EMERGING MARKETS FORUM

2019 Eurasia Meeting

The Belt and Road Initiative in Central Asia and the South Caucasus: The Perspectives of China, Russia, the European Union, India, and the United States of America

Michael Emerson, Hu Biliang, Rajat M. Nag, S. Frederick Starr, and Evgeny Vinokurov

Background Paper
# Table of Contents

## Preface

*Johannes F. Linn, Distinguished Resident Fellow, Emerging Markets Forum, Washington, USA*

*Leo Zucker, Project & Research Associate, Emerging Markets Forum, Washington, USA*

## Building the Belt and Road: The Impact on China and Central Asia

*Hu Biliang, Dean, Emerging Markets Institute; Director, Belt and Road Research Institute, Beijing, China*

1. Background: China and Central Asian Countries Are All Developing Countries
2. The Economic Development of China and Central Asian Countries Faces Constraints
3. Building the Belt and Road: Conducive to Easing the Economic Development Constraints facing China and Central Asian Countries
4. Cooperation between China and Central Asian Countries is Conducive to Promoting Common Economic Development
5. How to Promote and Build the Belt and Road in Central Asia
6. International Platforms to Promote Development in Central Asia
7. Cooperation with Major Countries to Jointly Promote the Development of the Belt and Road Initiative in Central Asia

## European Perspectives on the Chinese Belt and Road Initiative

*Michael Emerson, Associate Senior Research Fellow, Centre for European Policy Studies, Brussels, Belgium*

1. Introduction
2. Transport Infrastructure for EU-China Trade
3. The EU's Interests in Central Asia and the South Caucasus
4. Regulatory Issues in Central Asia and the South Caucasus
5. Trade Policy Aspects for Central Asia and the South Caucasus
6. Trade Policy and Legal Aspects in EU-Chinese Relations
7. China's 16+1 Initiative
8. China's Growing Strategic Presence in Europe
9. Conclusions
10. Annex: Issues Warranting Further Research
11. References
<table>
<thead>
<tr>
<th>Page</th>
<th>Title</th>
<th>Author</th>
<th>Position/Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Study on the Belt and Road Initiative in Central Asia and the South</td>
<td>Rajat M. Nag, Distinguished Fellow, Emerging Markets Forum, Washington, DC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Caucasus: A Note on the Indian Perspective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>The Belt and Road Initiative from a Russian Perspective</td>
<td>Evgeny Vinokurov, Chief Economist, Eurasian Fund for Stabilization and Development, Moscow, Russia</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>U.S. Perspectives on China's Belt and Road Initiative in the South</td>
<td>S. Frederick Starr, Chairman, Central Asia-Caucasus Institute and Silk Road Studies Program, Washington, USA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Caucasus and Central Asia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Introduction  
2. India-Central Asia Relations  
3. India's Perspectives on the Belt and Road Initiative  
4. India's Possible Reactions  
5. Conclusions

References
Preface

Johannes F. Linn and Leo Zucker

The Belt and Road Initiative (BRI) is a development program undertaken by China, beginning in 2013, with a global reach and potentially far-reaching economic and geopolitical implications. Much has been written about various aspects of the BRI since its inception, with a lot of speculation on China’s motives in launching the initiative, its current and expected future scale, and its possible impact on participant countries. Most of the literature on this topic has been contributed by experts and journalists from industrialized countries and based on the limited information available on the BRI at a global level. Little has been written by experts from the participating countries based on country- and region-specific information; an “inside-out” view of the BRI is needed.¹

The Emerging Markets Forum, with financial support from the Swiss National Bank, has undertaken a study of the BRI’s impact on the eight countries of the Central Asia and South Caucasus (CASC) region with the goal of filling this gap. It has commissioned five experts in the region to prepare notes on the BRI in the authors’ respective countries. These notes are compiled in an Emerging Markets Forum Working Paper.

The Emerging Markets Forum has also commissioned a set of five background notes on the perspectives of five outside powers (China, Russia, the European Union, India and the United States of America) on the BRI in the CASC region. Most countries in the region have a multi-vector approach to their external relations and hence would expect to rely on multiple partners to help advance their national economic and political agendas. Moreover, it is clear that, for the best possible impact of the BRI, cooperation not only among the countries of the region and with China, but also with other partners—bilateral and multilateral—will be needed. It is thus important for the CASC countries to understand the motivations and concerns of the outside powers that may have a role in making the BRI a success (or a failure, as the case may be). This Working Paper compiles the five background notes prepared by experts from these outside powers. We believe they contribute very helpful insights for all stakeholders in the CASC region as they try to gain a comprehensive understanding of the potential benefits and risks of the BRI.

Based on these ten background notes and on additional research, we have prepared an overview paper which provides an assessment of what we know about the BRI in the CASC region, including its potential benefits and risks (as seen from the perspective of participating countries), how outside partner countries are likely to engage with it, what policy responses are appropriate, and what issues could be usefully addressed by future research.

1. Background: China and Central Asian Countries Are All Developing Countries

Among the 185 countries for which the World Bank presents per capita GDP in current US dollar prices, China and the five Central Asian countries rank relatively low.¹ Take 2017 as an example: Kazakhstan, the group leader, has a per capita GDP of only US$8,838 and ranks 71st in the world; China lies second among the six countries with US$8,827 and ranks 72nd globally; Turkmenistan ranks 80th with US$7,356. As for the other three countries, there is a huge gap. The per capita GDPs of these countries are just over US$1,000, or even less than US$1,000 (Table 1).

According to the World Bank, the two highest-ranked countries in terms of GDP per capita in 2017 were Luxembourg and Switzerland, at US$104,103 and US$80,190, respectively. The world average GDP per capita was US$10,714 in the same year. We find that the per capita GDPs of China and the five Central Asian countries have not reached the world average. Kazakhstan and China have reached just over 80 percent of the world average (82 percent), while the Kyrgyz Republic and Tajikistan have reached only 11.4 and 7.5 percent of world average, respectively.

This demonstrates that China and the five Central Asian countries are all developing countries, among which Kazakhstan, China and Turkmenistan are middle-income developing countries, while the other three countries are low-income developing countries. Therefore, the priority of these six countries is to promote development, especially economic development, and to improve the income levels and living standards of their populations as quickly as possible. In particular, because of their comparatively lower income levels, Uzbekistan, the Kyrgyz Republic and Tajikistan rank among the world’s 35 poorest countries.

2. The Economic Development of China and Central Asian Countries Faces Constraints

As the largest economy in the world for a long time, China once led the world’s economic development. The five Central Asian countries have also had a glorious history, especially in the nearly 500 years around 1000 AD, which is known as the “Golden Age” of Central Asia. At that time, Central Asia led in trade, manufacturing, technology, and finance. Later, due to the opening of sea routes from Europe to the East, coupled with religious conflicts and other factors, the “Golden Age” of Central Asia gradually faded.

Therefore, in terms of economic development, China and the five Central Asian countries have a very glorious past, and they have very strong desires to achieve a great revival of nationhood. However, with historical development, the situation has undergone dramatic changes. Currently, economic development in both China and the

---

¹. Afghanistan is not included in Central Asia here, although some observers count this country as belonging to Central Asia, and indeed a persuasive case can be made for Afghanistan to be included as a part of the Central Asia region. The same cannot be said for Pakistan, mainly because both China and Pakistan have already made considerable efforts to build the China-Pakistan Economic Corridor, with China having already spent a great deal of money, and a separate economic corridor is already established. Thus, under the Belt and Road Initiative it would not be not suitable to include Pakistan in the definition of the Central Asia region.

---

**Table 1: Level and Global Ranking of China and Five Central Asian Countries by GDP Per Capita**

<table>
<thead>
<tr>
<th>Country</th>
<th>Current US$</th>
<th>Global Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>8,837</td>
<td>71</td>
</tr>
<tr>
<td>China</td>
<td>8,827</td>
<td>72</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>7,356</td>
<td>80</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1,504</td>
<td>150</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>1,220</td>
<td>154</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>801</td>
<td>164</td>
</tr>
<tr>
<td><strong>World Average</strong></td>
<td><strong>10,714</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank
five Central Asian countries has been subject to some serious constraints.

2.1. Constraints to Economic Development in Central Asian Countries

For the five Central Asian countries, to main constraints to economic development currently exist. One is the region’s poor transportation and communication infrastructure. Kazakhstan and Uzbekistan are relatively better endowed with roads, while the other three countries are much less so. For Turkmenistan, the situation is extremely bad. As for railways, Kazakhstan and Uzbekistan enjoy better conditions than other three countries. In term of Internet access, the proportion of people using the Internet is very low in Central Asia, and particularly in the Kyrgyz Republic and Uzbekistan, leading to higher trade costs. The other constraint is the region’s underdeveloped manufacturing industry. Uzbekistan has some small joint ventures in the production of automobiles, trucks and buses, and Kazakhstan and Uzbekistan have a small number of ventures for chemical and pharmaceutical production, as well as some production of textiles, cement, aluminum, wine, diary, and so on. However, on the whole, the economic development model of Central Asian countries is still based on exporting primary products and importing manufactured goods.

2.2. Constraints to China’s Economic Development

In China’s case, a very critical economic development constraint is the domestic supply of certain natural resources, especially crude oil, natural gas, iron ore, soybeans, and so forth. In China, domestic production of these commodities cannot meet current demand. Therefore, China must import from the international market every year in very large quantities. In 2017, China imported 420 million tons of crude oil while domestic crude oil production was only 190 million tons; imports thus accounted for 68.9 percent of total demand. In the same year, China consumed 237.3 billion cubic meters of natural gas, of which 83.8 billion cubic meters were imported, accounting for 35.3 percent of annual consumption. Soybean imports accounted for an even higher proportion: China imported 95.42 million tons of soybeans from the international market, accounting for 86.3 percent of the total domestic consumption of 110.59 million tons. In 2017, China’s net import of iron ore reached 1.07 billion tons, accounting for 46.5 percent of the total demand of 2.3 billion tons that year.

3. Building the Belt and Road: Conducive to Easing the Economic Development Constraints facing China and Central Asian Countries

As China and the five Central Asian countries have increasingly recognized the above-mentioned constraints, they have begun to realize the importance and value of strengthening cooperation. If the five Central Asian countries strengthen cooperation with China, the economic development constraints facing the two sides mentioned above can be alleviated to a large extent, and some aspects of these constraints can be completely eliminated. In theory, this should be the case. What is the reality? Let us look at some specific facts.

3.1. China Helps Central Asia Countries Build and Improve Transportation Infrastructure

Under the framework of Belt and Road cooperation, China and Central Asian countries have completed some important transportation infrastructure projects, such as the Wahdat-Yovon Railway (Wahdat-Yovon), the first railway built by Chinese railway construction enterprises in Central Asia—and in extremely difficult “high mountain” areas of central and southern Tajikistan, no less. After starting construction on May 15, 2015, it was successfully opened to traffic on August 24, 2016 after just 15 months. The first railway tunnel built by Chinese companies in Central Asia was Uzbekistan’s Angren-Pap railway tunnel. It was also opened in June 2016.

3.2. The Belt and Road Connects Central Asia Countries with the Outside World

Under the framework of BRI international cooperation, Kazakhstan and China have jointly established a logistics park in Lianyungang City, Jiangsu Province, China. In this way, Kazakhstan has, in effect, a port in China, which allows it to transport its goods through the Yellow Sea to South Korea, through the East China Sea to Japan, and through the South China Sea to Southeast Asia and other regions. Kazakhstan has also cooperated with China to build the Khorgos Economic and Trade Zone in Khorgos on the Sino-Kazakh border, thus promoting trade with China and with other countries through China.

In the meantime, China is preparing to build the China-Kyrgyz Republic-Uzbekistan Railway and the China-Kyrgyz Republic-Tajikistan-Afghanistan-Iranian Railway. Once these two railways are completed, the landlocked countries of Central Asia will be more closely linked to the
outside world, which will greatly promote their trade and industrial development.

3.3. China Has Built Industrial Parks and Agricultural Parks in Central Asian Countries

In Central Asia, China advances international capacity cooperation, builds industrial parks and promotes modern agriculture. China has set up the US$2 billion China-Kazakhstan Production Capacity Fund for the purpose of developing high-quality production capacity in Kazakhstan. China and Uzbekistan have jointly established Pengsheng Industrial Park, which not only promotes the development of processing industries in Uzbekistan, but also provides more than 1,000 new jobs for local people and 20 percent more tax revenues for the state budget. Additionally, Chinese private-owned companies have established a wholly-owned Asian Star Agricultural Industrial Park in the Kyrgyz Republic to promote the development of modern agriculture in Central Asia.

3.4. Chinese Investment in Central Asian Countries Is Increasing

By the end of 2016, China's investment in Central Asia had reached US$9.14 billion, with the largest investment in Kazakhstan of US$5.43 billion, accounting for 59.4 percent of the total investment stock. China has become the second-largest source of investment in Kazakhstan, and its investment has greatly exceeded Russia's; China is also the largest investor in Turkmenistan, the Kyrgyz Republic and Tajikistan.

3.5. Central Asian Countries Provide Petroleum and Natural Gas for China

China needs to import a large amount of both petroleum and natural gas, so China has built a relatively complete energy pipeline network in Central Asia, including natural gas pipelines and oil pipelines. The natural gas pipelines include the China-Central Asia natural gas pipelines A and B, which run from the Turkmenistan-Uzbekistan border via Uzbekistan and Kazakhstan to Alashankou in Xinjiang Autonomous Region. The total length is about 10,000 kilometers and the annual gas transmission capacity is about 30 billion cubic meters. Both pipelines mainly carry Turkmen gas; the C line, which also originates at the Turkmenistan-Uzbekistan border but enters China at the Khorgos port in Xinjiang, has a designed annual gas transmission capacity of 25 billion cubic meters. Line C mainly carries Uzbek gas. These three natural gas pipelines have started gas transmission. In addition, there is a D line natural gas pipeline, which is still under construction, starting at the Turkmenistan-Uzbekistan border and crossing Tajikistan and the Kyrgyz Republic to Wuqia County in Xinjiang. The designed gas transmission capacity of line D is 30 billion cubic meters per year.

As for petroleum pipelines, the China-Kazakhstan petroleum pipeline starts in Atyrau in western Kazakhstan and extends to Alashankou in China, a distance of 2,800 miles. Its designed annual oil transmission capacity is 20 million tons. It operates well right now.

Evidently, to China, the value and significance of Central Asian countries are mainly reflected in energy exports. Currently, natural gas imports from Central Asia account for about 60 percent of China's total gas import volume, and China's oil imports from Kazakhstan have reached about 100 million tons. Therefore, China is now the largest energy export market for Kazakhstan, Turkmenistan and Uzbekistan.

4. Cooperation between China and Central Asian Countries is Conducive to Promoting Common Economic Development

Due to different natural endowments and states of economic development, economic cooperation between China and Central Asian countries under the framework of the Belt and Road Initiative provides mutual benefit. It builds on the complementarity of natural resource endowments and seeks to develop complementary economic structures, so that all countries can ultimately overcome their own constraints and achieve shared economic development. By strengthening trade and investment cooperation with Central Asian countries, China is able to obtain crude oil and natural gas to meet its urgent demands (China is the largest commodity importer for every Central Asian country except Turkmenistan); by strengthening economic cooperation with China, Central Asian countries can obtain the Chinese goods, investment, infrastructure improvements and industrial development they need. Additionally, due to the geographic proximity of China and Central Asia, further transport infrastructure improvements will lower transport costs, which will greatly boost the economic development of China and Central Asia and improve the living standards of their populations.
5. How to Promote and Build the Belt and Road in Central Asia

5.1. The Priorities and Procedures of International Cooperation on the Belt and Road

From the perspective of institutional frameworks and promotion procedures, the starting point of Belt and Road international cooperation lies in the signing of an intergovernmental cooperation document, the Memorandum of Understanding (MOU), between a country that is willing to participate in cooperation and China. Then on this basis, the two parties will check their respective development strategies and plans to identify investment projects of common interest. After in-depth discussion on the projects, a very detailed investment and construction plan will be proposed and carried out by Chinese enterprises and enterprises from or governments of relevant countries.

So far, with the exception of Turkmenistan, Central Asian countries have signed intergovernmental cooperation documents on building the Belt and Road jointly with China. They also engage in substantive discussions with the aim of reaching consensus on how to link BRI investments with their national development strategies. For example, based on such in-depth discussions, China’s Belt and Road Initiative has already been linked with Tajikistan’s “2030 National Development Strategy,” the Kyrgyz Republic’s “Stable Development Strategy,” Uzbekistan’s “Action Strategy” and Kazakhstan’s key development strategies. In this way, China and its Central Asian partners have reached a collective understanding and identified some projects of common interest for which construction has begun, and is some cases has already been completed.

In the case of Turkmenistan, although it has not signed a formal agreement with China on the co-construction of the Belt and Road, the country has also conducted in-depth discussions on Belt and Road construction and its Revival of the Ancient Silk Road strategy, and linked and selected projects.

Once the projects of common interest are determined, it is necessary to ensure their smooth implementation, including in such areas as security and funding. There is no doubt that adequate funding is a crucial issue. Without it, it is usually impossible to start a construction project. Generally, China is the one that invests the most, and other countries usually invest less than half.

5.2. Main Criteria and Basic Principles for Selecting Belt and Road Projects

In choosing Belt and Road partner countries or Belt and Road projects, the most crucial criterion is that the decisions are based on the actual needs of both parties, that they are conducive to the complementary development of both sides, with mutual benefit so as to create a win-win situation. Therefore, the design of and decision on any project is based on one basic principle, that is, the principle of “Consulting (planning) together, Building together and Sharing together.” In short, actions are discussed, negotiated and decided jointly by the parties instead of one country being in the lead and other countries following.

5.3. Managing Debt Risk

For the government, there are many considerations for choosing a construction project, including from the perspective of politics and social development; however, for enterprises, the priority consideration is a project’s financial viability. This means that the enterprises involved need to consider whether there will be enough return from the completed project to repay any debt and make a profit.

Through field research on the Kyrgyz Republic and Kazakhstan, I found that Chinese companies have a strong ability to control debt risk, both for the country of project construction and for China’s construction enterprises. For example, 80 percent of new highways in the Kyrgyz Republic are built by China Communications Construction Company Ltd. (CCCC), and when this company chooses to build a project, the first consideration is to ensure appropriate funding for the project. The funding sources for the project are typically diversified, with many projects relying on grants, including Chinese government donations and grants from other governments, as well as from international financial institutions. In Kazakhstan, many projects solve the funding problem via a PPP model, as well as through the participation of various partners to mitigate debt risks.

Some investment projects come from private companies. For example, Asian Star, an agricultural development project involving investment by a Chinese company in the Kyrgyz Republic, is a private enterprise investment project. All investments for it come from private owners who are currently operating it profitably.
6. International Platforms to Promote Development in Central Asia

6.1. Shanghai Cooperation Organization (SCO)

There were at least two important and historically significant developments at the SCO Summit held in Qingdao this year: first, heads of state of India and Pakistan attended the conference for the first time since their countries joined the SCO in June 2017; second, Chinese President Xi Jinping highlighted the importance of the SCO countries’ active participation in Belt and Road cooperation. Therefore, the SCO will be a very important international platform in the future and will play an increasingly important role in promoting economic cooperation and development between China and Central Asian countries.

The first reason why the SCO is of great significance to both Belt and Road cooperation and the development of Central Asia is the large overall demographic size of the SCO. According to statistics from the World Bank, in 2016, the total population of the eight official members of the SCO was 3.1 billion, accounting for 67 percent of the total population of the countries along the Belt and Road (referring to 64 countries not including Palestine); their combined GDP is US$15.2 trillion, accounting for 65 percent of that of all 64 BRI countries. In other words, the SCO basically accounts for two-thirds of the BRI’s total population and GDP. Obviously, if the eight SCO countries were not to participate actively in the Belt and Road Initiative, the implementation of the BRI would face serious problems.

