



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

*The New Silk Road – A stock-taking and implications for
Europe
Part I*

**Integration in Europe:
European Union (EU) and Eurasian Economic Union (EAEU)**

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Introduction

- Selective project-oriented overview of **China's „Belt and Road Initiative“ (BRI)**
- Definition, supporting institutions, financial means, motivations, goals, risks, challenges, rivaling initiatives?
- Which economic corridors? Link-ups with Paneuropean corridors (EU)?
- **Some Belt & Road key projects**
- Conclusions

„New Silk Road“ (NSR) = „Belt and Road Initiative“ (BRI)

consists of:

a) „**Silk Road Economic Belt**“ (overland)

b) „**21st Century Maritime Silk Road**“ (seaborne)

- Both focus on **connectivity along infrastructural trajectories**
- Compare: **Marshall Plan**

Selected institutions supporting the New Silk Road

- **Silk Road Fund** (USD 55 bn)
- **Asian Infrastructure Investment Bank** (AIIB, USD 100 bn)
- **New Development Bank** (BRICS, USD 10 bn)
- China's policy banks:
 - **China-EXIM Bank** (USD 100 bn)
 - **China Development Bank** (USD 120 bn)
 - **Agricultural Development Bank of China** (USD 20 bn)
- Special regional sub-initiatives
 - „**16+1 format**“ (USD 11 bn)
 - **China-Russia Renminbi Investment Fund** (USD 10 bn)
- **China's international reserves**
 - potentially *several USD 100 bn* to be used

Goals of BRI: largely economic and geopolitical

- **Improvement of transportation links**, reduction of trade costs
- **Redirection of surplus savings**, re-utilization of unused domestic **productive capacities**
- **Diversification of investments**, markets and suppliers
- Creation of „**strategic propellers of hinterland development**“
- Contribution to **internationalization of Yuan-Renminbi**
- Venue for addressing **strategic resource supply, security issues** (e.g. chokepoint Strait of Malacca)
- **Pragmatic infrastructural project cooperation** can be easier than „deepening“ trade integration areas
- Steady enhancement of **Chinese soft power**
- **China not necessarily interested in short-term profits** and may accept losing up to 30% of its BRI investment in Central Asia (Stronski and Ng, 2018)

