematic and co-ordinated approach.

India and China could cooperate more through the various multilateral formats for peace proposals in Afghanistan. The Collective Security Treaty Organization, the SCO, the Heart of Asia process and the most recent Quadrilateral Contact Group (QGC) talks including the US, China, Pakistan and Afghanistan all recognise that Afghanistan needs support for its stability. However, there has been considerable scepticism as to whether such discussions lead to action; simply using multilateral discussion formats will have limited impact. Many Indian participants, in particular, were sceptical of Pakistan's role in the quadrilateral talks, as it is seen to legitimise the country's role as a facilitator for the Taliban in Afghanistan.

Economics and Investment

India and China both have unique roles as foreign investors in Afghanistan – this could form the basis for greater co-operation between New Delhi and Beijing. In 2007, the Chinese state-owned mining company, the Chinese Metallurgical Group, and Jiangxi Copper Corporation signed a contract to develop the Mes Aynak copper mine, southeast of Kabul.[10] In 2011, the China National Petroleum Corporation agreed to develop oil blocks in the Amu Darya basin.[11] However, these projects have stalled due to instability in Afghanistan and China's lack of familiarity with the investment climate in the country. A consortium of seven Indian public and private sector companies won a tender to develop the Hajigak iron ore mine in 2011, though it is not entirely clear whether the deal was ultimately signed.[12] KEC International, India's second largest manufacturer of electric power transmission towers, has been successfully operating in Afghanistan since 2005. Both China and India thus have a shared economic incentive to co-operate on preserving stability in Afghanistan.

There is a wealth of business knowledge in India on Afghanistan. The economic strengths and weaknesses of the country, and areas where it needs to develop its economy, such as increasing export volumes, are well understood. Both sides could co-operate on advising Afghanistan on how to build up parts of its economy to improve the investment climate. For example, exporting from Afghanistan is not easy in terms of time and costs – on average, documentary compliance for export from Afghanistan takes 243 hours, compared to the South Asia regional average of 80 hours.[13] China and India could also create joint ventures under the SREB funding mechanisms. Particular areas they might co-operate on that were identified include: freight; trucking; production of small parts; metalworking; operations and maintenance support in the mining industry; and transport. Focusing on renewable energy and the construction of oil and gas pipelines was another. Micro-finance is another area that Afghanistan would certainly benefit from, which both China and India could find monies to contribute towards.

10. Ben Piven, 'Chinese Company and Taliban Battle over Afghanistan's Underground Riches', *Al Jazeera America*, 11 July 2015.
11. *BBC News*, 'China Gets Approval for Afghanistan Oil Exploration Bid', 27 December 2011.
12. *Economic Times*, 'India Denies Scrapping of Afghanistan Iron-Ore Mining Project', 24 May 2015.
13. World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, 13th edition (Washington, DC: World Bank, 2016).

However, whatever the investments by China or India, there needs to be a better understanding of the human dimension and the impact of these investments on local populations. Engaging with all relevant stakeholders in the region during the investment process is key to avoiding conflict. It would also avoid short-term security 'islandisation' of infrastructure projects – whereby specific isolated areas around projects become secure whilst the rest of the country continues to suffer from conflict. Regional authorities are very influential in Afghanistan (in terms of helping with security, navigating local sensitivities or the local legislative environment), so it is not just about engaging with Kabul. Various interests at both local and national levels must be taken into account, along with those of central government, the public at large and tribal leaders. Investments could be made more secure if they ensured that tangible benefits flow back to local populations. Some element of corporate social responsibility was therefore seen as important.

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Further Reading

For more commentary and analysis on China in Central Asia by the authors of this report, visit <chinaincentralasia.com>.

For the report of the previous workshop in this series held in January 2016 on the security context for the SREB across Central Asia and the stabilising effects investment and infrastructure development could have on the region, visit <https://rusi.org/publication/conference-reports/security-and-stability-along-silk-road>.