Secondly, in terms of regional distribution, the current eight member countries of the SCO are distributed across the regions of East, Central and South Asia, as well as North Asia and Northeastern Europe thanks to Russia’s membership. As a key role, therefore, the eight countries maintain peace and stability and promote the development of the Asian region, as well as parts of Eastern Northern Europe. In this region, if Belt and Road cooperation is able to take the lead effectively, it will improve connectivity, prosperity and the influence of the SCO member countries throughout. Judging from the current situation, except for India, the other seven countries have not only signed relevant agreements with China on the implementation of Belt and Road cooperation, but also have participated in relevant construction projects actively. The overall outlook for continued BRI cooperation by SCO members is promising.

In addition, the country coverage of the six land-based economic corridors’ under the Belt and Road framework consists mostly of SCO members. Therefore, SCO member states are the main backbone for the construction of these economic corridors. From this point of view, using the SCO as the platform to actively promote the construction of the Belt and Road Initiative is not only of great significance, but also highly feasible.

Finally, the SCO has attached great importance to security cooperation from the beginning, sparing no efforts to focus on the “three evil forces” of terrorism, extremism and separatism. It has held regular joint anti-terrorism drills such as the “Peace Mission” over many years. Hence, member states of the SCO currently have good safeguards in the domains of defense security, law enforcement security, information security, and so forth. This in turn has laid a good foundation for the implementation and promotion of Belt and Road cooperation. Security and humanitarian cooperation within the SCO therefore provide a good safeguard for advancing the Belt and Road agenda and promoting the development of Central Asia.

6.2. Eurasian Economic Union (EEU)

The relationship between the EEU and the Belt and Road Initiative is very close. If the two sides are able to establish a good cooperative relationship, it will play a very positive role for both; if they cannot establish a good relationship, it will be extremely disadvantageous to the development of both.

From China’s perspective, two of the six corridors of the Silk Road Economic Belt advocated by China pass through EEU countries. If the construction of the Silk Road Economic Belt does not establish good cooperative relations with the EEU and its member states, it will be impossible to promote these corridors. From the EEU’s perspective, the current economic strength of the EEU countries is limited. If they are to build an integrated, strong organization like the European Union, cooperation in trade and investment with China and its Belt and Road Initiative will be essential. Hence, one would expect that the member countries of the Eurasian Economic Union will seek cooperation with China under the Belt and Road Initiative.

When China initially proposed the Belt and Road Initiative, Russia may have had some concerns, but Russia soon realized the positive significance of the Belt and Road Initiative as a factor that would help accelerate the integration of the EEU. Thus, on May 8, 2015, President Xi Jinping and President Putin signed the “Joint Statement of the People’s Republic of China and the Russian Federation on the Construction of the Silk Road Economic Belt and

2. Except for the China-Indochina Peninsula economic corridor.
the Construction of the Eurasian Economic Union." The joint statement clearly stated that Russia supports the construction of the Silk Road Economic Belt and is willing to work closely with China to promote the implementation of the initiative. China also supports Russia actively in promoting the integration process within the framework of the Eurasian Economic Union.

This joint statement contained the following key elements for intensified cooperation: (1) expansion of investment and trade cooperation between China and the EEU countries to promote economic growth and expand employment; (2) implementation of large-scale investment cooperation projects to jointly build industrial parks and cross-border economic cooperation zones; (3) implementation of infrastructure development projects; (4) research on promoting the establishment of a China-EEU free trade zone; (5) creation of a good environment for the development of small and medium-sized enterprises; and (6) expansion of financial cooperation.

This shows that China and the Belt and Road Initiative are expected to play a very positive role in promoting infrastructure construction, trade, investment and industrial development in the Central Asian members of the EEU, as well as in increasing employment opportunities. At the same time, with the high degree of interdependency and the potential for mutual benefit and win-win situations, the integration and further development of the EEU will also play a supporting role in promoting the Belt and Road Initiative advocated by China.

6.3. Central Asia Regional Economic Cooperation (CAREC) Program

China attaches great importance to CAREC, because its member countries (Afghanistan, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan and Uzbekistan) and CAREC’s traditional cooperation priorities (transportation, energy and trade cooperation) are highly consistent with those of the Belt and Road Initiative. Therefore, with the continuous advancement of the Belt and Road Initiative, CAREC will play an increasingly important role.

China has already supported the establishment of the Central Asia Regional Economic Cooperation Institute in Xinjiang Autonomous Region. In the future, it may undertake more research and training tasks linked to Belt and Road construction, and more and more construction projects may rely on CAREC; meanwhile, the Belt and Road Initiative will also provide the impetus for better development of CAREC, and make it more dynamic as well. It will be based on mutually beneficial cooperation and mutual promotion.

6.4. International Organizations

Attaching great importance to the role of international organizations in promoting the construction of the Belt and Road Initiative, China has signed Memoranda of Understanding (MOU) on cooperation Belt and Road cooperation with more than 30 international organizations, including the World Bank Group (WBG), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and BRICS New Development Bank (NDB). Other international organizations include institutions within the United Nations system, such as the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Environment Programme (UNEP), the World Health Organization (WHO), the World Intellectual Property Organization (WIPO), and so forth.

Judging from the current situation, this cooperation is still at the initial phase, consisting mostly of signing MOUs and expressing positive cooperation intentions. Specific cooperation projects are still being prepared. Therefore, it is still difficult to assess the extent and potential positive impact of the engagement of multilateral agencies in support of the Belt and Road Initiative generally, and in Central Asia specifically. However, it is clear that China actively supports the participation of international organizations in the Belt and Road Initiative, and more generally also actively supports the work of international organizations in cooperation with China to promote economic and social development in Central Asia.

7. Cooperation with Major Countries to Jointly Promote the Development of the Belt and Road Initiative in Central Asia

Europe is an important export destination for China and hence a major reason to promote the Belt and Road Initiative and the trade development it will facilitate. The destinations of the China-Europe Railway Express are spread across 48 cities in 15 countries, all European. Clearly, China sincerely hopes to work closely with EU countries to promote the Belt and Road Initiative. Yet so far, the effect is unsatisfactory, and no EU countries have signed Belt and Road cooperation agreements with China. China will continue to promote this important cooperation
goal. Considering that China is a large market, one would expect that the EU will gradually change its attitude and strengthen cooperation with China on the Belt and Road step by step. The reason is very simple: not only will this be conducive to promoting the economic development of the EU, but it also will be conducive to promoting the EU’s goal of greater integration internally and internationally.

For Russia, there is currently no obstacle to Belt and Road cooperation, because President Xi Jinping and President Putin have reached a consensus in this regard and signed a cooperation agreement. More importantly, Russia and Central Asian countries have obtained numerous tangible benefits from the Belt and Road Initiative since China proposed it five years ago.

As for cooperation with the United States on the Belt and Road Initiative, China shows a positive and open attitude. If the United States is willing to cooperate, China will agree. Therefore, cooperation will depend mostly on the attitude of the United States, not China.
1. Introduction

This paper addresses the interests of the EU and its member states in the Chinese Belt and Road Initiative (BRI) as a transport infrastructure project facilitating trade between the EU and China—specifically its role in relation to Central Asia and the South Caucasus—and as a component of China’s increasing overall strategic presence in Europe.

The overall picture is far more complex and qualified than the political proclamations coming from the Chinese side about a ‘win-win’ proposition for all, with several cross-cutting arguments coming into play.

A pertinent survey of mainly Western experts’ opinions about the BRI has recently been undertaken by the journal *International Economy*. A few major themes dominated the responses. China is seen as motivated by a convenient combination of domestic economic concerns (to develop its Western regions and export construction services and related products such as steel and cement where it has excess capacity) and its interests in political and economic power projection broadly across the Eurasian landmass and beyond. For the recipient countries there are risks of accumulating debt burdens unmatched by adequate project rates of return. This can link to backlash by recipient governments and populations wary of increasing Chinese influence, of which there are examples already emerging (Ang et al. 2018).

This paper proceeds with a review of the most important chapters of European interests and concerns, starting with the relatively technical matter of transport infrastructure and ending with geopolitical matters.

2. Transport Infrastructure for EU-China Trade

By contributing to the build-up of intercontinental Eurasian transport infrastructure, the BRI is of interest to European business, but only for a certain niche of transport services in comparison with what already functions by sea and air freight. Both sea and air routes are wonderfully simple, with no frontier formalities at all to perform in between the EU and China. Both routes are solidly established thanks to huge investments in ships, aircraft and tailored logistic facilities at each end. The sea routes serve the relatively low-value cargoes that do not perish on the way. The air routes serve to quickly deliver very high-value or perishable commodities. The sea route component of the BRI embraces various port facilities on the way, including the Chinese-owned Piraeus port near Athens. The sea routes are served by massive and cost-effective container ships that carry the bulk of trade volumes. The air freight business has the characteristic of great flexibility, arranging all possible point-to-point connections that trade flows may justify. EU-China trade is currently worth about US$560-600 billion annually, with a physical weight of about 90-100 million tons. Of this, only 1 million tons were sent by rail and nearly 2 million by air freight in 2016, thus making up only a very marginal 1 percent and 2 percent of the total for rail and air freight, respectively. Around 80 percent of this traffic is containerized. Total EU-China trade sees over 12 million containers (forty-foot equivalent units—FEUs) transported, of which only about 1.5 percent are transported by rail.

The technical and regulatory limitations on the growth of rail transport between China and Europe are several. The most conspicuous is the need to cope with differences in width of rail gauges, namely 1,435 mm in China and most of Europe versus 1,520 mm in the former Soviet Union. This is overcome technically with various techniques, but at a cost of time and money. Other regulatory differences concern, for example, the length of trains, axle loads, coupling systems, electrification standards, tariffs, etc., all of which are deemed even more troublesome than the gauge differences (Vinokurov & Tsukarev 2017).

Road routes do not suffer from the particular problem of rail gauges, but road haulage over intercontinental distances is otherwise hopelessly uneconomic and climate-polluting compared to sea or rail transport. The number of organized rail routes from China to the EU has been increasing and the number of containers carried on...
The actual rail and multimodal routes from China to Europe follow three basic corridors. The first and most-used one is logistically relatively simple: China-Kazakhstan-Russia-Belarus-Poland. However, the Belarus-Poland crossing point has limited capacity, and would need heavy investment to increase capacity substantially.

The second one is much more complicated, with land-sea multimodal connections as well as more frontier crossings: China-Kazakhstan-Caspian Sea-Caucasus-Black Sea.

This route has to compete with a third route, a sea-land hybrid, which goes by sea from China to the Greek port of Piraeus, where it connects with the ‘Balkan Silk Road’ by road or rail up into core European markets. This saves a considerable amount of transit time for trade between China and Europe: Shanghai to Hamburg takes 36 days, whereas Shanghai to Piraeus can be 10 days less.

A valuable summary of the capacity and current cost of seven routes—five through Russia, two through the South Caucasus and one through Iran—has been assembled by Vinokurov & Tsukarev (2017). The story in brief is that the simplest Shanghai-to-EU route through Russia via Vladivostok costs US$2,200 per TEU. The route from Urumqi in Western China to the EU via Kazakhstan and Russia costs US$4,300, and the multimodal route across the Caspian Sea, South Caucasus and Black Sea costs US$9,000.

The EU views these routes as having contradictory attractions and drawbacks. The Russian route is the most attractive land route economically for geographic-logistic reasons. However, the more southerly route, and of course the sea routes, have the interest of geopolitical and strategic diversification away from any reliance on transit through Russia.

Since recent years have been characterized by acute geopolitical tensions between the EU and Russia, leading to various sanctions imposed by both sides, the case for route diversification is a serious one. In the particular case of Ukraine, epicenter of current tensions, there have actually been transit limitations imposed by Russia on Ukraine’s trade with Central Asia. Ukraine has important and bulky trade volumes with Kazakhstan, in particular for food products and machinery, whose transit through Russia has been blocked. Ukraine therefore is keenly interested in the trans-Black Sea-Caucasus-Caspian Sea-Central Asian route, which Georgia, Azerbaijan, Kazakhstan and China are also keen to develop. Transport infrastructure investments are being made or planned in ports and rail and road connections across the South Caucasus. A new Baku-Tbilisi-Kars railway line has been completed. There are port developments in Azerbaijan on the Caspian Sea and in Georgia on the Black Sea. Georgia, Azerbaijan and Kazakhstan have signed a Trans-Caspian International Transport Route agreement (TITR), as a result of which the China Railway International Group is expressing interest in investing in the proposed new Anakilia port on the Georgian Black Sea coast.

### 3. The EU’s Interests in Central Asia and the South Caucasus

The EU has structured cooperative relations with all the states of the South Caucasus and Central Asia. The closest relationship is with Georgia, by virtue of its Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA) with the EU. This was due to be the case also with Armenia, but at the last minute before the signing in 2013 the Armenian President was pressured by the Russian president into swapping horses and joining the EAEU instead. However, Armenia was able to make a compromise agreement with the EU in 2018. Azerbaijan for its part seeks a new agreement with the EU, and already has strategic oil and gas pipelines and rail connections extending across Georgia heading towards EU markets.

The EU also sustains a Central Asia ‘Strategy,’ whose title may be an exaggeration, which nevertheless provides as common framework for cooperative relations with all five states of the region. This involves dialogue over many policy questions, two of which merit special mention. There is a set of bilateral human rights dialogues with all five states, which are not easy matters, but still allows professional contacts with both official legal institutions and civil society organizations where they exist (Kazakhstan and the Kyrgyz Republic). It goes without saying that neither Russia nor China extend their presence in the region to interest in such matters.

---

**Table 1: Container Trains’ Frequency of Departure and Volume of Freight Traffic along PRC-Europe-PRC Routes, 2011-2020**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2020 (est.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume of Container Traffic (thousand FEU)</strong></td>
<td>7</td>
<td>14</td>
<td>10</td>
<td>22</td>
<td>40</td>
<td>74</td>
<td>200-250</td>
</tr>
<tr>
<td><strong>Number of Train Departures per Week (units)</strong></td>
<td>0.3</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>16</td>
<td>33</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Vinokurov & Tsukarev (2017)

Note: FEU = Forty Foot Equivalent Unit
The EU has also consistently tried to encourage regional cooperation between the five states and has convened and moderated several meetings of all five states together. Water supply is a natural and desperately important agenda item for regional cooperation in Central Asia. Regional cooperation has never really progressed until now due to tension between Kazakhstan and Uzbekistan over ideas about regional leadership. In addition, there was a raw confrontation between Uzbekistan and Tajikistan over the construction by the latter of the Rogun hydroelectric dam. This is due to be the highest in the world and would generate substantial energy export capacity for Tajikistan.

However, Uzbekistan’s new post-Karimov leadership has changed its policy 180 degrees, now advocating regional cooperation and withdrawing its objections to Rogun. Large-scale funding will be required for Rogun, and this might be an attractive project for support from the BRI, especially since due diligence studies by the World Bank were completed for environmental and technical aspects of the project, which gave a green light.

The EU’s most developed relationship in Central Asia is with Kazakhstan, with which it signed an Enhanced Partnership and Cooperation Agreement in 2015, and where its companies in the oil and gas sectors are the biggest foreign direct investors. A further enhanced agreement with the Kyrgyz Republic is also now under negotiation.

As for officially funded investment, both the EBRD and European Investment Bank (EIB) are mandated to fund projects in Central Asia and the South Caucasus. In Georgia they are the biggest foreign investors. The EBRD considers itself to be a natural partner for the BRI. The EBRD has the expertise to promote the so-called “soft” infrastructure of investment projects, including high environmental, social and corporate governance standards. The EBRD is interested in partnering with the BRI, as long as projects fit into its screening. Whether this partnership will work in practice remains to be seen. The BRI has suffered reputational damage as a result of several major project setbacks (for example in Malaysia, Pakistan, Sri Lanka, Djibouti, etc.) resulting from project selection policies that had not been at the level applied by the multilateral development organizations.

4. Regulatory Issues in Central Asia and the South Caucasus

The EU’s project of most precise relevance to the BRI in Central Asia and the South Caucasus is a long-standing technical assistance program called TRACECA, standing for Transport Corridor Europe Caucasus Asia. The program brings together transport officials and experts from Bulgaria, Romania, Moldova, Ukraine, the three South Caucasus states and four Central Asian states (all except Turkmenistan), Turkey and Iran. It has operated continuously since its founding conference in 1993, and has a permanent secretariat in Baku. There are four sectoral working groups (Trade Facilitation, Road, Rail and Maritime Transport), which are responsible for identification of projects for EU financing. In 2016 it adopted a Strategic Plan 2016-2026, which addresses institutional-legal barriers for transport and international trade facing all transport modes: maritime, railways, roads, inland waterways, and air traffic. TRACECA is a grant-funded technical assistance project, supporting only a limited number of small-scale investment projects for rehabilitating transport infrastructures. Its main objective is to improve the level of transport regulatory policies and facilitate the reduction of non-physical border barriers. Overall TRACECA aims for the creation of an infrastructure chain ensuring multimodal transport, with integration of the corridor into the Trans-European Transport Networks (TENs). The TRACECA is thus in principle complementary with the BRI, which does the heavy lifting in funding of infrastructures. Politically, however, TRACECA suffers from two important weaknesses: the absence of both Russia and China.

This leads into the broader practical problems posed by the two international systems of railway transport law and cooperation, that of the ‘OTIF,’ in which the EU has a leading role, and ‘OSJD,’ whose membership is a relic of the former Communist bloc (USSR, the Warsaw Pact or Comecon countries, China and even Cuba—see Box 1). As an example of the problems that result, there is the need to streamline transit procedures and border crossing with the aid of a single uniform railway consignment note recognized by customs services, covering the whole route from the point of departure to the port of destination. This would mean rationalizing the divergent ‘CIM’ and ‘SMGS’ rules of the ‘OTIF’ and ‘OSJD’ respectively. Border frictions and delays consist of complicated customs procedures at crossing points (e.g. random inspections that require sealed transit containers to be opened); bad coordination between the railways, the customs and forwarding agents and the customs brokers; the number of documents required; and long registration procedures with numerous state agencies.

2. Comparisons between EU (OTIF) and OSJD systems have been exhaustively documented in M. Rafsindjani and C.-T. Stempfle (2007).
This confusing overlap of competences between the international railway organizations should be a subject of reconsideration by all parties in light of the BRI, which in principle demands a harmonized system of regulation of cross-border rail traffic. The question then becomes which rules could be adopted by all.

A constructive example has emerged in the field of technical regulations and standards for trade in goods, where the standards set by European and international standards organizations (CEN, CENELEC, ISO) are increasingly adopted also by the Eurasian Economic Union (EAEU), replacing GOCT standards inherited from the USSR. The EAEU decided to do this autonomously, with technical assistance from the EU, with the result that nowadays identical standards are increasingly used by the EU and EAEU (Emerson & Kofner 2018).

For railways the question might be whether to merge or restructure OTIF and OSJD, profiting from the EU’s experience at working out modern railway law for multilateral adoption. To take a more precise example of the attempt to secure regulatory convergence, in 2018 it was reported that OTIF is working on extending to China the use of its model ‘electronic consignment note,’ which is the key legal document supporting international freight consignments.

The BRI raises the bar in terms of conceivable and desirable progress in railway cooperation along the whole way from China to Europe. While progress in regulatory convergence is slow, railway technology and infrastructures for high-speed trains have advanced by leaps and bounds. The romantic idea of a New Silk Road Orient Express, crossing frontiers at high speed (as in the EU already for many years) all the way from Beijing to Paris no longer needs to be considered science fiction. This may still have an element of romantic fantasy, but at least it can register as a long-run vision appealing to citizens of the entire Eurasian space, way above the dry technical matters of regulatory convergence.

5. Trade Policy Aspects for Central Asia and the South Caucasus

A clear objective for the countries of Central Asia and the South Caucasus is that the BRI should not just see
trains of containers transiting their lands with no economic impact other than some railway tariff income. It should also see value-adding industries and services developing along the way. But how can this be engineered? There is one model case being tested, that of Georgia, which has complemented its deep free trade agreement (FTA) with the EU with a thinner FTA with China. The idea is that both Chinese and European enterprises might see advantages in locating value-adding processes in Georgia, where inputs imported tariff-free from one side would undergo sufficient value addition to be eligible for tariff-free export to the other side. The first step, to extend free trade agreements between Georgia and both the EU and China, has been taken. A further piece of supporting regulatory infrastructure is also seen as Georgia enters the Pan Euro-Mediterranean (PEM) system of rule of origin preferences, allowing for cumulation of value-added with other PEM states, starting with Turkey as an important partner for Georgia. The principles at play here, i.e. for states that might have free trade with both China and the EU, coupled to rules of origin preferences, are of general relevance to states along the Belt and Road. However, for the time being Georgia is a unique case, and the countries of the EAEU in particular are constrained from following Georgia’s lead because of their participation in the EAEU customs union. The EAEU has been keen to make an agreement with China, but only a non-preferential agreement, which means no tariff-free trade.