New Silk Road challenges and risks

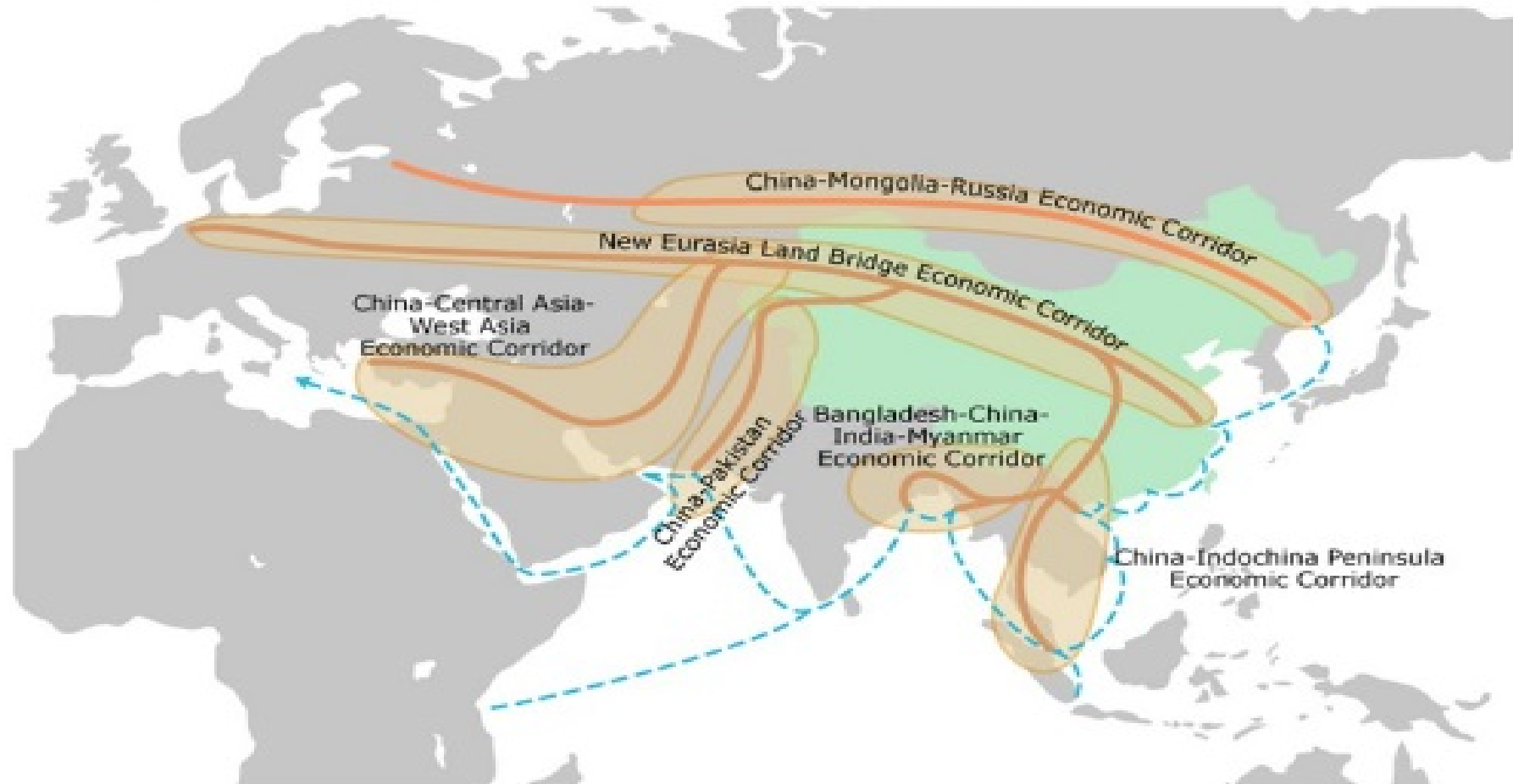
- **Weak local governance**, bureaucracy, potential political instability in partner countries
- Lavish B&R financial inflows might even add to **corruption**
- Often **lack of competitive tenders**, sometimes sovereign guarantees required
- Possible „**debt trap**“, particularly for small economies
- **Frequent Chinese dominance** in projects (financially and logistically), possibly limited regard for local conditions
- **Instances of popular resistance** to Chinese investment
- Yet China is often **prepared to take higher risks** than multilateral development banks
- Possible fallout from heightened **geopolitical tensions** and rivalry

Possibly competing programs of other powers

- **„New Silk Road“-Initiative (NSRI)** of USA (since 2011)
- **Indian-Japanese „Freedom Road“** (since 2017)
- **Intercontinental North-South Transport Corridor (INSTC)**, initiated by India, Iran and Russia (2002), re-activated after the lifting of the Iran sanctions
- **TRACECA** (Transport Corridor Europe-Caucasus-Asia), supported by EU, since 1993
(see project map)

Map 1

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



Source: China Trade Research (Hong Kong Trade Development Council – HKTDC)

Eco. corridors as „runways“ or „platforms“ for infrastructural trajectories and transp. hubs

Maritime connectivity still outstrips overland connectivity, which however is gaining ground

- For price reasons, lion's share (around 80-90%) of long-distance trade over the NSR is likely to remain seaborne
- However, **modernization of relatively weakly developed overland transportation** is bound to reduce price gap somewhat
- Emergence of **profitable niche** for long-haul Eurasian rail conveyance of
 - **High value-added products** or
 - Time-sensitive goods or
 - Products involved in manufacturing processes
- See **Trans-Eurasia-Express.....**

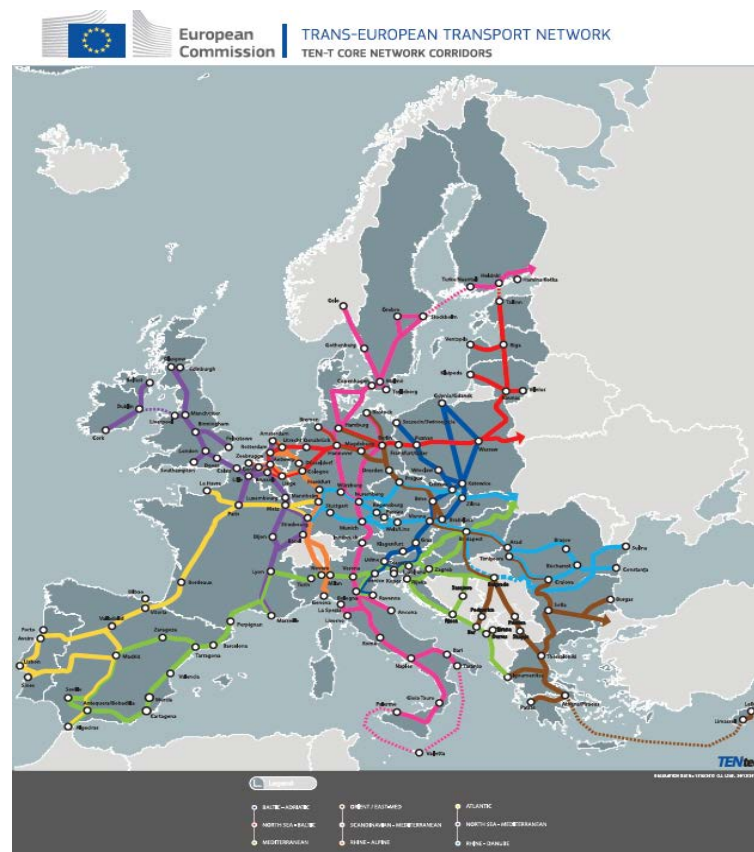
Re: Economic corridors

- Maritime Silk Road, its Europ. extension (Land-Sea Express Route/LSER) as well as
- New Eurasian Land Bridge **may directly link up with**
- Pan-European Transport Corridors (see Map 1, corridors 2, 10)
- Trans-European Transport Network (see Map 2, corridors North Sea-Baltic, Orient-East Med)