The EU observes this with interest. It hopes to see Georgia succeed in developing new value-adding activities in supply chains between China and the EU. Armenia next door would naturally like to do the same, but is unable to do so because of its switch in 2014 from its draft deep FTA with the EU to joining the EAEU under Russian pressure. Basically, the EAEU made an economic policy mistake in going for a customs union rather than a deep FTA, since there are too big divergences of economic and trade structures between the petrostates (Russia and Kazakhstan) and the others. It would be better if the EAEU dropped the constraint of its common external tariff, which still only exists in theory, since there have already been so many breaches. These issues are now especially worthy of consideration by post-Karimov Uzbekistan, which has FTAs with other CIS states but remains outside the EAEU customs union.

6. Trade Policy and Legal Aspects in EU-Chinese Relations

The BRI and other Chinese project funding activities in the EU raise issues of respect for EU law, as well as questions over whether EU legislation needs to be reinforced for relations with third countries such as China. These issues also arise for the EU’s neighbors that seek EU membership and already are in the process of adopting EU market law, including those participating in the 16+1 initiative (see the next section), as well as Georgia, Moldova, and Ukraine, which share DCFTAs with the EU. There are several precise areas of relevance here, namely public procurement, competition and subsidy control policy, and controls over foreign investment on security grounds. The Chinese authorities are at least aware of these issues, to the point of having organized some international conferences in Beijing with foreign experts on legal issues raised by the BRI.

Public procurement. As soon as there are BRI projects located on EU territory or that of neighboring countries following EU regulatory standards, the issue arises over the lack of a level playing field for public procurement. The EU and China have very different systems. The EU is party to the WTO’s Government Procurement Agreement (GPA), to which China also has applied to join since 2007. China has made six offers at the WTO to accede to the GPA, but these have not been accepted as adequate. China has a strong tendency to isolate public procurement from competition from abroad, and EU companies are frustrated that access to the Chinese market is much less open than that of the EU, with complaints over weak observance of the principles of non-discrimination and transparency.

The EU’s market is governed by strict public procurement directives, based on the principles of competition, transparency and non-discrimination. EU law makes no distinction between EU and foreign enterprises, even to the point that Chinese companies have won an open tender for a major project funded by EU grants (the Croatian Pelješac bridge—see further below). Also, many of the EU’s free trade agreements contain public procurement provisions, whereas those of China do not.

Looking ahead to possible negotiations between China and the EU on public procurement, the first challenge is to reach an agreement over Chinese accession to the GPA of the WTO. However, it may be expected that the EU side would want to go further with complementary

3. As was the case with the Silk Road of earlier millennia, when the Persian empire and the Central Asia of the golden age of Samarkand were highly developed economic centres. See P. Frankopan (2015).

4. The author is indebted for information on this point to his colleagues Steven Blockmans, who has participated in these conferences, and to Jacques Pelkmans for the work cited next.

5. For a detailed review see Jacques Pelkmans et al. (2018), chapter 12.
commitments, including specific provisions regarding state-owned enterprises.

_state-owned enterprises (SOEs) and competition policy._ There is a basic asymmetry of structure in that China has a huge collection of SOEs, whereas in the EU they are few. In China, 96 percent of the biggest enterprises are SOEs, whereas in Germany there are only 11 percent and in France (long home of important SOEs) only 17 percent (Pelkmans et al. 2018, ch. 14). Moreover, given the strictness of EU competition and anti-subsidy rules, such SOEs as exist in the EU have in any case lost most of the privileges of state ownership. Reform of SOEs in China has been high on the political agenda since the 1970s, and state policy declares that they operate in accordance with market principles. However, realities include large-scale excess capacities in sectors massively involved in the BRI, such as construction, steel, cement and related materials. While there have been many bankruptcies and restructuring operations, there has been also much soft financing of SOEs, with high reliance on debt (including preferential debt terms and large-scale non-performing loans) rather than equity capital.

On the related question of competition policy there have been policy developments in China. Still the EU considers that these do not add up to a level playing field, notably on grounds of transparency, legal predictability and the special conditions from which SOEs may benefit.

_regulation of foreign investment._ This is the main field in which the EU and China are currently actually negotiating, with a view to concluding a Comprehensive Agreement on Investment (CAI). The negotiations began in 2012, and their scope widened in 2016. President Xi has proposed that a CAI be integrated into a comprehensive free trade agreement, but the EU prefers to conclude a CAI first.

Meanwhile, the context changes with the case for greater and more selective control over foreign investment, in particular from China, gaining ground within the EU, as in the US. So far Chinese firms have had rather easy access for investing in the EU, whereas EU firms find the Chinese market extremely difficult to break into. Over the last decade or so China has eased its restrictions, but from a starting point of extreme restrictiveness (Pelkmans et al. 2018, ch. 15). While the EU and China are negotiating over investment protection, the EU itself has limited competence for the screening of foreign investments, which remains in national hands. In September 2017 the European Commission proposed a framework for screening foreign investments, but this remains an aspiration for the time being. At the same time, Chinese interests complain about the lack of a common policy in this field, but are nonetheless adept at negotiating with member states on a bilateral basis. Two recent cases stand out. In Germany, Chinese interests bought out a leading robot manufacturer, which set off political alarm bells, and led to a more discriminating control over investments that have strategic economic or security implications. In Portugal, Chinese interests have acquired control of the major electricity generating and grid enterprise, which also has similar assets in Spain. This acquisition has been accepted, but stands out as a cession of control over strategic economic infrastructure that many governments in the EU will not want to replicate.

Within the EU there are manifest differences in how individual member states view the BRI and China’s increasing presence. The main fault line is between core Western Europe and new member states in Central and Southeastern Europe, with the latter much more actively seeking Chinese investments. This fault line has actually been developed by China itself with its 16+1 initiative, to which the next section turns. Broadly speaking, the countries most favorable to Chinese investment are small-sized, relatively poor, and often with shaky democracies.

7. China’s 16+1 Initiative

The 16+1 brings together China with 11 EU member states and 5 non-EU member states. The EU member states include the Baltic three (Estonia, Latvia, Lithuania), the Visegrad four (Czech Republic, Hungary, Poland, Slovakia), the two Black Sea states (Bulgaria, Romania) and two Balkan states (Croatia, Slovenia). The non-member states, all in the Balkans (Albania, Bosnia, Macedonia, Montenegro, Serbia), are either in the process of negotiating accession to the EU or wish to start doing so as soon as possible. Other EU member states (outside the 16+1 grouping) that stand out for having welcomed important Chinese investments include Greece with the port of Piraeus and Portugal for its electricity sector.

The 16+1 initiative is signaling the divergences of interests in Europe between core Western Europe and several of the EU’s new member states of Central and Southeastern Europe, as well as the Balkan states aspiring to EU membership. The first core group of ‘old EU’ states already have adequate or excellent transport infrastructures and access to finance for viable projects. They do not need the BRI on their own territories, but can see advantages in hooking up with new transport infrastructures that connect to Asia. The second group of states are far more ‘investment-hungry,’ both to develop their infrastructural endowments and
to attract new investment in the manufacturing and service sectors. This second group of countries are often weak in terms of credit rating. Their leaderships are therefore more inclined to be attracted by project funding on less demanding terms, such as from the Export-Import Bank of China, than are offered by the IFIs. An example is seen in the case of Greece, already mentioned, which in the midst of its prolonged euro-debt crisis has seen Chinese investment in the port of Piraeus, which in turn became the gateway to the Balkan Silk Road.

July 2018 saw the 8th 16+1 Summit meeting, hosted by Bulgaria in Sofia. Its final declaration contained 18 detailed pages of conclusions in the ‘The Sofia Guidelines between China and Central Eastern European Countries.’ The Guidelines are remarkably extensive, with chapters covering:

- Strengthening 16+1 Coordination;
- Deepening Practical Cooperation in Trade, Investment and Connectivity;
- Cultivating new drivers for Cooperation in Science, Technology, Innovation, Finance, Green Environmental Protection, Agriculture, Energy, Forestry, and Health;
- Expanding People-to-People Exchanges.

One may observe that this covers a large extent of the competences of the EU, which raises questions over the operational and legal commitments being taken by the 16+1 parties in relation to EU laws and policies, which of course wholly apply to the 11 EU member states and increasingly also to the 5 non-member states.

In concrete terms, this most sharply raises issues of public procurement law, as discussed above, especially over infrastructure projects. There have already been a number of cases where the Commission had to intervene to stop a BRI project that did not observe EU public procurement rules (for example the Budapest to Belgrade railway) from going ahead.

More broadly, the EU has expressed concern over China’s 16+1 strategy, since it separates the 11 ‘new’ from the ‘old’ member states, and initially excluded the EU institutions, while adding in the 5 Balkan non-member states. China was thus adopting a format that cut across the demand for language about “a positive complementarity to the relationship between China and the EU,” and on how the BRI projects “would also complement EU policies and projects...in accordance with the laws, regulations and respective competences of each other and EU standards and policies for EU member countries and candidate countries.” Thus, a diplomatic gesture to the EU was made, and the EU was present at Sofia as an observer. But whether or how this translates into concrete realities remains to be seen.

In April 2018 it was reported in the press that 27 of the EU’s 28 member states’ embassies in China had signed a report for Brussels that was critical of the BRI on several points. The only dissenting member state was Hungary. Although the report has not been published, it is said to argue that the BRI “pushes the balance in favor of subsidized Chinese companies” (Heide et al. 2018).

A striking and very concrete interaction between EU instruments and Chinese interests in the Balkans is the Croatian Peljesac bridge project. This major €347 million project is being largely grant-funded by the EU’s structural funds. Put out to open tender, a Chinese construction company won the contract, amid protests by EU construction companies which complained about unfair competition. The complaints were taken to the courts in Croatia and dismissed. So here was EU law at work, doing a remarkable favor to Chinese interests. As remarked above, this is because EU public procurement law does not discriminate between EU and non-EU bidders. The example is one of legal correctness for the time being, but of dubious political sustainability. The project has been described as a political ‘white elephant’ for which Croatia and the EU have to take responsibility, while Chinese interests can view it more simply as a business opportunity.

Another project in the headlines is the much bigger €3 billion highway project in Montenegro (Box 2), which should traverse the country from the Adriatic port of Bar across to landlocked Serbia (see the box for details). The project is strongly supported by Montenegro’s president for its long-term strategic significance, alongside warnings from IFIs that it is not viable financially. This is suggestive of China’s willingness to use the BRI as an instrument for debt-funding projects to be built by leading Chinese construction companies under conditions that would not satisfy the IFIs, with minimal feedback into the local economy in terms of employment and procurement supplies, thus leaving a major debt burden as hangover for the host government.

The EBRD has undertaken or sponsored several studies on Chinese investments in Southeastern Europe, signaling its interest in the potential complementarity of EU and IFI investment in the region with those financed by China (Bastian 2017, Levitin et al. 2016). Broadly speaking, these studies show the very extensive investments...
Box 2: “Chinese ‘highway to nowhere’ haunts Montenegro”

Such is the title of a detailed report by Reuters on a 165 km highway being constructed in Montenegro between the Adriatic port of Bar and the frontier with Serbia by the China Road and Bridge Corporation (CRBC). Construction of the initial 41 km stretch is being funded largely by a €809 million loan from the Export-Import Bank of China. The mountainous terrain means that much of the route has to consist of bridges and tunnels, hence its high cost per kilometer. 3,605 workers are on site, two-thirds of whom are Chinese. The CRBC negotiated terms that included the exemption of imported materials from both customs duties and value added tax.

Three feasibility studies have been conducted, one by a French consulting company for the Montenegrin government, and another for the European Investment Bank. Both concluded that the project was not viable economically, with insufficient projected traffic demand to give an adequate rate of return. A third study, commissioned by Export-Import Bank of China, concluded that the project was viable, but this has not been published and attempts by Reuters to see it were unsuccessful.

To proceed with the remaining stages of the project, it has been decided to go for a public-private-partnership (PPP) form of contract, for which the CRBC has signed a MoU with the government. Both the European Investment Bank and IMF have warned that the PPP model would not be bankable, requiring large subsidies to make a toll-based concession acceptable to an investor. However, the already-sunk costs makes it very difficult politically not to proceed to the project’s completion, which in total will cost around €3 billion, corresponding to 70 percent of Montenegro’s annual GDP (€4.3 billion in 2017).

Montenegro has been cited as one of eight countries that are the most heavily exposed to debt risks resulting from Chinese BRI projects, alongside Tajikistan and the Kyrgyz Republic in Central Asia.

Sources: Barkin & Vasovic (2018), Hurley et al. (2018)

8. China’s Growing Strategic Presence in Europe

The rise of China’s interests in Europe is seen as being inexorable, a fact of life of the 21st century. It has many aspects of economic and geopolitical power projection, of which the BRI and the 16+1 initiative are only examples.

At the summit level, the EU and China work hard together on a very broad agenda for cooperation. The 20th EU-China summit in July 2018 opened with splendid language:

“On the occasion of this 20th EU-China Summit, the two sides celebrated the 15th anniversary of the EU-China Comprehensive Strategic Partnership. This has greatly enhanced the level of EU-China relations, with fruitful outcomes achieved in politics, economy, trade, culture, people-to-people exchanges and other fields. The Leaders reaffirmed their commitment to deepening their partnership for peace, growth, reform and civilisation, based on the principles of mutual respect, trust, equality and mutual benefit, by comprehensively implementing the EU-China 2020 Strategic Agenda for Cooperation.”

The text went on later to speak of the BRI in positive and cooperative terms:

“The two sides will continue to forge synergies between China’s Belt and Road Initiative and the EU’s initiatives, including the EU Investment Plan and extended Trans-European Transport Networks, and to promote cooperation in hardware and software connectivity through interoperable maritime, land and air transport, energy and digital networks. The two sides stressed that this cooperation should improve the economic, social, fiscal, financial and environmental sustainability of Europe-Asia connectivity. Such cooperation should abide by the shared principles of market rules, transparency, open procurement and a level playing field for all investors, and comply with established international norms and standards, respective international obligations, as well as the law of the countries benefiting from the projects, while taking into account their policies and individual situations.”

More concretely, the EU-China summit in June 2017 launched a new fund to support BRI operations in Europe. The China-EU Co-Investment Fund, backed by the European Investment Bank and the (Chinese) Silk Road Fund, is expected to provide €500 million (US$540 million) to support equity investment across Europe. The China-EU Co-Investment Fund is intended to develop synergies between China’s BRI and the EU’s so-called “Juncker
EUROPEAN PERSPECTIVES ON THE CHINESE BELT AND ROAD INITIATIVE

Plan,” the latter seeking to mobilize €315 billion of new public and private investment across Europe.

The above summit language is in accordance with European interests, but there is room for skepticism whether these words will translate into realities on the Chinese side. The EU’s concerns are not that different from those of the Trump administration over such matters as subsidization of state-owned enterprises, respect for intellectual property rights, and lack of transparency and accessibility for European investors. As a result, the EU still does not recognize China as a ‘market economy’ for trade policy purposes. However, President Trump’s trade war policy is equally antithetical to both the EU and China, such that both are brought together as supporters of the multilateral trade order of the WTO.

The EU’s reticence over making any whole-hearted endorsement of the BRI seems to emerge from a reading of its quite detailed 13-page policy paper on ‘Connecting Europe and Asia’ (European Commission 2018). While the paper was addressed to the whole of Asia, it discussed all modes of air, land and sea transport connecting with Asia without referring to the BRI. The paper is explicit about stepping up cooperation “with relevant third countries, including the EU-Chinese Connectivity Platform, to promote the digital economy, efficient transport connectivity, and smart, sustainable and secure mobility, based on extension of the TEN-T network, and promote a level playing field for investment.” The paper goes on to emphasize the role of the international financial institutions (IFIs) and multilateral development banks (MDBs), with the aims to “facilitate investment for Euro-Asian connectivity through the investment facilities and guarantees, involving European public banks, (EIB, EBRD and member states’ national banks and institutions, and OFIs, in line with international standards and level playing field [sic]” (European Commission 2018).

The most recent summit meeting between the EU and Asia, on 18-19 October 2018, saw an agreed text favoring open and rule-based trade and improved connectivity (see Box 3). This text stands out first as a marker to record the two continents’ common rejection of President Trump’s stances on trade, climate, Iran, and his general disregard for the rule-based multilateral order. It is also setting out the EU’s concerns that relations between the two continents assure a level playing field and respect for international standards. The language may be sufficiently general to have been acceptable for all, yet the principles laid down are a serious matter for the EU side, much more than anodyne diplomatic language.

At the geopolitical and ideological levels, the EU sees China as pursuing to some extent the same agenda as Russia, albeit more carefully at a diplomatic level. Both are authoritarian states that seek to expand their global influence without seeking to impose political conditions on their relations with partner states or taking objection to regimes that the EU considers objectionable in terms of political and human rights values and practices. The Chinese Communist Party quite explicitly adopted in 2013, at the beginning of President Xi’s leadership term, the now (in)famous Document 9, which lists the seven most serious threats to the Chinese state, which amount to a total antithesis to traditional European liberal political values (ChinaFile 2013). Adding to this element of doctrine is the extraordinary expansion of the Chinese security apparatus, with omnipresent CCTV networks linked to facial recognition and big data bank capabilities, which for the European observer could come straight out of Orwell’s 1984 (Financial Times 2018b). Further, China is reportedly preparing its ‘counter-terrorism’ forces to play a bigger role in protecting its strategic interests overseas. Zhang Xiaopi, head of intelligence for the army police, declares, “We must strive to become a deterrent force to safeguard national security, a

Box 3: Asia-Europe Meeting in Brussels, 18-19 October 2018: Chair’s Statements (Extracts)

Leaders underlined their joint commitment to open, free, and non-discriminatory trade, as a prerequisite for long term growth and prosperity. They reiterated the need to further strengthen, and reform the WTO to help it meet new challenges and to improve its transparency, monitoring, dispute settlement mechanism, and its rulemaking functions. They committed to ensure free and open trade on a level-playing field and fight all forms of protectionism, including protectionist unilateral measures and unfair trade practices. Leaders underlined the importance of implementing and enforcing obligations under the WTO by its members, including the ongoing work to implement its Trade Facilitation Agreement. …

To ensure better connectivity between Europe and Asia they also stressed the importance of developing and strengthening transport systems and infrastructure that are environmentally, socially and fiscally sustainable, financially viable, affordable and accessible and are in accordance with relevant international standards.

17

2018)

2018).
pioneering force to protect overseas interests and an elite force for universal fighting” (Financial Times 2018a).

China’s propaganda efforts are quite massive, but mainly about praising all things Chinese, avoiding Russia’s kind of invidious disinformation aimed at undermining Western democracies.

The puzzle for Europeans and maybe the Chinese themselves is how long or far the doctrines and control mechanisms of the ruling Communist party can survive the ongoing transformation of Chinese society, with its increasing numbers of the well-educated and cosmopolitan younger generation—sometimes called the ‘Chuppy’ (or Chinese yuppy) generation—who now travel abroad in massive numbers. There is no answer to these questions today, but overall the puzzle is a reason why many Europeans feel cautious towards China’s inexorably increasing external presence.

9. Conclusions

Europe’s views on China’s BRI are, in one word, mixed. There are both positive aspects and concerns, while Chinese diplomatic speeches about the BRI as a ‘win-win’ for the world at large are regarded as simplistic propaganda.

Several cross-cutting European perspectives emerge.

1. The EU agrees in summit statements with China over the pursuit of synergies between the BRI and the EU’s own trillion-euro investment plan, which includes its extended European Transport networks (TEN-T). However, what this means in practice is not yet clear. The EU itself and most of its member states have little need for BRI projects, since their own transport and other infrastructures are generally of adequate or high quality, and new investments can find funding from the EU and other sources. Questions of functional linkages between BRI projects and the European networks are not yet thoroughly addressed, and deserve deeper research.

2. Freight train traffic between China and the EU is already growing, and this is appreciated by various business interests on both sides. However, today the China-EU rail connections carry only 1 percent of total China-EU trade flows alongside the other 99 percent that goes by sea and air freight without any transit border complications. This rail traffic is expected to increase, but still seems likely to remain only a marginal niche affair in total EU-China trade.

3. The EU has an interest in the development of the southern BRI routes, through Kazakhstan and either across the Caspian Sea and South Caucasus or through Iran into Turkey. For the time being, the main train connections take a northern route through Russia and Belarus to Poland, but for the EU, strategic considerations militate in favor of alternative routes to avoid a Russian transit monopoly. This is more than a theoretical concern, since Russia has actually blocked transit traffic between Ukraine and Kazakhstan. Georgia, which like Ukraine has a deep association agreement with the EU, also wishes to see the southern trans-Caucasian route developed in cooperation with both the EU and China for strategic as well as commercial reasons.

4. The EU can see the interest of the states of Central Asia and the South Caucasus in a BRI that would rise above a mere transit function and develop supply chains linkages that add value to trade flows. The most promising example here is Georgia, which now has free trade agreements with both the EU and China, as well as with other Asian states. However, it is too early to see whether this leads to significantly positive results. On the other hand, the states of the Eurasian Economic Union are less well placed to do this, given their membership of the customs union with Russia. However, the new post-Karimov Uzbekistan does not have these constraints, and has the region’s most substantial industrial sector to build on.

5. The BRI connects with China’s ‘16+1’ initiative, which brings together 11 “new” EU member states in central and eastern Europe with five “not-yet” EU member states in the Balkans. This raises two types of concern. First, in the strictly economic sphere, there are concerns over respect for EU law in the contracting of BRI public infrastructure projects and, further, whether EU law (on public procurement, competition policy, trade policy and foreign investment screening) needs to be strengthened in relation to third countries such as China. This would address problems where ‘level playing field’ conditions are not met by Chinese enterprises, such as in the construction sector.

6. The ‘16+1’ initiative also raises political concerns that it may serve as a ‘divide and rule’ instrument.

6. For a detailed account of China’s increasing political influence in Europe, see Benners et al. (2018).
of Chinese power play. More precisely, it seems that China is establishing client dependency relationships with some of the 16+1 states, which translate into complications for EU foreign policymaking that requires unanimity (for example, Hungary recently declined to sign onto a note of concern about the BRI by all other EU embassies in Beijing).

7. The EU and its member states are major suppliers of international development aid and supporters of the international financial institutions (IFIs), and therefore stakeholders in the promotion of high standards of global governance. In this context, the BRI is seen as having sponsored quite a number of major projects that were not screened as rigorously as they would have been by the IFIs. Excessive debt burdens from ‘white elephant’ projects are hazards that developing countries along the BRI route need to avoid.

8. Finally, there is the wider question of the overall EU-Chinese relationship, of which the BRI is an important aspect. The EU has now to look at its relationship with China as part of the big global ‘quadrilateral,’ alongside its relationships with the US and Russia. This big quadrilateral is in a state of unprecedented uncertainty and tensions. For the EU there are problems with all three major partners: the Trump administration, which undermines the existing international order; Russia, which is unacceptably aggressive in the European neighborhood; and China, whose global economic expansion lacks ‘level playing field’ conditions and whose political values are so different. The October 2018 EU-Asia (ASEM) summit was itself remarkable for its agreement between the two continents on desirable principles for the world economic order, while seeking implicitly to counter the destructiveness of the Trump administration. This text covered the ground rules both for trade and for investments in intercontinental connectivity, to which the BRI contributes. Reading between the lines, the European side is still proceeding with caution in its relationship with China. Through coded language about level playing fields and political values, the EU and its member states see the need to ‘protect’ against the excessive or insufficiently principled expansion of Chinese interests.

Annex: Issues Warranting Further Research

1. Coordination between the EU/EIB/EBRD over European networks overlapping with or connecting with BRI projects. Only general principles are publicly announced. To cover this major issue concretely there would have to be systematic interviews in the institutions mentioned, as well as in host governments, specified down to the project level.

2. Operational progress with the China-EU Co-Investment Fund, backed by the EIB and Chinese Silk Road Fund; interviews required.

3. Differences in terms of project selection/evaluation practice between those financed by the IFIs and MDBs, including the Asian Infrastructure Investment Bank, on the one hand, and those BRI projects funded by the Export-Import Bank of China on the other.

4. More precise examination of the overlap and coherence between EU policies in the Balkans and the Chinese-supported ‘Balkan Silk Road.’

5. How far the international railway regulators, OTIF and OSJD, might be willing and able to merge or converge in their activities; interviews at both required.

6. Commodity structure of EU-China-Asia trade flows moving along the newly emerging rail routes, and prospects for further growth; industry/port interviews needed.

7. Evidence of the BRI leading to value-adding processes in the transit countries; comparison of experiences in this respect of economies with DCFTA agreements with the EU and Eurasian Economic Union states.

8. New EU-Central Asia strategy under preparation; interviews required.

9. Developments in the EU over policies to screen foreign (notably Chinese) investments that have security implications; possible developments in EU law.

References


Financial Times (2018a). China seeks global role for elite counter-terrorism forces.


Study on the Belt and Road Initiative in Central Asia and the South Caucasus: A Note on the Indian Perspective

Rajat M. Nag

1. Introduction

India sees the BRI through a multilayered prism. Interactions of past history, global geostrategic imperatives, regional rivalries, mutual mistrust and interdependence, and economic and political considerations all come into play, producing an Indian view of the BRI which is, of necessity, complex and complicated.

At one level, it could be argued that while not necessarily universally held, the views of the political and bureaucratic elite in the country are largely skeptical. This paper will argue, however, that such a representation of India’s views, while not totally inaccurate, would be perhaps rather simplistic.

India’s views and compulsions are significantly more nuanced and need a careful analysis and understanding to help the two major countries of Asia play their rightful and critically important regional and global roles in the 21st century.

It is understandable that India’s perspective on the BRI would be influenced by events in its immediate neighborhood in South Asia. However, Central Asia and the South Caucasus are part of India’s ‘extended neighborhood’ and thus of considerable importance and relevance as well for India. And, as the focus of this study is on that region, this paper first places the India-Central Asia relationship in a historical, geostrategic context (Section 2).

Broadly, India’s perspective on the BRI can be considered under three broad groupings. (Section 3).

India considers the BRI as building on the rich heritage of the ancient Silk Road, which is an important part of its own historical past as well. For India, its perspective on the modern day BRI is thus shaped by that historical heritage, and this is presented in Section 3.1 below.

For India, the BRI is much more than just enhancing physical connectivity, important as it might be. In India’s view, the BRI is not just an aggregation of roads, railways and ports: it has significant geostrategic aspects as well. India thus needs to also consider how the BRI affects its position in the regional power architecture in a multipolar Asia in an increasingly multipolar world. This is discussed in Section 3.2.

Many observers, including India, have raised concerns about the possible debt burdens which BRI borrowing countries may incur, which may be unsustainable and beyond their capacity to ultimately repay, pushing these countries into a vicious ‘debt trap.’ In addition to obviously detrimental economic effects, the ‘debt trap’ could also have serious geostrategic consequences for India and the borrowing countries. This is analyzed in Section 3.3.

So, in light of the above concerns, what should India do? What can India do? How do two large neighbors, India and China, both very important in their own right on the regional and global stage, continue to pursue their own understandable interests and aspirations? How do they manage their complex relationship in a spirit of ‘competitive co-operation’ for their own and the larger good? These are the issues of interest in Section 4.

Section 5 concludes.

2. India-Central Asia Relations

India and Central Asia have deep and long historical relations going back almost to the first century BC. A group of tribal nomads, the Kushans, had settled in Afghanistan, and “between 100 BC and 200 AD, they ruled a vast territory stretching from Khursana to Punjab in India” (Starr 2013, p. 53). Historically, Khursana referred to a large area east and northeast of the Persian Empire, parts which are currently in Iran, Afghanistan, Tajikistan, Turkmenistan and Uzbekistan (Bukhara and Samarkand).

The ancient Silk Route (see Section 3.1 below) allowed an increasing flow of culture and religion in both directions, resulting in the establishment of a Muslim Sultanate in Delhi as early as the 12th century followed by several Muslim sultans who had their origins in Central Asia. By 1526, a young king, Babur from Ferghana, Uzbekistan, had established the Mughal dynasty in India, which was to last for almost 300 years.
During most of the twentieth century, India’s relations with Central Asia were within the framework of these countries being part of the Soviet Union, with which independent India had close economic and political relationships.

Following the breakup of the Soviet Union in 1991, India’s relations with the now-independent Central Asian republics continued but were somewhat muted for a while. This happened as India tried to balance out its strategic alignments with the West in a post-Soviet world and as the Central Asian republics coped with the dramatic economic shocks of their breakup and the massive drop-offs of economic support from Moscow.

But the rich natural resources of the region, particularly its mineral and energy resources, not to mention its geostrategically critical location at the crossroads of Europe and Asia, soon revived the keen interest of major external powers to again pay serious attention to the region, reminiscent of the Great Game machinations of the British and the Russians in the 19th century, albeit with an altered cast of players.

The new cast now principally includes China, the US, Europe and lately India.

China has, in recent years, made significant investments in Central Asia and has now overtaken Russia as Central Asia’s largest trading partner. In spite of an increasing trend, India’s trade with Central Asia is paltry, importing only about 1 percent of the region’s exports (mostly oil from Kazakhstan) and exporting less than 1.5 percent of its total global exports to this region.

A major constraint for India to increased trade with landlocked Central Asia is lack of direct connectivity with the region. The most direct land route would be through Pakistan (and Afghanistan), but transit through Pakistan has not been possible due to major political challenges between the two countries. The only other option would then be a combination of sea and land routes, and such a route (a 7,200 km long multimodal International North South Corridor, INSTC, discussed further in Sec 4.1 below) linking India through Iran to Central Asia and thereafter to Russia and North Europe was first mooted as far back as the turn of the 21st century.

China’s growing interest and influence in Central Asia (with which it shares an almost 3,000 km long border while India has none), evidenced by its significant investments and support in developing and extending direct connectivity to the region (well before the BRI was formally proposed in 2013), also served as an important motivation for India to do the same. This was further bolstered by China’s growing influence and presence in India’s immediate neighborhood in South Asia.

Declaring Central Asia part of its “extended neighborhood,” India also unveiled a “Connect Central Asia Policy” at the first meeting of the India-Central Asia Dialogue in Bishkek in June 2012. This was a much-needed boost to not only encourage better progress in implementing the INSTC, but also to build on the centuries-old “civilizational bonds” with the region, going beyond just the confines of economics and energy. Greater cultural exchanges, education, tourism (including medical, banking and finance), and people-to-people connections were foreseen as important components of this policy “to reconnect with this neighborhood, with which we are bound by the silken bonds of centuries of common history” (Ahamed 2012).

Strengthening strategic and security cooperation between India and Central Asia “seen in the context of a quest for a world order which is multipolar” (Ahamed 2012) is also a key aspect of the Connect Central Asia Policy. This has now been significantly enhanced by India (and Pakistan) formally being included (since June 2017) in the Shanghai Cooperation Organization (SCO) after having been an observer for over a decade.

The SCO, with four Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) plus China, Russia, India and Pakistan, is an important regional forum, with its countries representing about 3.5 billion people, almost half the global population. Notwithstanding some reservations in India about the perceived domination of China in this forum, there is general consensus among Indian policymakers that by becoming a full member of the SCO, India has strongly indicated its keen interest in the Central Asian region, where it still lags behind China and Russia but with which it wishes to significantly enhance its engagement.

This then is a bird’s eye view of a long and ancient relationship, with deep cultural and religious interactions, muted at times due to exigencies of history and difficult connectivity but renewed with vigor in the recent past and with great anticipation for the future.

It is in this context that the BRI needs to be seen from India’s perspective. From India’s point of view, the BRI, particularly in Central Asia, is not just a project enhancing much needed physical connectivity, but part of a much larger geostrategic initiative in a region where India has a long history of association and one with which it very much wishes to remain engaged.
3. India’s Perspectives on the Belt and Road Initiative

3.1. A Sense of Pique: the More Inclusive Ancient Silk Road and Spice Route vs. the BRI

As early as the second century BC, Emperor Wudi had sent his emissary General Zhang Qian, the man generally credited as being the founder of the Silk Road, to seek connectivity westwards. Over the next 1600 years, the Silk Road gradually came to traverse a distance of over 7,000 miles connecting the Yellow River Valley in China to the Mediterranean Sea.

But as can be imagined, it was not a single road. It was instead a vast network of caravan routes and trading posts, with several branches and spurs spread over a vast area from China through Central Asia, northern India and the Parthian Empire to the Roman Empire.

One of such spurs veered South, across the Karakoram passes to the towns of Leh and Srinagar, finally reaching North and Northwestern India. This then connected to other trails and roads throughout the Indian subcontinent.

Contrary to what its name implies (a name of much more recent origin, given by Baron Ferdinand von Richthoven, a German cartographer in 1877), the Silk Road traded in many more commodities than silk alone. As a matter of fact, even in the very early years of this route, Chinese traders exchanged their silk with their Indian counterparts for precious stones and metals such as gold and silver; the latter in turn traded the silk further west.

Capturing the above, Starr observes that perhaps Richthoven had erred in naming the Road as the Silk Road, which could just as easily have been called a “Lapu Lazuli Road” from Afghanistan to Egypt and India” or a “Gold Road or a ‘Copper Road’ to the capitals of the Middle East” (Starr 2013, p. 43).

And, perhaps even more important from the point of view of emphasizing India’s close interaction with the Silk Road, is Starr’s observation that “he [Richthoven] also erred in assuming that the great corridors of transport ran mainly to China and not, equally, to India as well” (Starr 2013, p. 43).

While the Silk Road obviously enhanced trade and commerce, it played an even more important role in enabling religious and cultural exchanges between India and her near and far-flung neighbors.

There is evidence of Han Emperor Mingti (57-75 AD) sending his emissary Cai Yin to India to learn more about Buddhism. Cai Yin returned to China three years later “not only with images of the Buddha and Buddhist scriptures but also with two Indian Buddhist monks to preach in China” (Behera 2002, p. 5,078).

Buddhism, originating in India in the 6th century BC, ultimately spread west and east of the country along the Silk Road, reaching the western part of China by around 4th-5th century AD under the Northern Wei dynasty, who actively promoted Buddhism. By the early 6th century AD, there were already about 2 million Buddhists in China.

Greater movement of scholars, preachers and pilgrims between India, Central Asia and China followed. Sacred Buddhist religious texts and scriptures began to be translated to local languages, and more travels to India by Chinese priests and monks only hastened the process of greater cultural (particularly artistic and musical) and religious exchanges.

Though it came much later, around the 14th century AD, the Silk Road’s influence on India was even greater in the Islamic context. Muslim traders and preachers travelled along this route carrying with them their rich traditions, cultures, ideas and religious beliefs. Sufism was one such critical Islamic tradition whose spiritual stirrings deeply permeated Indian religious thoughts. It was in turn significantly influenced by India’s Upanishads and the Bhakti traditions characterized by devotional philosophies emphasizing the divine.

A couple of centuries later, a young Uzbek king, Zahir-ud-din Muhammad Babur, having been deposed from his own throne in Ferghana, and failing to capture Samarkand, marched down the Khyber Pass on the Silk Road, first to Kabul and then onwards to Delhi. There, at the famous Battle of Panipat (1526 AD), Babur defeated the Delhi Sultan (Ibrahim Lodi) and established the Mughal Dynasty in India, which ruled the country for the next 300 years.

India was equally integral to another ancient trade network, the Spice Route, used for maritime transportation of exotic spices (cinnamon, pepper, ginger, cloves and nutmeg) from the Molucca Islands (Spice Islands) in Indonesia through India to the Middle East and beyond via the Arabian Sea and the Mediterranean. But, as in the case of the Silk Road, the Spice Route carried much more than spices, and over time expanded to include textiles, precious stones, timber, incense, and saffron and stretched over 15,000 km, encompassing Japan and China as well.

Over the centuries, the Silk Road and the Spice Route also served as critical conduits of exchange of people and culture and ideas—be it in music, arts, architecture, religious beliefs and traditions—between India and countries to its west and north, particularly Central Asia; to its east and northeast, extending to China and beyond; and to
its Southeast, all the way to Indonesia and the regions in between.

No wonder then that through the millennia, the Silk Road and the Spice Route have occupied an important space in the Indian imagination, psyche and commerce, but not so much in a proprietary sense of these routes belonging to India exclusively but to the region as a whole. Rather, it was more as a belief, instinctively felt, that these were much more than mere trade routes but an integral part of the Indian heritage.

This historical and geographical context of the Silk Road and the Spice Route (Figure 1) perhaps influences India’s views on the BRI much more deeply than might be readily apparent.

While many might take President Xi’s enunciation of the BRI in November 2013 as a bold, global strategy of interregional/intercontinental connectivity, many in India saw it as a Chinese strategy, negating a fundamental aspect of the ancient Silk Road and Spice Route in the Indian psyche as belonging to no one country in particular but to the region as a whole.

3.2. Exacerbated by a Sense of Mutual Mistrust: the Panda Hug

As would be expected from two proud, old civilizations, nothing between China and India happens without reference to history and the BRI is no exception.

A critical concept relevant to India’s perception of the BRI has its roots in something that happened almost 370 years ago: the signing of the Peace of Westphalia in 1648. While its immediate effect was to bring an end to two debilitating wars of religion in Europe which had raged for decades, a far more fundamental influence on world history was that it “…represented the first attempt to institutionalize an international order on the basis of agreed rules and limits and to base it on a multiplicity of powers rather than the dominance of a single country” (Kissinger 2014, p.30).

This was the genesis of the concept of a global multipolar order and it resonates strongly with Indian policymakers and political leaders. India believes that a global multipolar economic architecture will increasingly include Asia as the center of gravity of the global economy gradually shifts eastwards to the Asia Pacific region. Several Asian economies, currently led by China and Japan, with India rapidly catching up together with a number of large economies in East and Southeast Asia (Korea, Indonesia among them) are important regional and global players in their own right. And indeed, there can be no global multipolar order without a multipolar Asia.

As a populous (projected to overtake China as the world’s most populous country within the next five years) and fast-growing economy that remains only a fifth the size of the Chinese economy, India’s strategic advantage is...
clearly in promoting a multipolar Asia in a multipolar world. That is what India strongly desires.

During an official visit to India in April 2005, the then-Chinese Premier Wen Jiabao asserted a similar view on China’s part as well. At his meeting with the then-Indian Prime Minister Manmohan Singh, the two leaders “spelt out the elements of consensus underlying the development of India-China relations in the new millennium” (Saran 2017, p. 145).

In a clear nod to the Westphalian philosophy, the joint statement issued at the end of Wen Jiabao’s visit said:

“As two major developing countries, India and China acknowledged the importance of their respective roles in the shaping of a new international political and economic order” (Saran 2017, p. 146).

In a remarkable acknowledgment of China’s and India’s roles in a multipolar Asia, the two leaders agreed that “there was enough room in both Asia and the world to accommodate the simultaneous and rapid rise of both India and China. Both welcomed the rise of the other and declared that neither posed a threat to the other” (Saran 2017, p. 146).

However, more than a decade later, while China still professes a similar wish for a multipolar Asia, many in India have grown skeptical about China’s intentions and aspirations. China’s overwhelming economic clout, growing military strength, assertive moves in the South China Sea, and increasing presence and influence in Pakistan and other immediate neighbors of India are all seen as evidence of a country intent on establishing its superior place in the hierarchy of nations rather than simply being a pole of a multipolar Asia. According to many Indian observers, China now seeks a new type of ‘great power relations,’ benchmarking itself with the US as part of a G2 global power architecture rather than in a multipolar Asia in a multipolar world.