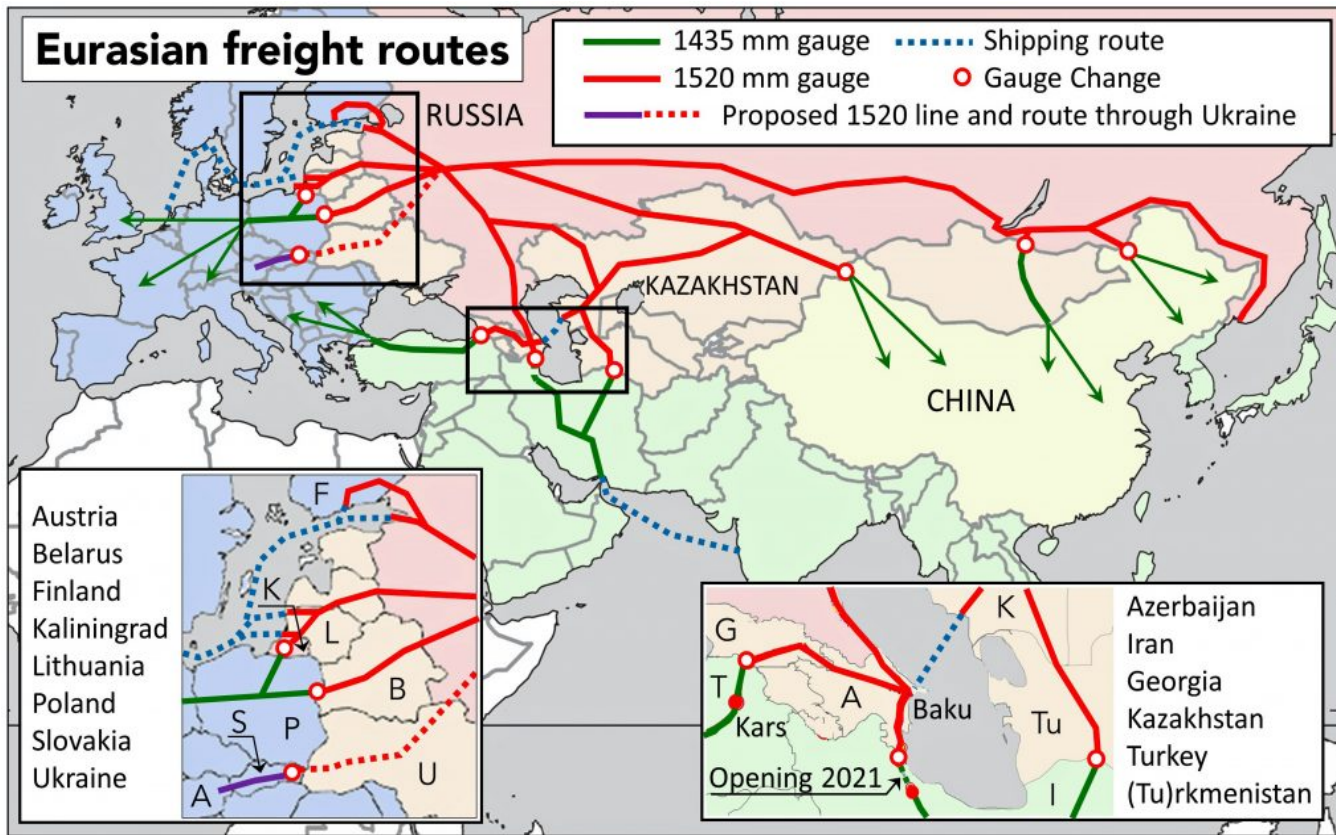
Map 2



Map 3



Maps 4 and 5:



Some key 'One Belt, One Road' projects and their financial support

Project	Host country of investment	Construction period (planned)	Amount of Chinese investment or financial support, or total costs (in USD bn)
Khorgos Gateway (Special Economic Zone)	PRC, KAZ	2014-17	6.5 (total)
West Europe-West China Expressway	PRC, KAZ, RUS	2009-20	3.0 (Silk Road Fund)
High-Speed Rail Link Moscow-Kazan ¹⁾	RUS	2018-22	7.4 (China Dev. Bank et al.)
Yamal LNG Project	RUS	2015-23	12.0 (China EXIM, CDB)
Power of Siberia (Sila Sibiri) Gas Pipeline	RUS	2015-19	2.0 (Bank of China)
Deep-Sea Port Gwadar	PAK	2015-17	1.6 (total)
Karakorum Highway Reconstruction	PAK, PRC	2012-18	2.5 (China EXIM, China Dev. Bank)
Trans-Myanmar-Oil and Gas Pipelines	Myanmar, PRC	2009-2013/14	2.5 (total)
Colombo Port City and Sri Lanka infrastructure dev.	Sri Lanka	from 2014	5.0 (total, of which 1.4 bn for Colombo)
Djibouti and Ethiopia infrastructure development	DJI, ETH	from 2010	12.0 (China)
Port of Piraeus (acquisition and modernization)	GRC	from 2016	0.81 (China Ocean Shipping Co.)
High-Speed Rail Link Belgrade-Budapest	SRB, HUN	2014-18	1.73 (total)
¹⁾ part of planned High-Speed Rail Link Berlin-Moscow -Beijing (see memo items below)			
<i>Memorandum items:</i>			
Trans-Siberian railroad link to Austria (broad-gauge track extension Košice-Vienna/Bratislava)	SVK, AUT	2023-2033	6.5 (total, financial commitments not yet determined)
High-Speed Rail Link Berlin-Moscow-Beijing (Evrazia)	BLR, RUS, KAZ, PRC	2018-2026	130 (total, fin. commitments not yet fixed)

Source: various international press articles, Silk Road Fund, Asian Infrastructure Investment Bank

Map 6:
Some major Belt & Road projects: a spatial overview



- (Highspeed) railroad link
- Highway or expressway
- Oil or gas pipeline
- Electricity transmission or distribution system
- Major sea lanes (container shipping, MSR)
- Northeast Passage and other sea lanes to be developed
- Deep-sea ports (newly constructed/modernized)
- (US), (I), (J) Project supported by the U.S.A., by India, by Japan
- North-South Transport Corridor (supported by India, Iran and Russia)
- TRACECA (Transport Corridor Europe-Caucasus-Asia, supported by EU)
- N.S. Kyrgyzstan North-South Highway
- P.-H. Trans-Pamir-Highway (Tajikistan)
- A. Angren (Uzbekistan)
- AFG. Afghanistan
- B. Bangladesh
- C. Cambodia
- K. Kyrgyzstan
- L. Laos
- T. Tajikistan
- TKM. Turkmenistan
- UZB. Uzbekistan
- United Kingdom: in process of exiting the EU (following referendum in June 2016 and notification in March 2017)