The Indian psyche is still deeply affected by the traumatic and humiliating defeat in the 1962 border war with China, and in spite of periods of accommodation and goodwill, border issues still lurk beneath the surface. Standoffs (as recent as last year) at Doklam at the India-China-Bhutan border only reinforce such apprehensions.

And yet the two countries know they need each other. China is India’s largest trading partner (with a total trade of over US$80 billion in 2017, an increase of about 18 percent over 2016, after having stagnated at about US$70 billion for several years). Chinese investments in India are increasing rapidly (at US$2 billion in 2017, up sharply from the 2016 level of US$700 million) and the two are increasingly collaborating on the regional and international stage (such as on climate issues, or in setting up the New Development Bank, or in India being a founding member of the Asian Infrastructure Investment Bank and also the largest borrower from this institution).

It is in this context of a relationship marked by suspicion and mistrust, and yet a mutual dependency of economics and being neighbors, that India warily views the BRI as part of a Chinese grand strategy of a ‘panda hug’ of countries in Asia and Africa (Figure 2).

Of particular concern to India is what the BRI would mean in its immediate neighborhood. The China-Pakistan Economic Corridor (CPEC), a 2,700 km spur from Kashgar in Xinjiang to the Gwadar Port of Pakistan via a network of highways, railways and pipelines, is of particular concern. India has strenuously argued that this routing violates India’s sovereignty and territorial integrity, as the CPEC passes through what India calls “Pakistan-occupied Kashmir” and Pakistan calls “Azad Kashmir” (Free Kashmir).

The recent event of Hambantota Port in Sri Lanka passing to Chinese hands on a 99-year lease, as well as airport and sea port developments in the Maldives, all cause India great concern about the growing Chinese influence and presence in its immediate neighborhood through what some in Delhi have called a “Panda hug.”

3.3. The Debt Trap

India’s third major concern, one shared by several national Governments and international organizations, is about the debt burdens, owed mostly to China, which the borrowing countries are taking on to finance BRI projects. Many countries around the world suffer from very significant infrastructure deficits, particularly in transportation and energy. Their financing requirements are correspondingly very high. In a recently completed study, ADB (2017) estimated that the developing countries of Asia and the Pacific (including China and India) would need climate-adjusted infrastructure investments of some US$26 trillion over the period 2016-30 (or US$1.7 trillion annually). Even without climate change mitigation and adaptation measures (an unwise and unsustainable proposition, in any case), the costs would still be about US$1.5 trillion annually.

However, bilateral and multilateral organizations such as ADB, AIIB, and the World Bank are able to meet only a fraction (less than even 5 percent) of this demand, having provided an average of about US$50 billion annually over the last five years.
China’s BRI strategy is largely, though not exclusively, focused on financing infrastructure projects, responding to the huge unmet demand for infrastructure development around the world. In pursuing the “project of the century,” as President Xi has hailed the BRI, China is responding to a genuine development constraint for many countries: inadequate (and often poor quality) infrastructure.

The critical issue is thus not whether such infrastructure projects are needed (they mostly are, and India fully accepts this point) but how such projects can be financed, whether the host countries can afford them, and whether they are the right priority and financially viable so that the borrowing countries would be able to repay the debts so incurred.

In contrast to obtaining financing from official, multilateral sources (many of the countries participating in the BRI would not be able to tap private sector funding, and those that could would face unattractive costs and terms), Chinese financing is generally perceived to be more attractive, on at least four counts:

i. China actively seeks out projects for financing, rather than waiting for borrowing countries to propose projects. The process of preparing projects for international financing—including undertaking detailed feasibility and engineering studies, assessing the social and environmental impacts, designing mitigation measures, etc.—are often very demanding and challenging for many developing countries. Getting Chinese financing significantly reduces such burdens.

ii. In contrast with multilateral lenders, China is seen by many borrowers as being more sensitive (accommodating) to host country needs and constraints, particularly budget constraints, and willing to provide large amounts of funding up front, particularly for big infrastructure projects.

iii. China is also seen as being more nimble in approving projects, contrasted with the long and cumbersome approval processes of the MDBs, at least as perceived by the borrowers. A centralized decision-making mechanism within the Chinese Government efficiently brings together various ministries and agencies of the Government, speeding up the approval process, a feature which is even more readily apparent and appreciated in implementation of the projects.

iv. China is also more flexible in negotiating payment terms, being willing to defer the start of repayments, offer longer terms of maturity, and accept barter repayments and debt for equity swaps.

While each of these four factors are often attractive for borrowers, particularly for the smaller and poorer ones, they often simultaneously entail the possibility of significant long-term risks.
True, preparation of projects for international funding can often be demanding, but it reduces the possibility of undertaking unviable or undesirable projects.

While flexibility of Chinese funding, particularly on the amounts provided, is welcomed by resource-constrained countries, this may also be interpreted as China being less demanding and willing to fund projects which the MDBs might have been reluctant to support.

Similarly, an important counterbalance of faster approval and implementation is that such Chinese funded projects are significantly less open to local and international participation. A recent report by CSIS indicated that in China-funded projects, Chinese companies could account for as much as 90 percent of the contractors used, compared to less than 30 percent on those funded by the MDBs (Hillman 2018).

But perhaps the most important consideration of all is the issue of flexibility on payment terms. True, there is flexibility on the period and nature of repayments, but “China has long insisted that the BRI is a commercial venture, not an aid program” (Deloitte 2018).

This is reflected in the fact that almost three-quarters of Chinese lending for infrastructure development during 2000-2014 (amounting to slightly over US$350 billion) were at commercial terms, provided principally by CDB and CHEXIM. Principally, many observers argue that “China is successful at locking in higher rates because it agrees to assume risks that other lenders will not” (Hillman 2018).

The situation is further exacerbated by the fact that borrowers also face considerable exchange rate risks as most CDB and CHEXIM loans are usually denominated in US dollars or Chinese renminbi.

Hambantota Port in Sri Lanka is a case in point to illustrate these concerns.

China provided a loan of about US$1.3 billion to develop this deep-sea port after such funding was not forthcoming from multilateral sources. But as the country failed to meet its interest payments and after several extensions and renegotiations, Sri Lanka finally handed over the port and 15,000 acres of adjacent land to a Chinese SOE on a 99-year lease in December 2017.

India considers the Hambantota Port, situated on Sri Lanka’s southern coast and providing access to critical Indian Ocean sea lanes, to be of significant geostrategic importance. Thus, notwithstanding Sri Lankan assurances that the port will not be used for any military activity by any foreign power, India is deeply concerned about Chinese ownership of that port.

Apprehensions about BRI participation leading many countries into a debt trap is not an Indian concern alone. Several western countries, including some borrowing countries themselves and international organizations, have voiced similar concerns.

It is significant that only very recently (August 2018), Prime Minister Mahathir of Malaysia decided to cancel two China-funded mega projects, the US$20 billion East Coast Rail Link and the US$2+ billion Trans Sabah Gas Pipeline projects, on grounds of non-affordability and the future debt burdens these projects would impose on the country.

To systematically assess the risk of debt stress in the BRI borrowing countries, the Center of Global Development (CGD), a Washington-based non-profit think tank, recently undertook a study of potential debt problems in the 68 countries identified as potential BRI borrowers (Hurley et al. 2018).

At one level, the Study’s conclusions were reassuring in that the BRI is “unlikely to cause a systemic debt problem in the regions of the initiative’s focus” (Hurley et al. 2018, p. 5). At the same time, the Study’s conclusions were also rather sobering.

It found that 23 of these countries are already at risk of debt distress today. Of these, 10-15 could suffer from debt distress due to future BRI-related financing, with eight mostly small and relatively poor countries of particular concern, as they would face a significant risk of sovereign debt default when future potential BRI-related financing is also considered.

These eight countries are Djibouti, Kyrgyz Republic, Laos, Maldives, Mongolia, Montenegro, Pakistan and Tajikistan. While Afghanistan and Sri Lanka are not in the most vulnerable “eight,” they are in the list of 10-15 debt-distressed countries. In other words, four of India’s immediate neighbors in South Asia are vulnerable to fall into the debt trap as a consequence of the BRI.

In Pakistan, for example, CPEC (China Pakistan Economic Corridor) serves as a flagship BRI Project. Leaving aside the sovereignty issue raised by India, as discussed earlier, the debt burden on Pakistan due to CPEC is worrisome. The total value of CPEC projects is currently estimated at US$62 billion, with China expected to finance about 80 percent of that amount. The IMF has already warned Pakistan’s public debt ratios could rise well above 70 percent, requiring perhaps another round of IMF assistance.

In the Maldives, China is heavily involved in the country’s three most prominent investment projects: an airport upgrade (US$830 million), the development of a new
towards India's possible reactions to the BRI. No matter how strongly it might feel about the three concerns (historical legacy, security concerns ["the Panda Hug"], debt trap) about the BRI as noted above, merely raising them at international fora and protesting is not very helpful either for itself or anybody else.

There is widespread consensus about huge infrastructure deficits in Asia and the Pacific, and indeed in all developing countries of the world. Intra-country and regional connectivity in various parts of Asia (especially in Central, South and Southeast Asia) is poor. India's own connectivity with its neighbors and beyond is a major constraint to expanding its access to and trade with them.

As a matter of fact, India is herself a major proponent of enhancing regional connectivity and is actively supporting/financing several major projects in its immediate neighborhood: the India Myanmar Thailand (IMT) Trilateral Highway, ultimately connecting India to the ASEAN highway network; the Bangladesh-China-India-Myanmar (BCIM) Corridor, connecting Kolkata and Kunming; and various rail, road and energy trade projects with Bangladesh.

Similarly, given India's strategic interests in Central Asia as part of its 'extended neighborhood,' it is deeply involved in several connectivity projects there as well. These are briefly discussed below.

4. India's Possible Reactions

India faces major strategic challenges in responding to the BRI. No matter how strongly it might feel about the three concerns (historical legacy, security concerns ["the Panda Hug"], debt trap) about the BRI as noted above, merely raising them at international fora and protesting is not very helpful either for itself or anybody else.

There is widespread consensus about huge infrastructure deficits in Asia and the Pacific, and indeed in all developing countries of the world. Intra-country and regional connectivity in various parts of Asia (especially in Central, South and Southeast Asia) is poor. India's own connectivity with its neighbors and beyond is a major constraint to expanding its access to and trade with them.

As a matter of fact, India is herself a major proponent of enhancing regional connectivity and is actively supporting/financing several major projects in its immediate neighborhood: the India Myanmar Thailand (IMT) Trilateral Highway, ultimately connecting India to the ASEAN highway network; the Bangladesh-China-India-Myanmar (BCIM) Corridor, connecting Kolkata and Kunming; and various rail, road and energy trade projects with Bangladesh.

Similarly, given India's strategic interests in Central Asia as part of its 'extended neighborhood,' it is deeply involved in several connectivity projects there as well. These are briefly discussed below.

4.1. The International North South Transport Corridor (INSTC)

Mooted by Russia, India and Iran in 2000, the INSTC essentially follows an ancient route that had connected South Asia with Northern Europe for centuries, widely used by European, Russian, Central Asian and Indian traders.

The modern INSTC is a multimodal transportation route linking the Persian Gulf to the Caspian Sea via Iran and linking Afghanistan and Central Asia to the Caucasus, Russia and then beyond (Figure 3).

According to some estimates, this route (when operational) could almost halve the transportation time between Mumbai and Moscow, compared to the current route through the Suez Canal (Sharma & Sano 2018, p. 4).

The implementation of this project has been painstakingly slow, with very limited progress almost till 2012, when India enunciated its "Connect Central Asia" policy, at which point the sponsoring countries started seriously addressing the financing and other institutional issues.

A key link still missing in the corridor is the railway line between the Iranian cities of Rasht and Astara, for which Azerbaijan has recently (early 2018) extended a US$500 million loan to Iran. Iran expects this segment to be completed by 2020, marking the completion of the INSTC itself.

Without a doubt, there will still be major institutional and software challenges to be sorted out: issues such as border crossing rules and documentation requirements, alignment of customs processes and procedures, and misaligned tariffs (higher tariffs by rail rather than by road for movement of cargo from Bandar Abbas to Tehran). Yet, the physical completion of the INSTC itself will indeed be a major achievement.

For India, the importance of the INSTC cannot be overemphasized. Under current geopolitical situations and relations with Pakistan, the INSTC is the only possible sea and land connectivity with Central Asia and beyond.

Iran is the gateway through which India can export "its clothing, chemicals and agricultural products to consumers in Central Asia and Europe, while at the same time procuring oil, natural gas and metals from Central Asia's landlocked countries" (Sharma and Sano 2018, p. 6), at least till a proposed gas pipeline from Turkmenistan is built (discussed below).

India has thus courted Iran assiduously and invested almost US$500 million in the Chabahar Port on Iran's Persian Gulf coast. In return, Iran has agreed to let an
Indian Company manage the first phase of the Chabahar Port, but only for a period of 18 months (not 99 years a la Hambantota Port).

India will also fund a railway link from Chabahar to Zahedan, on the border with Afghanistan, making possible a side spur to Uzbekistan and other Central Asian countries.

While Iran has historically been close to India, and genuinely considers the past historical, cultural and civilizational links as important in defining current strong and good relations with India, it also recognizes China’s importance in its geostrategic calculations. Iran is China’s largest oil supplier and Chinese investments are critical for Iran’s infrastructural plans. As recently as March 2018, for example, China inked a deal (through a SOE) to build a US$700 million train link between the cities of Shiraz and Bushehr.

The important takeaway is that while India and China might consider the INSTC and the BRI as possible counterfoils to each other, countries in the region do not see these two routes as “an either/or proposition” and will instead aim to strike a balance between the two countries and maximize the benefits from both.

4.2. Turkmenistan-Afghanistan-Pakistan-India Gas Pipeline (TAPI)

In another example of dreaming big, TAPI proposes to carry natural gas from energy-rich Turkmenistan, boasting the world’s fourth largest gas reserves, to energy-hungry India and Pakistan.

It is not the length of the pipeline (though not an insignificant 1,800 km) that is particularly extraordinary and imaginative, but the fact that it will traverse some high security risk areas in Afghanistan (Herat and Kandahar) and Pakistan (Quetta and Multan) before reaching its ultimate destination at Fazilka at the India-Pakistan border in Punjab.

Dubbed the “Peace Pipeline,” it will test the resolve of the transit countries to assure safe passage of gas and serve as an example of cooperation between countries even when there are many contentious issues still outstanding between them.

Conceptualized in the 1990s, it took quite a long time to get the fundamental institutional framework in place. A special-purpose consortium, led by Turkmenistan’s Turkmengaz, and including the Afghan Gas Enterprise, Interstate Gas Services of Pakistan and the Gas Authority of India Ltd (GAIL), was incorporated in late 2014 to build, own and operate the estimated US$7.5 billion pipeline.

The pipeline is designed for an economic life of 30 years with an annual carrying capacity of 33 bcm (billion cubic meters). Construction began in 2015 and is expected to be commissioned in 2020. India and Pakistan will each take about 42 percent of the output, with Afghanistan taking the remaining 16 percent.

Undoubtedly, TAPI is important for Turkmenistan to diversify its destination market (currently dependent heavily on China, particularly after Russia’s Gazprom wound down

Figure 3: The International North South Corridor

Source: Sharma & Sano (2018)
its imports from Turkmenistan in 2016) and for India to diversify its sources of much-needed clean energy to fuel its brisk economic growth and also meet the challenges of reducing greenhouse gas emissions as per the Paris climate accord commitments. Pakistan and Afghanistan will also benefit significantly from the transit fees they will earn, which for the latter could be as high as US$400 million a year.

However, several major unsolved issues still plague the pipeline. These mainly pertain to the final pricing of the gas (as currently negotiated, the delivered price to the ultimate consumer in India is seriously uncompetitive with domestically produced gas), security of supply and significant funding gaps.

Nevertheless, all the four partner countries are still very hopeful that these issues will be satisfactorily resolved and that the pipeline will indeed become operational by 2020, ushering in another era of significant cooperation between Central and South Asia.

Four relevant observations emerge from the above discussion on the INSTC and TAPI.

First, that India is not averse (and is in fact keen) to support large infrastructure projects in Central Asia. But, second, that India wishes that such projects involve multiple partners in their financing, design and implementation. Third, India’s objectives, scope and interests in supporting/sponsoring, say, the INTSC or TAPI need not necessarily be in conflict with China’s sponsorship of the BRI. The complementarity and overlap of the INTSC and the BRI were noted and there are some reports that China has even expressed interested in supporting a spur line off TAPI to reach China (Drazen 2018). And fourth, the participating countries themselves do not see such infrastructure projects as being mutually exclusive. They are keen to participate in all these projects to maximize the benefits accruing to them.

While the above observations have been drawn from India-supported projects in Central Asia, they would equally apply to projects elsewhere as well.

It follows therefore that many countries, particularly the smaller and poorer ones, are willing participants in the BRI, not necessarily because they are unaware of the risks (of the debt trap, for example), but because of the access to funds that China provides and which others, including the multilaterals, are unwilling or unable to offer. To counter this, India will either have to offer much larger financial assistance than it is able to or mobilize funds from other sources (say, by stronger lobbying and support from the multilateral institutions).

To reduce the dependence of the current participants in the BRI, particularly those who are already debt-stressed and most vulnerable, multilateralization of the Chinese support would obviously be a desirable process. India strongly supports and advocates such multilateralization efforts, but the demand for infrastructure is so huge (as noted earlier) that even the combined financing of the World Bank, ADB, AIIB and NDB can meet only a small fraction (less than a tenth) of such demand.

The bottom line therefore remains that unless India can offer alternative sources of funding support, other sovereign nations, including those in India’s own neighborhood, will find seeking and accepting (readily available) support from the BRI a very difficult and tempting proposition to turn down.

The very slow pace of implementation of many India-supported projects, particularly compared to the speedy execution and completion of China-funded Projects, is another major challenge for India. Even while accounting for differing administrative systems, which often require time-consuming processes, including for awards of contracts and local involvement, there is no denying the fact that the IMT Trilateral Highway Project, for example, has suffered several serious delays and is currently running almost five years behind schedule.

The situation in India’s immediate neighborhood is further exacerbated by what the smaller states perceive to be India’s often high-handed and insensitive approach to their own priorities, compulsions and aspirations. Except for Bangladesh and Bhutan, India’s bilateral relations with her immediate South Asian neighbors remain fraught with mutual suspicions to varying degrees, which often leads these countries to reach out to China as a counterbalance. No doubt, China for its part sees considerable strategic advantages in responding generously to such overtures and, in fact, actively seeks them out to expand its circle of influence.

India is thus faced with simultaneous interplay of three factors: limited financial resources of its own to counteroffer to other countries, particularly in its own neighborhood; a poor track record of implementation of several projects which it is supporting elsewhere in the region; and declining political and diplomatic capital and goodwill in its neighborhood.

While data on investments in and financial assistance to their neighbors in South Asia by both India and China (particularly for the latter) are rather difficult to obtain, it is no surprise that China leads India by a wide margin in all cases. For example, in spite of a significant increase (of
China has been the largest foreign investor in Nepal for over 70 percent, India’s aid to Nepal (at US$150 million) during the current fiscal year is still expected to be less than a third of China’s during the same period. Similarly, China has been the largest foreign investor in Nepal for the past several years and is expected to invest more than twice as much as India, the next largest investor. The differentials are even more striking in Bangladesh, where China’s aid program is almost six times the size of India’s (US$1 billion compared to US$150 million).

Given India’s limited financial resources and its economy being only a fifth of the size of the Chinese economy, it will be unrealistic (and perhaps even undesirable) to even expect India to be able to do much more on the first of the three points above.

India should certainly try hard to speed up the various projects under implementation. Encouragingly, this seems to have been recognized by the highest levels of the Indian bureaucracy and indeed has drawn the attention of the political leadership itself.

A power interchange project with Bangladesh (at Behrampur) and rail connections between the two countries (Akahura- Agartala) have recently been completed and are now operational. There seems to be a renewed sense of urgency in completing the IMT Trilateral Highway. Land border crossings between India and Myanmar have been made easier with the recent opening of international entry-exit checkpoints (at the Tamu-Moreh and the Rikhawdar-Zowkhawtar border crossings) between the two countries. Showing the results of India-supported initiatives on the ground must be high on India’s to-do lists.

India should also consciously reflect on why several of its neighbors seem to increasingly mistrust and even resent India’s attitude towards them. While each sovereign country, big or small, would naturally balance out its strategic partnerships with the larger countries, particularly the regional and global major powers, several of India’s immediate neighbors seem to be turning to China with greater enthusiasm in the recent past. This should be of great concern to India.

Even more important would be for India not to appear to be opposing the BRI without offering meaningful alternatives to the participating countries in general and to its neighbors in particular.

While alerting BRI countries of the dangers of the debt trap issue, for example (a concern shared by many others, including the IMF and MDBs), India should make strenuous efforts at all international fora to help poorer countries obtain as much financial support from the MDBs for infrastructure financing as possible.

India also needs to take an even more proactive role in regional and sub-regional groupings in Asia. There are encouraging signs of more robust engagement by India with its Southeast Asian neighbors through its Act East Policy. India is now actively pursuing projects and programs of cooperation with ASEAN in general, as well as a sub-regional initiative involving South and Southeast Asian countries through the BIMSTEC Program.

India’s concerns about the BRI are understandable, but the BRI cannot be countered by simply resisting it with a ‘dog in the manger’ attitude; this would be counterproductive. There are indeed genuine concerns about the economic and financial viability and social and environmental impacts of some of the projects being considered for support under the BRI. Information on the pipeline of BRI projects is not readily available, nor are details of the financing being offered. Many international observers have noted the apparent lack of transparency in BRI discussions and negotiations. India performs a very useful role in publicly airing such concerns.

At the same time, the dramatic sweep of the BRI’s coverage, ambitions, and possible resources China seems to be willing to put into “the project of the century” cannot be ignored. Even allowing for some mistaken priorities of borrowing countries where leaders might be tempted to agree to some BRI projects not necessarily in their long-term national interests (financial, social, environmental, sovereignty and security), the fact remains that the BRI is a transformational possibility for many countries, with resources being made available by China which these countries cannot get anywhere else.

India thus needs to think of the BRI in broad geo-strategic terms. At one level, as noted earlier, it should make all efforts to bilaterally enhance its own influence with the borrowing countries by being more sensitive to their needs and aspirations. Equally importantly, India should come across as the champion of the borrowing countries, particularly the smaller and the poorer ones, in their efforts to get access to global infrastructure financing, including from China, for viable and sustainable projects.

While China pushes ahead with the BRI, it will need to be sensitive to the genuine concerns of countries like India. India, on her part, will have to accept that the BRI is a very serious commitment on the part of the Chinese leadership and in fact is now enshrined in the country’s constitution. And, while India should make all genuine efforts to influence the course of the BRI for the greater good of the world and, from its own national perspective, it should think strategically how this may be best achieved.
As a matter of fact, India might be able to better influence the dialogue on and the course of the BRI by being a part of the BRI, which she has so far refused to do.

In this context, Japan’s nuanced approach to the BRI may be instructive for India. China has consistently expressed its strong desire to have Japan participate in the BRI, including by it joining the Asian Infrastructure Investment Bank. But, without making any explicit commitments either way, Japan has indicated that it was open to participating in those parts of the BRI “which were in sync with standards of the international community” (Shim 2018).

Prime Minister Abe has also alluded to the possibility of Japanese participation in the BRI selectively and on a project-by-project basis but has emphasized that China needs to ensure that the projects it finances are carried out on the basis of “transparency, openness and accountability.”

India could consider following such an approach: Set out the key principles it holds dear, and selectively support only those projects which are consistent with those principles. An example of such an approach could be the Bangladesh-China-India-Myanmar (BCIM) Corridor linking Kolkata with Kunming. This project could have significant benefits to India, particularly in East and Northeast India, which are high priority areas of development for the Modi Government. The BCIM Corridor could also give a boost to the country’s Act East Policy. India might even include domestic stakeholders (such as the state Governments and the private sector who would could benefit from such a corridor).

For China, the benefits of being flexible enough to be able to bring India on board would be in making the BRI a more inclusive initiative while also accruing direct benefits to itself from the projects so undertaken (the BCIM, for example).

Another lesson from Japan’s approach is noteworthy. It has offered an approach for infrastructure development, the “Expanded Partnership for Quality Infrastructure” (EPQI), which emphasizes building quality infrastructure following principles of transparency, accountability and sustainability.

India, for its part, has also emphasized a global development agenda based on a rules-based approach and principles of sustainability and equity, and has also acknowledged the synergy between economic growth and national security.

Using the above frameworks, Japan and India have formulated an “Asia Africa Growth Corridor (AAGC)” strategy to enhance connectivity between the two continents. Unveiled by Prime Minister Modi at the African Development Bank Annual Meeting held in May 2017 in India, AAGC will focus on four areas: (i) undertaking development corridor projects; (ii) enhancing quality infrastructure and institutional connectivity; (iii) enhancing skills; and (iv) encouraging people-to-people partnership.

Interestingly, all four of these objectives are embedded in the BRI as well. India’s presence in the BRI could make the pursuit of these objectives more feasible. India could influence the BRI agenda more effectively by being at the table rather than not.

It may be appropriate to bring in another nuanced point here about India’s perspectives on the BRI. It would be fair to say that all references made so far to India really refer to the Delhi-based Central Government leadership (political and bureaucratic). While their views hold the principal sway, the views of the state Governments, particularly of the border states, and those of the Indian private sector towards the BRI are more accommodating. While they all defer to the primacy of the Central Government on matters relating to the BRI, they see the benefits of greater and easier connectivity with their neighbors and the ready access to neighboring markets that such connectivity would provide. The Indian private sector is very keen to participate in the large infrastructure projects being considered under the BRI and see India’s reticence to join as a brake on their potential involvement.

China, as the world’s second-largest economy (soon to be number one) and India, as the world’s fastest growing economy and destined to be in the top three or four economies of the world in the next ten to fifteen years, are already the major drivers of the global economy. China, the world’s most populous country, will trade places with India on the population ladder within the next five years. Their combined importance on the global scene will thus only continue to grow as the center of the global economy shifts eastward.

India and China recognize that their economic and political priorities will not always coincide, and in fact would at times be in direct competition as the two large emerging superpowers jostle for regional and global influence. But this is where both the countries will be well advised to “develop an instinct for ‘variable geometry’—being comfortable with participating in shifting coalitions depending on the policy issue under discussion” (Bery 2017).

Under such a pragmatic approach, even as they remain economic and political rivals on the global stage, China and India will have to continue cooperating, for their own and indeed for the global welfare.
5. Conclusions

India's perspectives on the BRI are multilayered and driven by complex considerations.

In one sense, given the huge infrastructure deficits in Asia, including in Central Asia, and Africa, India welcomes the BRI but also has some concerns and reservations.

Given its long history of association with the ancient Silk Route, India feels a sense of pique at the BRI being branded as a Chinese initiative. Notwithstanding China's professed willingness (and even keen desire) to invite other countries, including India, to participate in the BRI, India sees it as a China-centric initiative, rather than a multilateral initiative, which India would prefer.

Though the BRI is a network of roads, railways and sea links, with spurs spreading out in several directions, India considers the proposed projects, particularly in South Asia, as a possible attempt at encirclement. In geostrategic terms, India fears that China will thus increasingly exert its influence and presence in India's immediate neighborhood in what could be seen as a less than benevolent ‘panda hug.’ This concern is particularly exacerbated by the proposed China Pakistan Economic Corridor (a key element of the BRI), a 3,500 km transport corridor which India considers a violation of its national sovereignty as the corridor passes through disputed territory.

India is also concerned about the potential ‘debt traps’ which the poorer and weaker countries might find themselves in as a result of participating in BRI. However, this concern is not simply the result of India’s altruistic considerations for the economic welfare of its neighbors. It pertains mainly to China possibly gaining equity control of projects through debt for equity swaps to settle unserviceable debt burdens. A Chinese SOE gaining control of the Hambantota Port in Sri Lanka through a 99-year lease to settle such a debt burden is a case in point. India thus sees the debt trap in geostrategic terms as potentially another press of the ‘panda hug.’

It is fair to say then that while India appreciates the possibility of significant benefits to participating countries due to enhanced and improved connectivity, it also fears the risks of greater Chinese influence and presence in the region. These could all potentially dilute India's global and regional geopolitical standing.

Turning to Central Asia, it is important to note that given the region’s rich natural resources, particularly its mineral and energy resources, not to mention its geostrategically critical location at the crossroads of Europe and Asia, Central Asia continues to attract all major and emerging powers, including China and India.

As in South Asia, India has similar concerns about the BRI in Central Asia. India has had deep and long historical relations with Central Asia going back almost to the first century BC.

India thus considers the BRI as part of a much larger geostrategic initiative by China in a region which India considers its “extended neighborhood” and with which it very much wishes to remain engaged.

India’s concerns about the BRI in Central Asia are further exacerbated by the fact that India supports some major connectivity projects of its own in that region, namely the INSTC and TAPI. The former links India through Iran to Central Asia and thereafter to Russia and Northern Europe. The latter (TAPI) is a major pipeline project designed to transport gas from Turkmenistan to India via Afghanistan and Pakistan.

To minimize, if not stave off the effects of the debt trap and its consequent geostrategic and security implications, India strongly supports efforts to multilateralize the BRI as far as possible by encouraging other donors and multilateral institutions to participate. This would also have the desired effect of ensuring that international standards of project preparation, including adhering to required environmental and social safeguards and standards of transparency and accountability, are followed.

However, the demand for infrastructure by the BRI’s participating countries is so huge that even the combined financial support of international funding agencies will fall far short, meeting only a tenth of their needs.

And, unless India and others can offer alternate sources of funding support, borrowing countries, including in India’s immediate and extended neighborhood, will find seeking and accepting (readily available) support from the BRI a very difficult and tempting proposition to turn down. This is in spite of the risks (of falling into the debt trap, for example) such borrowing would entail, though the borrowing countries are well aware of these risks.

All the points discussed above confirm India’s skepticism and reservations about the BRI, leading to India not having agreed to formally endorse and join the BRI, at least as yet.

But even this has to be placed in the larger context of India-China relations. Given their economic and population sizes, China and India are formidable players on the Asian and global scenes which neither country can ignore. China is the second-largest (soon to be the largest) economy in the world and India is the fastest growing economy in the world, and one of the top ten. They are both critically important in a multipolar global architecture, and in fact
need each other both for their market sizes and economic prowess and potential. They are both increasingly called upon to play an important role in matters of global commons (climate change, for example) as the center of gravity gradually but inexorably shifts eastward.

These considerations have motivated, indeed pushed, both countries to take a larger geostrategic view of their relations. Thus, even in spite of unresolved border issues and military standoffs (most recently at Doklam, at the tri-lateral junction of Bhutan, India and China), Prime Minister Modi and President Xi have reached out to each other through formal (India now becoming a formal member of the Shanghai Cooperation Organization) and equally important informal means (the Wuhan Summit, for example).

Thus, India’s perspective on the BRI needs to be seen in this larger context. Indeed, India has several concerns and reservations about the BRI and it will continue to raise them at various occasions and fora. But India, the author believes, will also continue to be pragmatic and hopefully wise in practicing the art of realpolitik as befitting a country with an important role to play in a multipolar Asia and a multipolar world.

References
Bery, Suman (2017). “How India should respond to China’s Belt and Road.” The Diplomat.

Modi, Narendra (2018). Prime Minister’s Keynote Address at the Shangri La Dialogue.
Shim, Elizabeth (2018). “Japan signals interest in China’s One Belt, One Road Initiative.” UPI.
The Belt and Road Initiative from a Russian Perspective

Evgeny Vinokurov

1. Introduction

In the early 2010s, the growing economic and political weight of China and its foreign policy ambitions led to the development of a qualitatively new foreign economic policy strategy. In 2013, China’s President Xi Jinping proposed a modern equivalent of the ancient Silk Roads—the Belt and Road Initiative (BRI). In practical terms, China aims to promote economic growth in potential markets and improve connectivity with them. Among other things, the initiative called for the building of a network of railways, roads, pipelines and other infrastructure that would link China to Central Asia, West Asia, South Asia, Europe and Africa. In 2015, the State Council of the People’s Republic of China (PRC) authorized the BRI action plan with two main components: the Silk Road Economic Belt and the 21st Century Maritime Silk Road. According to the plan, the BRI is a systemic project that must be built jointly through consultation to meet the interests of all concerned states, with efforts being made to integrate the development strategies of the countries along the Belt and Road (State Council of the PRC 2015). The BRI serves as an underlying idea about how China’s foreign economic expansion and transport policies might look in the coming years (Wang 2016).

The PRC primarily seeks access to new markets, optimal export terms and increased economic development of its remote regions (Xinjiang Uyghur Autonomous Region, Tibet Autonomous Region, Qinghai, Gansu and Inner Mongolia). To remedy the current situation, China intends to exploit the resources and geographical advantages of its central and western provinces, unlocking the potential associated with their cooperation with neighboring countries and the EU (Valdai 2015; Syroezhkin 2016; Toops 2016). The BRI is one of the cornerstones of China’s contemporary vision with dimensions that are not just economic, political and strategic (Yu 2016) but also cultural, religious and scientific, drawing on the symbolic meaning of the Silk Road (Liu & Dunford 2016, p. 326).

From the very beginning, Eurasian Economic Union (EAEU) member states and Russia in particular were envisaged to play a prominent role in the implementation of the BRI. On 8 May 2016, during the visit of Xi Jinping to Moscow, Russian President Vladimir Putin and the Chinese leader signed a decree on cooperation to tie the development of the EAEU with the BRI. Later that year, at the Shanghai Cooperation Organization (SCO) Summit in Ufa (Russia), this idea was consolidated in the SCO announcement of negotiations on a non-preferential agreement on trade and economic cooperation between the EAEU and the PRC.

Russia appreciated the potential positive implications of the BRI early on. One of the key advantages of Eurasian continental cooperation is the opportunity it presents to increase transport capacity. By realizing the potential of trans-Eurasian links, work in this area will generate several positive spillover effects, such as more efficient use of transport capacity in transit countries. Most importantly, such cooperation should eventually lead to much better internal connectivity between inner-Eurasian regions (Central Asia, Siberia, the Urals and the Caucasus) (Nag et al. 2016). For Russia and Central Asia countries, involvement in the BRI is also significant since it may open new regional development opportunities, boost individual regions’ investment appeal, energize interregional cooperation and speed up economic growth.

The structure of the paper is as follows. First, I provide an overview of the BRI corridors traversing Russia, Central Asia, and the South Caucasus. Then, I provide estimates of the container freight flows (since trans-Eurasian transit is primarily a ‘container story’). There will be three time dimensions to these estimates—the current situation, the short-term growth until 2020, and the long-term projections. Here I rely on the extensive work made by the EDB Center for Integration Studies under my supervision. A discussion on Russia’s view and Russian national interests regarding the BRI follows. Further, along the way, I argue that the Belt and Road is virtually an ideal component of the nascent Greater Eurasia and suggest a set of
institutional arrangements of functional nature at various levels and involving various actors.

2. Overview of the BRI Corridors through Russia, Central Asia, and the South Caucasus

Important components of any analysis of the prospects of Russia and Central Asian countries’ involvement in implementing the BRI are the identification of optimal transport routes along the China-EAEU-EU axis in terms of delivery costs and periods, and determination of the amount of investments required for further development. Accordingly, four corridors and their constituent routes/belts that could potentially support transcontinental cargo flows were examined (Figure 1):

- **Northern Eurasian Corridor** (China-Russia-Europe via the Russian Far East and Eastern Siberia) which includes (1) the First Transport Belt: Tyumen-Omsk-Novosibirsk-Krasnoyarsk-Irkutsk; and (2) the Second Transport Belt: Irkutsk-Chita-Khabarovsk-Vladivostok.

- **Central Eurasian Corridor** (China-Kazakhstan-Russia-Europe, through the territory of Kazakhstan and then on to the transport infrastructure of the Russian Federation).

- **Trans-Asian Corridors** (routes to the south of Russia) including: (1) Western China-Kazakhstan-Azerbaijan-Georgia-Turkey-EU; (2) Western China-Kazakhstan-Turkmenistan-Iran; and (3) Urumqi-Aktau-Baku-Poti, and then on to the EU (Port of Constanta, Burgas).

- **North-South International Transport Corridor (ITC)**, which includes: (1) an Eastern Route; (2) a Western Route; and (3) a Central Trans-Caspian Route.

Each corridor and its constituent routes differ in length, number of transit states, throughput capacity, and level of development of transport and logistical infrastructure. Based on a comparative analysis of route efficiency metrics and current and anticipated cargo flows, the following two land transport corridors appear to offer the highest improvement potential: (1) a Central Eurasian Corridor (two routes: a northern route through Dostyk and Astana and a southern route through Khorgos, Almaty and Kyzylorda); and (2) a Northern Eurasian Corridor through the Trans-Siberian Railway (a detailed comparison and estimates are available in Vinokurov & Tsukarev 2018).

The Central Eurasian Corridor brings together routes traversing the territory of China, Kazakhstan and Russia. It passes through the cities of Lianyungang, Zhengzhou, Lanzhou, Urumqi, Khorgos, Almaty, Kyzylorda, Aktobe, Orenburg, Kazan, Nizhny Novgorod, Moscow, and then on to Brest or Saint Petersburg and the ports of the Baltic Sea; or, alternatively, through the cities of Urumqi, Dostyk, Karaganda, Petropavlovsk, Yekaterinburg, Kazan and

**Figure 1: Major Trans-Eurasian Corridors**

Source: Eurasian Development Bank
Moscow. This route supports the bulk of cargo carried by land between Europe and China. The overall length of the route is 7,000-7,500 km, depending on the specific path. It has a number of advantages over other routes: (1) an ability to use a single transport modality (e.g., only railway transport); (2) a minimal number of border crossings (only two: China-Kazakhstan and Russia/Belarus-EU); (3) 'traditional' use and relative importance of the corridor, as it is already used to carry cargo in both directions; and (4) competitive shipping prices compared with the other Europe-China routes traversing EAEU countries.

The Northern Eurasian Corridor’s central link is the route running over the Trans-Siberian Railway (Transsib) and Baikal-Amur Railway (BAM), with Transsib utilization reaching 100 percent. The largest transport hubs along the route are Vladivostok, Irkutsk, Krasnoyarsk, Novosibirsk, Omsk, Tyumen, Yekaterinburg, Kazan and Moscow. Besides its exceptional role in the development of Russia’s eastern territories, the railway has considerable transit potential. Using this corridor to carry cargo between Europe and Asia reduces delivery times by 10-15 days. Unfortunately, weak infrastructure seriously limits expansion of transit capacity, and any significant improvement in the foreseeable future remains doubtful. Transit capacity can only be boosted following completion of the BAM and Transsib Development Program.

As for Kazakhstan, Turkmenistan and other Central Asian states, they may also benefit from one of the Trans-Asian Corridor routes: Western China-Kazakhstan-Turkmenistan-Iran. If overland trade between Iran and China is revitalized, this route will make ample use of the southern leg of the Central Eurasian Corridor passing through Almaty and Kyzylorda. The total potential capacity of the Iranian market is staggering: about 600,000 tons of cargo are carried by land from China through Kazakhstan and Turkmenistan, and about 9 million tons of cargo are carried by sea from Shanghai to the Port of Bandar Abbas.

There is no conflict of interest between Russia and Kazakhstan in developing these two corridors simultaneously. There are several reasons for that. First, our calculations show that the upper bound of demand for inland transportation lies at 1.3-2 million TEU, which is at least five times higher than the current volume. There is room for growth. Second, from the political economy point of view, this growth can only be achieved if all players participate in boosting investment and ensuring convergence of technical regulations in order to lower the transit tariff and attract additional cargo volumes. Third, it is in Russia’s long-term interest to use Transsib primarily for other purposes, namely exporting raw materials (coal, oil, oil products, wood and pulp, metals) to Asia-Pacific markets and ensuring smooth logistics in the Russian Far East. Therefore, Russia is interested in promoting the trans-Kazakhstan route which—let us not forget—also traverses several thousand kilometers of Russian soil, thus bringing adequate revenues. The real competitor for all these routes is maritime transportation, which is still responsible for 98.5-99 percent of China-Western Europe traffic.