Some major New Silk Road projects (EU-Russia-Central Asia): close-up



Another comparative look at Chinese investment contracts along the New Silk Road (based on the *China Global Investment Tracker*, published by Heritage Foundation)

Chinese investment and construction contracts in transportation and energy sectors 2012 to 2017 (USD bn) ¹⁾						
Country	Total amount (USD bn)	Chinese inv. as ratio to host country GDP (%) ²⁾		Country	Total amount (USD bn)	Chinese inv. as ratio to host country GDP (%) ²⁾
Central Asia				Southeast Asia		
Kazakhstan	10.93	0.99		Cambodia	3.72	3.55
Kyrgyz Rep.	3.80	8.92		Indonesia	19.86	0.38
Mongolia	1.72	2.40		Laos	13.22	15.81
Turkmenistan	3.32	1.40		Malaysia	22.73	1.19
Russia and Eastern Europe				Philippines	6.27	0.36
Montenegro	1.12	4.34		East Africa and Middle East		
Russia	27.34	0.27		Djibouti	1.72	17.37
Serbia	5.04	2.06		Egypt	14.17	0.74
West Asia				Ethiopia	8.93	2.48
Iran	7.45	0.30		Kenya	13.79	3.67
Saudi Arabia	5.89	0.14		Tanzania	4.97	1.77
Turkey	6.74	0.13		Uganda	8.95	5.35
U.A.E.	9.41	0.41		Memo item (comparative Chinese investments)		
South Asia				Australia	27.71	0.33
Bangladesh	21.30	1.93		Canada	26.19	0.26
Nepal	1.43	1.54		Italy	14.62	0.12
Pakistan	39.90	2.58		United Kingdom	9.34	0.05
Sri Lanka	4.88	1.02		United States	28.33	0.03

¹⁾ Only host countries in which above Chinese investment exceeds USD 5 bn and/or 1% of GDP are listed.

²⁾ Respective countries' average GDP of the years 2014 and 2015 is taken as denominator. The contract sum total for the period 2012 to 2017 is divided by the number of years (6) of this period and related to the average annual GDP of 2014-2015.

Source: China Global Investment Tracker (American Enterprise Institute, Heritage Foundation)

Concluding,

- **BRI** has largely **economic and geopolitical motivations**
- **BRI** corresponds to **enormous investment program** with total est. needs of USD 800 bn to USD 1.5 trn
- BRI is new type of promoting development through „**nuts and bolts**“ **connectivity** which aims at **reducing transportation costs**
- B&R corridors are also **venues for addressing strategic resource supply** and security issues for China (tackling Strait of Malacca delimitation)
- **Chinese authorities** have **hundreds of billions of dollars** at their disposal for B&R purposes
- B&R projects **partly help Russia circumvent Western sanctions** and replace some blocked Western investors by Chinese and/or other investors
- Acc. to expert estimates (Herrero and Xu, 2016), global **trade of EU could rise 6%** and of Austria 9% if important B&R projects – incl. the trans-Eurasian rail axis – were accomplished

Concluding (cont.)

- However, potential „**debt trap**“, particularly for smaller countries, and danger of fueling **corruption**
- There is **frequent Chinese dominance in projects** (financially and logistically) and sometimes limited concern for local conditions
- In **absolute terms**, the seven BRI countries in which China invests most in transportation / energy projects are relatively big neighbors:
 - **Pakistan, Australia, Russia, Malaysia, Bangladesh, and Indonesia**
- Yet **in relation to GDP** of recipients, strategically-located smaller countries benefit most:
 - **Djibouti, Laos, Kyrgyzia, Montenegro, Uganda, Kenya, Cambodia**
 - However, some of these countries also carry particular **risk of debt distress** (Hurley, Morris, Portlance 2018)
- Chinese contribution to global connectivity through strengthening **geoeconomic linkages**

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Many thanks for your attention
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