Trans-Eurasian transit is primarily a ‘container story.’ Most opportunities associated with transit traffic along BRI routes are related to the use of containers. Container transport remains virtually the only method of delivery of Eurasian transit cargoes. The use of containers guarantees preservation of cargo, standard dimensions, reduced packaging costs, accelerated cargo handling, unified shipping documents and facilitated forwarding. If the bulk of freight traffic along the China-EAEU-EU axis does switch to land routes, it will be using 20- and 40-foot containers (Vinokurov and Tsukarev 2018).

Growth of transit container traffic through the EAEU will be contingent on development of trade between the PRC and the EU. Currently about 98 percent of mutual EU-China deliveries are made by maritime transport, with aviation transport and railway transport accounting for 1.5-2 percent and 0.5-1 percent, respectively. Approximately 80 percent of EU-China cargoes are carried in containers, including about 90 percent of cargoes brought to the EU from China and 70-75 percent of cargoes carried from the EU to China.

There has been a considerable increase in railway container traffic from the EU to China, from 1,300 TEU1 in 2010 to more than 50,000 TEU in 2016. Between 2010 and 2016, transit container traffic from China to the EU increased from 5,600 TEU to almost 100,000 TEU. At the end of 2017, the volume of China-to-Europe and Europe-to-China transit container traffic crossing the EAEU reached 262,000 TEU, exceeding the 2016 value by a factor of 1.8.

Increases in container traffic along the PRC-EAEU-EU axis was largely supported by railway transport subsidies provided by China. Our analysis shows that the annual doubling of the number of container trains and volume of container cargoes along PRC-EAEU-EU routes in 2013-2016 was largely attributable to subsidization of export-oriented railway freight traffic by Chinese authorities. With the Chinese transit container freight rate reduced

---

1. Twenty Foot Equivalent Unit, a conventional unit used to describe the cargo capacity of container carriers and container terminals.
almost to zero, cargo flows generated by Chinese exporters rapidly switched from sea routes to railway transport.

Estimates show that total subsidies provided by Chinese authorities amounted to about US$88 million in 2016. This estimate assumes an average subsidy of US$2,500 per FEU, with the total number of subsidized containers originating from central PRC provinces standing at 35,000 FEU. The average subsidy per FEU was merely 0.3-0.4 percent of the total value of container-shipped cargoes (Lobyrev et al. 2018a).

Preservation and expansion of transport subsidies by Chinese provinces is a key driver of continued container traffic growth. The growth of railway container traffic between China and the EU in 2011-2017 from 7,000 FEU to 131,000 FEU (or from 14,000 TEU to 262,000 TEU) has been achieved at a through railway freight rate of US$4,800-6,000 per FEU (subsidized by about 40 percent) (Figure 2a). Subsidy-driven reduction of China-Europe railway freight rates by 30-50 percent has resulted in a 19-fold increase of container traffic. The current through freight rate (including subsidies) of US$5,500 per FEU may encourage further growth of container traffic to 200-250,000 FEU in 2020 (a twofold increase over three years). After that, keeping the freight rate at US$5,500 per FEU will no longer produce such a pronounced effect and container growth rates will dramatically decrease (Figure 2b).

Container traffic growth from 200-250,000 FEU in 2020 to 500,000 FEU by 2030 is possible subject to further reduction of the through freight rate by US$1,500 per FEU (from US$5,500 per FEU to US$4,000 per FEU).

With balanced container loads (containers traveling both ways fully loaded with optimal cargoes; no empty containers), additional container traffic that may be attracted by EAEU railway networks is estimated at 500-550,000 FEU, while total freight traffic along the axis (including existing traffic) may be as high as 650,000 FEU.

If the existing East-West/West-East container traffic imbalance (2:1) persists and West-East trains additionally take on any cargoes that can be containerized, aggregate railway container traffic along the China-EAEU-EU axis could, over the longer term, reach up to 1 million FEU per year (Lobyrev at al. 2018a).

3. Russia’s Interests

For Russia, the BRI is not only about transcontinental transit. The picture of endless freight trains running from China through Russia to the EU and back appeals to media outlets, but does not alone provide an adequate rationale for heavy country involvement. For transit countries, the Silk Road is, primarily, about boosting inter-regional connectivity within the Eurasian landmass in the long run. The future of regions such as Central Asia, the Russian Urals, Siberia and the Far East critically depends on improved access to markets. From Russia’s perspective, the BRI will help capitalize on growing inland industrial centers and incorporate innovative industrial and agrarian clusters into the larger international economy. The BRI will be most beneficial for Russia if it will help develop innovative and competitive production centers, create opportunities for small and medium-sized businesses, and provide a boost for regional development.

As concerns the latter, there is a forward-looking hypothesis that BRI transit would help propel inland territorial and industrial development. We can neither prove nor disprove this hypothesis at this particular point in time. Container transit is growing extremely rapidly but from the

2. Forty Foot Equivalent Unit, a conventional unit used to describe the cargo capacity of container carriers and container terminals.

---

Figure 2: Dynamics of Railway Container Freight Rates and Long-Term Estimates of the Volume of Freight along PRC-Europe Routes (estimated freight elasticity of demand)

(a) Scenario 1: freight rate reduction to $4,000 per FEU

(b) Scenario 2: unchanged freight rate at $5,500 per FEU

Source: Lobyrev et al. (2018a)
very low base. Hence, we currently witness significant territorial development in only two places on the Chinese-Kazakhstani border (Dostyk and Khorgos).

Russia appreciated the potential positive implications of the BRI very early on. To sum up, for Russia, the BRI should be viewed as (1) a good business opportunity on its own; (2) a means to advance ties with China and attract Chinese investments, and (3) generally, a political and economic means to counteract Western policies. It also views the BRI as an inherent part of the nascent ‘Greater Eurasia’ framework. Last but not least, there are several spheres wherein EAEU policies should be developed to adjust to the BRI (Libman 2016). Let us delve into these points in more detail.

BRI can be generally perceived within the priority task of raising the economic efficiency of the national economy through raising the level of containerization. The Russian transport complex is developed but undercontainerized (that also applies to CASC). Within the Russian Railways, traffic, containers accounts for only 2 percent of traffic and 6 percent of revenue. The current level of containerization in Russia is more than three times lower than in the United States and China. In most Russian regions, export and import container flows are unbalanced: many stations involved in container transport either only accept containers or only dispatch them. Other enduring limitations include insufficient capital allocated for investments in container stations (logistics centers), and a shortage of light and medium cargo-handling tools and equipment.

In fact, no ‘mega-projects’ are required to expand the transport capacity of land corridors along the PRC-EAEU-EU axis and boost their competitiveness vis-à-vis sea routes. What one needs is not a “second Trans-Siberian Railway” but selective elimination of transport infrastructure bottlenecks, which can be managed with limited financial outlay: construction of additional railways, electrification of new railway sections, upgraded and modernized locomotives, acquisition of special rolling stock, improvement of border crossing infrastructure, etc.

Increasingly more attention is being paid to the trans-Eurasian transport corridors which traverse the continent from the East to the West. This is especially relevant in the context of the BRI. It is a positive phenomenon. At the same time, meridional North-South transport corridors should also be developed. I am referring to the corridors running from Russia through Caucasus to the Middle East, from Russia through Central Asia to Iran and then on to India, from the Russian Far East through China to the Korean peninsula, etc. The North-South corridors would, first, allow for efficient logistics with Middle Eastern countries (as well as between the Russian Far East and the Korean Peninsula and northeast China); second, help unlock the potential of transit countries (Armenia, Azerbaijan, Kazakhstan, Turkmenistan); and, third, provide tangible synergies for the East-West corridors and make them more efficient within the BRI framework.

Furthermore, it is in the Russian interest to promote coordination of positions within the EAEU framework. EAEU countries need to assure the joint prioritization of key transport corridors and routes, and efficient coordination of related investment programs. In reality, the EAEU countries often implement their infrastructural projects asynchronously. This situation diminishes the efficiency of transcontinental shipments and undermines the prospects of increasing cargo flows. There is a lack of coordination to develop infrastructure between large monopolies (for example, Russian and Kazakhstan Railways). Countries independently launch certain infrastructure projects, which de facto form parts of the same international transport corridors. For example, within the framework of the Europe-Western China Highway Project, Kazakhstan has already completed construction of a modern automobile highway from the border with China to the border with Russia. Russia, in turn, intends to finish its part of the works only in 2020.

A caveat on the Arctic Sea route. While there is a lot of talk on the prospects of the Northern route as a potentially powerful gateway for Asia-Europe traffic, the reality on the ground is much more subdued. While not going into a lengthy discussion of this route’s lacking transit infrastructure, questionable transit economics, and limited availability of seasonal free passage, let us agree for now that the Arctic Sea route is a very long shot while the overland railway transit is growing by 100 percent a year already.

4. The Need for National and Regional Institutional Capacity to Manage BRI-related Policy Coordination, Economic Development, and Investments

Several structural features of the Belt and Road Initiative (BRI) in terms of transport corridors along the PRC-EAEU-EU axis make it a practically ideal component of the emerging Greater Eurasia.

First, there is the applied nature of the BRI transport corridors. The initiative implies both the development of hard infrastructure (railways, logistic hubs, border crossings) and soft infrastructure.
Second, there are positive effects of the BRI on the industrial and agricultural development of inland Eurasian regions as well as on the participation of these regions in global value chains.

Third, trans-Eurasian transport corridors are by definition the objects of international economic cooperation. They gain a lot from effective international cooperation both in terms of physical infrastructure development (railways, border crossings points, marshalling capacities, rolling stock, etc.) and standardisation of technical regulations, which will enable to reduce delivery times and costs incurred by carriers. It is not enough for only one country to provide a boost—be it China with its significant subsidies, Russia modernizing infrastructure (even though Russia accounts for 50 or more percent of the total length of the route), or Poland, located squarely on the way to the main industrial regions of Europe. The maximum potential of railway container traffic which stands, according to our estimates, at 2 million TEU, could only be reached when the freight rate is about ‘deep sea + US$1,000.’ The latter is possible only if all the counterparty investors in this project and coordinate their efforts. Otherwise, 500-700,000 TEU will probably be set as a ceiling for transit container traffic (for comparison, at the end of 2017, the volume of transit container traffic reached 260 thousand TEU, and by the time this article is published, it is likely to stand at over 300 thousand TEU).

Currently all the railway routes used to connect China with the EU countries pass through the EAEU countries. There is no uniform through freight rate along their entire length. Each railway company charges its own freight rates while changes in these freight rates are not synchronised. Thus, no single railway operator can dramatically affect the aggregate amount of the freight rate by changing its freight rates without going beyond its profitability range.

Fourth, from the functional point of view, the ultimate success of the BRI transport corridors does not demand cooperation across the whole continent. The list of countries and integration organizations is finite. It includes China, EAEU member states (Belarus, Kazakhstan, Russia), and the EU countries—Poland in the first place, but also Germany, which has a vital economic interest in the modernization of Polish railways (see an extensive discussion of the place Poland takes in the BRI in Lobryev et al. [2018b]). Participation of these countries is just enough. There is no need for the other 79 countries of the Eurasian continent to get involved in the initiative. Their involvement would be not only useless, but also potentially harmful (conflicting interests, concerns with the development of other corridors, or at least wishes to get rid of the ones that are already in use). It is easier to reach mutual understanding with a limited number of countries involved.

All this makes the transport corridors along the China-EAEU-EU axis an ideal component of the emerging Greater Eurasia.

We are also dealing here with a perfect case study for international relations and political economy textbooks. The long-term success of land transport crucially depends on whether or not international cooperation within Eurasia will be successful. Moreover, land transport competes with maritime transport, which is not dependent on continental cooperation but rather is a product of globalization.

The realisation of the trans-Eurasian transport corridors’ fullest potential requires the concerted efforts of the countries in Western, Northern, Central and Eastern Eurasia. There are several tasks and they are interrelated. First, to increase container traffic up to 2 million TEU (the current volume is 300 thousand TEU). Secondly, to remove bottlenecks in their transport and logistical infrastructure and thereby give impetus to the development of land-locked Eurasian regions—the Russian Urals and Siberia, Central Asia and the western provinces of China. Third, to create new export opportunities for these regions and ensure their participation in the global economy. Thus, the historical centrifugal forces in Greater Eurasia will partially give way to centripetal ones.

These tasks are solvable if certain steps discussed in the previous section are taken in the context of international cooperation. It is a matter of neither regional nor global cooperation. Rather, it is situated on the meso-level of trans-continental economic cooperation. Cooperation at the interregional level will yield results that far exceed those that can be gained at the global or (sub-) regional level. Therefore, the land transport corridors along the China-EAEU-EU axis are an “ideal” project of the Greater Eurasia.

One does not need, however, an encompassing institutional structure to manage this process. Rather, there is a need for a set of arrangements of functional nature at various levels and between various actors. Let us list a few:

- More work needs to be done to standardise normative documents and technical regulations used in Eurasian countries (rules for shipping various types of cargoes, rolling stock operating parameters, environmental standards, etc.). To ensure regulatory convergence (CIM/SMGS consignment notes, flawless functioning of border crossings, etc.), international working groups representing the
ministries of transport, the national railways, and the leading industry players should suffice.

- The coordination of transport policies can be dealt with by means of similar working groups and inter-governmental commissions. SCO involvement into economy-related matters has so far proved to be modest. At the same time, the EAEU is a more important player as many transportation-related issues fall under its competence (technical regulations, common market regulations, coordination of transport development policies) and should therefore be dealt with by the EAEU institutions.

- Coordination among national and multilateral development banks is vitally important in this regard. Such IFIs as the World Bank, ADB, AIIB, NDB, EFSD and EDB but also, very importantly, such national institutions as the Chinese Silk Road Fund are key players. They may provide long-term financing for the capital-intensive parts of the BRI story. International financial institutions provide project financing based on signed and ratified international treaties that do not depend on local legislation changes, which helps to mitigate certain risks.

- In the IFI-related context, I should also stress importance of the availability of subsidized lending as well as grants for technical feasibility studies. They are necessary in many occasions, in particular in Central Asia.

5. Conclusion

In terms of policy, the key area of common interest for Russia, Central Asia countries and the BRI is the development of efficient cross-border infrastructure in Greater Eurasia. That means, in particular, modern railway and (to a lesser degree) road transport corridors. If the physical connectivity of Russia, Central Asian countries and China were greatly enhanced, it would unlock the potential of inland regions: Xinjiang, Qinghai, Gansu, and Inner Mongolia for China; the Urals and Siberia for Russia; and all five Central Asian countries. The optimal policy objective is to achieve a substantially higher degree of internal connectivity between the inner-Eurasian regions (primarily, but not exclusively, Kazakhstan, Kyrgyzstan, the Russian Urals and Siberia.

Based on the analysis of existing and potential land-and multi-modal transport corridors, the Northern Eurasian Corridor (essentially along the Transsib) and the Central Eurasian Corridors (through Kazakhstan) were identified as the most promising (Vinokurov & Tsukarev 2018). Not coincidentally, these two routes are exactly where rapid growth is already occurring, with transit cargo turnover in Russia and Kazakhstan surging twofold in 2016. As we have shown, there is no conflict of interest in developing these two routes simultaneously. This is a positive fact for economic cooperation within the Eurasian Economic Union, another Russian priority. Finally, it is in the vital shared interest of Russia, Central Asian states, and South Caucasus states to develop North-South corridors, which would complement the East-West ones, raising total efficiency of national economies and effectively unlocking inner Eurasian regions and countries.

References

Valdai Discussion Club (2015). Toward the Great Ocean-3 Creating Central Eurasia. The Silk Road
Economic Belt and the Priorities of the Eurasian States’ Joint Development.


China’s Belt and Road Initiative is one of the most ambitious development projects ever undertaken, comparable only to the post-World War II Marshall Plan and China’s own Three Gorges Dam project. Significantly, China deftly presented it to the world as a civic economic project designed to benefit all participating countries and many other countries where its effect was expected to be indirect but positive. Many countries have expressed enthusiasm for the project, while others have reacted more warily, expressing concerns over the amount of indebtedness it may entail or giving voice to various geopolitical anxieties. The position of the United States, as the world’s largest economy, with respect to the Belt and Road (originally “One Belt One Road,” hereafter “BRI”) is of significance not only to China but to all the other countries affected by it.

About the time China announced its BRI, there was much speculation in the West, as well as in Turkey, that the United States might oppose it. Inevitably, the Washington think tanks produced numerous papers reviewing the position of regional governments and advising the American government on what it should and shouldn’t do. Some of these were useful, others less so. The Chinese-sponsored Institute for China-America Studies in Washington issued a paper on “American Perspectives on the Belt and Road Initiative” that included, inter alia, dyspeptic comments by unnamed “experts” who predicted trouble ahead (Chance 2017). Others took a less anxious view, and still others concluded that the U.S. was likely to take the new project in its stride.

From the outset there were solid historical reasons for thinking the American response might be positive, or at least neutral. After all, the U.S. government constructed the Transcontinental Railroad, a 1,912-mile (3,077 km.) rail link between the eastern and midwestern rail network and the Pacific, completed in 1869. And it later built the 51-mile (82 km.) Panama Canal, opened in 1914. Surely these projects, and others that could be cited, anticipate China’s BRI. Both the United States and China have long histories of digging canals on their own territory to strengthen economic links between disparate regions and for using transport as an engine for economic development. America’s Federal Highway Program, launched in the 1950s, and China’s high-speed “bullet” trains of half a century later had the same objective of knitting disparate regions together. As a result, each of these countries has solid historical reasons for being predisposed to favor large infrastructure projects to foster transport and trade and for understanding when the other side did the same thing.

The success of China’s effort to open land transport corridors across Central Asia and through the South Caucasus to Turkey will ultimately depend not on the infrastructure, which is a prerequisite, but on the market. Thus, any judgment on the long-term viability of the BRI, and hence any projection of the U.S.’s response to it, must wait until the governmentally driven infrastructure phase has been completed and the market begins to offer its judgment.

The existence of the BRI immediately raises questions regarding its relationship to the Asia Development Bank’s “Central Asia Regional Cooperation” Program, or CAREC. CAREC, which held its seventeenth annual ministerial conference in Ashgabat in November 2018, complements the BRI rather than competes with it. On the one hand, CAREC is broader than the BRI, in that it includes activities to promote trade by small and medium-size businesses, energy sector cooperation and development, and compliance with WTO standards. On the other hand, CAREC focuses on transport and trade between its eleven members and South Asia rather than east-west trade. It is regrettable that CAREC has not promoted the so-called “Southern Corridor” between the Indian sub-continent and the West

1. See Dr. Thomas Finger (2016), “A Silk Road for the Twenty-First Century? A Good Idea, Blown out of Proportion”; Janneke F. Lin (2016), “Whither Eurasian Integration?”; and a series of reports drafted in 2015-2016 by Andrew Kuchins and Jeffrey Mankoff on how regional governments in both Central Asia and the South Caucasus were treating the new integrative projects. All of these papers were published by the Center for Strategic and International Studies.

2. For more on CAREC, see the program’s excellent website, https://www.carecprogram.org/?page_id=24
via the South Caucasus, a route that is older, more heavily travelled and less frequently interrupted than the so-called Silk Road to China (Starr 2018). But this project, which would provide a southern complement to the BRI, has not been possible because CAREC’s mandate stops at Pakistan and does not extend to India.

Some have suggested that the so-called “Northern Distribution Network” (NDN), which NATO opened to transport supplies from the Baltic to the fighting in Afghanistan, may provide insights on the viability of the BRI and the U.S. response to it.3 This is not the case. NDN was set up to meet strictly military needs. Russia, along with Latvia, Kazakhstan, and Uzbekistan, all consented to it and profited from it. But Russia retained the right at any time to cut off transport along this route, a condition that would have been clearly unacceptable to the Chinese designing the BRI.

Indeed, a major motivation for China to open the BRI across Kazakhstan to the Caspian and through Azerbaijan and Georgia to Turkey was to avoid giving Russia veto power over its transport links with the West. At conferences in St. Petersburg and Urumqi at the start of the BRI’s planning stage, Moscow officials fought bitterly to divert the railroad line from Urumqi in a northwestern direction in order to connect with Russia’s Trans-Siberian Railroad and to proceed thence to Europe. At the time, Russia was proclaiming its friendship with Kazakhstan, yet at the same time working relentlessly to prevent Kazakhstan from overcoming the isolation from both East and West that the Soviet system had imposed on it. But it failed. China refused Moscow’s pleas, bluntly informing the Russians that it would proceed with its planned route across Kazakhstan. By doing this it instituted an important check on Russia’s power in both Central Asia and the South Caucasus. To be sure, after crossing Kazakhstan, trains from China can still be diverted northward through Russia to northern Europe. This is actually happening today, largely because the route from Kazakhstan across the South Caucasus to Europe is still under development. But the impending completion of the Azeri port at Alat and the construction by Georgia of its major deep-water port at Anaklia will greatly speed transport via the South Caucasus and will likely reduce the proportion of Europe-China trade conducted through Russia. In the long run it is likely that the Russian route will be used mainly for goods destined only for northern Europe.

An important element of United States diplomacy since the rise of Putin has been to prevent him from taking further actions like his invasions of Georgia (2008) and Ukraine (2014-present). While it long refused to provide these and other threatened countries with even defensive weapons, it had unbounded faith in economic instruments and also in traditional notions of balance among contending powers. Because of this, the U.S. has worked to prevent any single outside power, or combination of outside powers, from dominating Central Asia. In contrast to Russian thinking on the subject, such a strategy by Washington is not a covert means of taking control of the region itself, but a way of strengthening the region’s sovereignty and capacity for self-government and at the same time preventing other powers from controlling the territory.

This, as much as anything else, has shaped American thinking about the BRI and accounts for its generally positive stance with respect to the program in Central Asia, as opposed to its more skeptical view of its plans for Southeast Asia and the Asia-Pacific region. Washington inevitably perceived as positive the gradual shift of transport corridors from north-south, as had prevailed throughout the tsarist and Soviet eras, to east-west, as is taking place under the BRI and related initiatives. To be sure, China poses serious challenges to the U.S., among which its BRI program in South and Southeast Asia is a conspicuous example. But for the time being the U.S. can welcome the BRI in Central Asia for the same reason the Central Asians do: it enables the region’s states to more effectively pursue their strategy of balancing the pressures exerted by external powers.

Indeed, the idea of preserving sovereignty by balancing external pressures, first proposed in Central Asia in a 1997 book by Kazakhstani foreign minister Kassimjoomart Tokayev, is now the cornerstone of the foreign policies of all regional states, as well as of Azerbaijan.4 The key to this strategy is that each country must maintain cordial relations with all the external powers while at the same time carefully balancing them against each other. Were the relative strength of these pressures to change, for instance, by China significantly expanding its influence in Central Asia from economic to strategic, it would of course be necessary to rethink this strategy. But it works very well for now. This explains why all the states of the region except Armenia, which is open to joining the BRI but has not yet done so, support the BRI, for it engages both China and


4. For an excellent overview of the fate of this strategy in Kazakhstan, see Clarke (2018).
Europe in their balancing act. U.S. support for it hinges on this same reality (Zhao 2017).

A further reason for which Washington has to date responded calmly and even positively to the BRI is that it appreciates the extent to which the countries of the South Caucasus and Central Asia have themselves invested in transport infrastructure, independent of BRI. Until China committed to subsidizing the rail line from Kashgar through the Kyrgyz Republic to Uzbekistan in 2018, the Uzbeks had expanded their transport infrastructure using their own resources. Kazakhstan too invested heavily in infrastructure, including new ports on the Caspian, using mainly its own resources. Turkmenistan completely rebuilt both the road and railroad from the Afghan border to the Caspian, paying for them with profits from its energy sales to China, and then proceeded on its own to build the ambitious new port at Turkmenbashi. Azerbaijan meanwhile is using its own resources to construct its impressive new port at Alat, just as it generously subsidized road, rail and energy transport projects during its first two decades of independence. Meanwhile, neighboring Georgia rebuilt its port of Batumi, while a private Georgian firm is planning the major new deep-water port at Anaklia.

As these many locally funded initiatives have gone forward, both the European Union and Turkey have also invested in east-west transport routes through the South Caucasus to Central Asia via the Caspian. In a visionary move in 1993, only two years after to collapse of the USSR, the European Union set up the Transport Corridor Europe-Caucasus-Asia, or TRACECA. Fourteen regional states in the South Caucasus and Central Asia joined forces with the twenty-eight states of the European Union to mount a many-sided program to boost trade via the Black Sea with the countries of the South Caucasus and Central Asia. TRACECA also envisioned the extension of its infrastructure to China. Iran subsequently joined the program, but sanctions have prevented it from becoming actively involved. A Director Generalship and permanent secretariat were established in Baku in 2000, giving permanence to the organization.

The heart of TRACECA has been its reconstruction or construction of road and railroad links between the Mediterranean and Caspian Sea. Air transport was also included, but has turned out to be a secondary focus. The concept of TRACECA directly anticipated the BRI, and the Chinese doubtless studied it carefully. Where it failed was in attracting adequate funding to execute the most important projects. In some cases, local governments stepped in to fill the breach, and in others nothing happened until the advent of the BRI. But TRACECA remains an active player and will doubtless become more so as the infrastructure phase of the new continental trade initiative is completed.

The history of TRACECA helps explain Europe’s mixed response to the BRI. As Philippe le Corre (2017) has pointed out, the European Union and member countries initially voiced various objections to the project, many of them reflecting the fact that China had seemingly preempted Europe’s own initiative. However, by 2018 these objections had diminished to the status of reservations and cautions, which may reappear if China plays a stronger hand in east-west transport, but are more likely to vanish as discussion of the new routes shifts away from geopolitical concerns towards commercial issues and market-driven concerns.

In reviewing the list of active players in the construction of infrastructure for east-west continental trade, special mention should be made of Turkey. Not only did it play a key role in the development of the first pipeline from the Caspian to the Mediterranean, but it has spent billions of dollars to forge railroad and road connections between Baku and Istanbul. The U.S. strongly supported Ankara in this effort, thus providing a further reason for Washington to support China’s contribution to east-west transport.

The existence of TRACECA and NDN, along with the many projects undertaken by regional countries and by neighboring Turkey, change the common conception of the BRI as single-handedly conceiving and constructing all the infrastructure needed for east-west continental trade. Chinese mapmakers have included on their maps of the BRI many routes that were in fact financed and constructed by others. This has caused consternation in the countries slighted and has led many analysts to overestimate the scale of China’s involvement with the region and to underestimate both the role of the international financial institutions, such as the Asia Development Bank and the European Bank for Reconstruction and Development, and of regional countries themselves. This reality in turn plays a role in Americans’ evaluation of the BRI, and helps us to understand the calm spirit in which they have received it.

But one might ask if the Chinese project was not an expanded version of the “New Silk Road Project” that Secretary of State Clinton announced in Chennai, India in 2011. The prospect she offered was grandiose, featuring easy links by rail between India, Afghanistan, and the other states of Central Asia (Clinton 2011). Unfortunately, Clinton neither staffed nor funded the project adequately, and it gradually died.

A further and equally serious shortcoming of Hillary Clinton’s “New Silk Road” is that it connected the Indian
subcontinent with Afghanistan and the rest of Central Asia but failed to extend its roads and railroads to the western shore of the Caspian and thence to Europe. This stunning failure may be traced to the fact that all the countries involved with Clinton’s project fell under the Department of State’s Bureau of South and Central Asia Affairs, whereas the South Caucasus fell under the jurisdiction of the European Bureau. Rather than solve this bureaucratic problem, the Secretary capitulated before it. Her Silk Road project was a flop the moment it began.

It has been suggested that the fact that the Chinese took the name of the failed American project and applied it to their own initiative might have caused opposition to the BRI in Washington. It is true that President Xi announced the Chinese “Silk Road Economic Belt” in a speech at Nazarbayev University in September 2013, and that at least a few in Washington were surprised that he would so brazenly appropriate the term. But by this time Clinton and her State Department were eager to forget their own Silk Road project. This was not the easier since President Obama never so much as mentioned it publicly. Given the failure of its own “New Silk Road” project, the U.S. State Department knew it was in no position to criticize the Chinese for attempting to do the same thing, albeit in improved form, or for pilfering the title it had used. Therefore no one in Washington raised so much as a peep about the issue.

A second possible source of American opposition to the BRI arose from concerns over China’s decision to ignore environmental concerns when undertaking megaprojects. But this issue scarcely surfaced, and for a simple reason. As has been noted above, back in the period 1998-2003, Russia had pushed very hard to divert the main east-west rail line from crossing Kazakhstan to running instead from Urumqi northwest to Siberia, where it was to connect with Russia’s Trans-Siberian Railroad. However, Russian environmentalists complained bitterly that this would corrupt a pristine ecological zone and campaigned successfully against the proposal in Moscow. This would have enabled Chinese officials, if challenged by the U.S., to boast that their own project had averted an ecological disaster. And so the issue never gained traction.

And with good reason. On the one hand, Washington sought cordial relations with Beijing. On the other, it saw the BRI as potentially strengthening China’s ability to check Russian’s neo-imperial aspirations in Central Asia and the South Caucasus. For these reasons it therefore responded calmly and in a guardedly positive manner to China’s project. It has maintained this position fairly consistently in spite of rising tensions between the U.S. and China over the South China Sea and Indian Ocean, and over tariffs.

A further reason for Washington’s moderation was that it assumed that the major products transported along the new corridor would be European or Chinese, not American. The United States’ economic interest in the project was linked more closely with its hopes for the economies of the former Soviet republics and of Afghanistan than with its own economic prospects. To be sure, American logistics firms dominated transport between Europe and Afghanistan during the fighting there, but none is in a position to compete at such a distance with such European giants as Maersk, let alone their Chinese counterparts. By reinforcing the new links between Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, and Afghanistan and both China and Europe, the U.S. will help those countries reduce their dependence on Russia and thus limit somewhat Russia’s ability to shape their internal and foreign affairs. The American government did not see these as trivial concerns. Washington remembered Putin’s words from April 2005 that the collapse of the USSR had been “the greatest geopolitical disaster of the twentieth century” (Sanders 2014). It had watched with horror as Putin continued to stir the Karabakh conflict in the South Caucasus, as he invaded both Georgia and Ukraine, and as he pushed the Kyrgyz Republic to open new military bases there. As long as the BRI strengthened the economies of these and other regional countries, Washington was going to offer no serious opposition to it.  

But what about the role of Iran in the BRI? Early maps issued by the Chinese government routed all traffic to the West through Iran rather than the South Caucasus. A number of western students of the BRI reproduced these maps, which were like a red flag to Washington. However, before Washington had a chance to object, China reversed course and routed traffic from the Caspian ports through Azerbaijan, Georgia, and Turkey, as well as through Iran. This deft move averted what might otherwise have been a moment of conflict.

Since 2013 China’s economy has continued to soar, but its trade policies and business practices have increasingly aroused concern in the West, and particularly in the United States. Various reprisals have been undertaken, including increased tariffs on certain Chinese goods. However, as
Afghanistan, has already removed many of the interstate disputes over territorial claims, and rushed developments within Central Asia and the South Caucasus make the BRI and China generally all the more important as a balance to Russia. These developments include a potentially epochal set of reforms in Uzbekistan and the related emergence of Central Asia as a geopolitical reality on the world stage.

Even before he was elected President in 2016, Shavkat Mirziyoyev, then Uzbekistan’s Prime Minister under President Islam Karimov, had launched what has turned out to be a remarkable series of reforms. Internationally, he lifted bans on intraregional transport and trade, resolved decades-old disputes over territorial claims, and rushed around the region building goodwill with the other leaders. On the domestic front he launched a program of massive reform. He made the currency fully convertible, instituted habeas corpus, reformed and expanded the defense bar, gave entrepreneurs the right to seek investors abroad and to invest abroad, removed thousands from lists of suspected religious extremists, and gave the public the right to lodge complaints against bureaucrats at all levels (Starr & Cornell 2018a,b).

Of course, there is a distance between the cup and the lip: some of these reforms may never be instituted in practice. But they immediately elicited positive responses from the U.S. and Europe, as well as Japan, India, etc. To the extent they are implemented, they will increase the interest of the U.S. and other democratic countries in trade with Uzbekistan, which will deepen their interest in the BRI. If other regional countries imitate some of Uzbekistan's reforms, they could deepen America’s engagement and that of the other countries noted above with most or all of the BRI countries, and hence with the BRI.

Uzbekistan’s outreach to its neighbors, including Afghanistan, has already removed many of the interstate tensions that previous racked the region (Tashkent Times 2017). Trade within Greater Central Asia has greatly expanded, as has trade across the Caspian to Azerbaijan and Georgia. The presidents of the five Central Asian countries and Afghanistan have begun meeting regularly, and have organized conferences on such sensitive topics as water and hydroelectric energy. Outside powers, including Russia, China, Europe and the United States participate only as observers. Beyond this, in June of 2018 the region’s governments drafted a resolution for the UN’s Security Council supporting the emergence of Central Asia as a region capable of taking charge of its own economic and social development and even its security without the interference of outsiders. It passed the General Assembly, with China, Russia, and the U.S. all supporting it (UNRCCA 2018).

Thus, something akin to ASEAN or the Nordic Council is being born in the region of Greater Central Asia. While this remained a distant dream as recently as two years ago, it is today being actively discussed not only among the Central Asian states themselves, but also with existing regional entities in order to glean from them “best practices.” Reinforced by expanded east-west interaction across the Caspian, it is clear that the influence of this new regionalism will spread to encompass most of the BRI countries between Turkey and China. This new regional spirit is also increasingly associated with more open forms of government, as seems to be happening in Uzbekistan.

Because of this, one can expect in the coming years for the West to take a deeper interest in the Belt and Road region as a whole and to champion the interests of the transit countries in the event of tensions with China. Indeed, the EU has recently grown more active in the South Caucasus and is working on a new strategy for Central Asia. And for the same reason that they may take a deeper interest in the region, the U.S. and Europe will surely seek to resolve quickly and quietly any issues that may arise with respect to the BRI and not allow them to fester or become public.

It should be stressed that the entire discussion of the BRI up to now has occurred during the period when hard infrastructure was being planned and constructed. Because it centered on the delineation of specific routes that affected large populations, this inevitably called forth discussions of the geopolitics of the project and led to proposals to redraw certain routes or to supplement them with others. Such concerns were inevitably the responsibility of governments, which addressed them through the normal channels of diplomacy.

However, we noted at the outset that as the BRI advances towards realization, the focus will shift from hard infrastructure to soft infrastructure, and from governmental concerns and negotiators to the concerns of private industry and trade, as well as to the businessmen whose are most intimately concerned. Rather than asking how the roadbed will be defined and constructed, discussion will focus on which logistics firms and freight forwarders will utilize the new routes, what companies will offer insurance to shippers, and who will construct and manage storage facilities.

facilities and hotels. Henceforth, it will be the realities of the private sector that will cause the BRI either to flourish or fail, with governments being cast increasingly into the role of supporting players to the business folks.

The chief demands the private sector will make to those who manage the BRI will pertain to the speed of border crossing, costs per mile, taxation, and the maintenance of roadbeds. Shippers on all sections of the BRI's infrastructure will be in touch with one another and will voice together their demands to governmental managers of the BRI when they deem it necessary. Moreover, they will do so on the basis of exhaustive hour-by-hour data and in full cognizance of the comparative cost of alternative routes, i.e. shipping by sea. This will provide an austere market discipline to all those who may wish to return the BRI to its earlier geopolitical identity.

As the shift to such concerns moves forward, it is likely that the American role will diminish from the current level, which is defined more by geopolitics than by economics, as will be the case in the future. This is quite separate from the U.S. stance towards the BRI as a whole, which is already growing more skeptical on account of its proposals for Southeast and South Asia, the South China Sea and the Indian Ocean. European and Chinese logistics firms will be the chief actors in this new game, not diplomats, whether Chinese or American, whose level of activity will have declined from the time when the main focus was on hard infrastructure.

Stated differently, the period of America's greatest concern over the BRI was at the planning stage and in the early phase when the focus was on the financing and construction of hard infrastructure. It quietly encouraged certain routes and cautioned against others. As the shift to soft infrastructure begins, it may well champion some of its own firms to play a role in one area or another. It is also likely that it will caution the weaker participating countries to be cautious about taking on too much debt on the false assumption that it will eventually be forgiven.

For Washington was genuinely concerned in 2015 when China announced the formation of the Asian Infrastructure Investment Bank (AIIB), with fifty-seven countries as members and an initial capitalization of US$100 billion (of which only US$30 billion came from China). U.S. officials feared that Chinese money and standards would undermine the work of the World Bank and Asian Development Bank, both of which Washington strongly supported. But even this negative response faded when it turned out that many years would be needed before the institution could pose a serious threat to the existing development banks, and by that time some channels for cooperation might have been opened (Economy 2015).

Even when the U.S. offers advice on debt and other matters pertaining to the BRI, it is likely to work mainly with officials of countries transited by the BRI rather than with the Chinese themselves. It will stop far short of playing a leading role in the enterprise as a whole.

We have already noted that the U.S. response to the BRI in the South Caucasus and Central Asia may differ from its more skeptical response to the program's announced intentions in Southeast Asia, the South China Sea and the Indian Ocean. This is quite normal, and it explains why the U.S. position on the BRI in the heart of Asia might be stated obliquely rather than directly, and why it may prefer to deal with the BRI with and through the states of the region rather than over their heads with China directly.

Some have wished for the United States to take an unequivocal stance in favor of the BRI's actions in the South Caucasus and Central Asia or in opposition to them. After all, it has responded emphatically to the BRI's program in the South Pacific region by convening a quadrilateral diplomatic effort involving Japan, Australia, India, and the United States that called for a "free and open Indo-Pacific region." Neither will happen, and for three very good reasons. First, as we have seen in this overview, in contrast to the situation in the South Pacific and Indian Ocean, the BRI in this region offers several positive features to both the U.S. and its regional partners in the South Caucasus and Central Asia. The negatives are real, and pertain mainly to the unknown future. Second, because of these benefits to its partners in the South Caucasus and Central Asia, the U.S. will in all likelihood maintain its current stance towards the BRI, knowing that a change will only punish its regional partners and benefit Russia.

And third, however important the BRI in Central Asia and the South Caucasus may be to China, Europe, or the transited countries, it is at best a secondary concern of the United States. Indeed, the same can be said of the South Caucasus and Central Asia as a whole, with the sole exception of Afghanistan. It is true that the Trump administration has already devoted far more attention to Central Asia and the South Caucasus than did the Obama administration. For example, it is actively supporting the

---

8. These will be comparable to the detailed data already being collected by the International Road Transport Union in Geneva. See https://www. iru.org/
reforms in Uzbekistan and the efforts at regional integration now going forward. But there are limits to this interest and these have to do with world politics as a whole, and not with the South Caucasus and Central Asia.

This reality will place constraints on the extent to which Washington will engage with the BRI and with the various participating countries of the region. Both can hope to advance to the top of Washington’s list of secondary concerns, but it is unlikely that they will rise further among America’s priorities without the stimulus of some new geopolitical crisis in the region. At that point, however, it is more than likely that Washington will respond carefully yet vigorously in support of the sovereignty and self-determination of the regional states.

References
The Tashkent Times (2017). Central Asia – Afghanistan dialogue format to be created.
Zhao Hong (2017). “Armenia open to the Belt and Road Initiative.” CGTN.
The Emerging Markets Forum was created by the Centennial Group as a not-for-profit initiative to bring together high-level government and corporate leaders from around the world to engage in dialogue on the key economic, financial and social issues facing emerging market countries.

The Forum is focused on some 70 market economies in East and South Asia, Eurasia, Latin America and Africa that share prospects of superior economic performance, already have or seek to create a conducive business environment and are of near-term interest to private investors, both domestic and international.

Further details on the Forum and its meetings may be seen on our website at http://www.emergingmarketsforum.org