

*The New Silk Road project*  
– *A geo-economic assessment, chances and challenges*  
*for Europe*

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

**13 September 2019**

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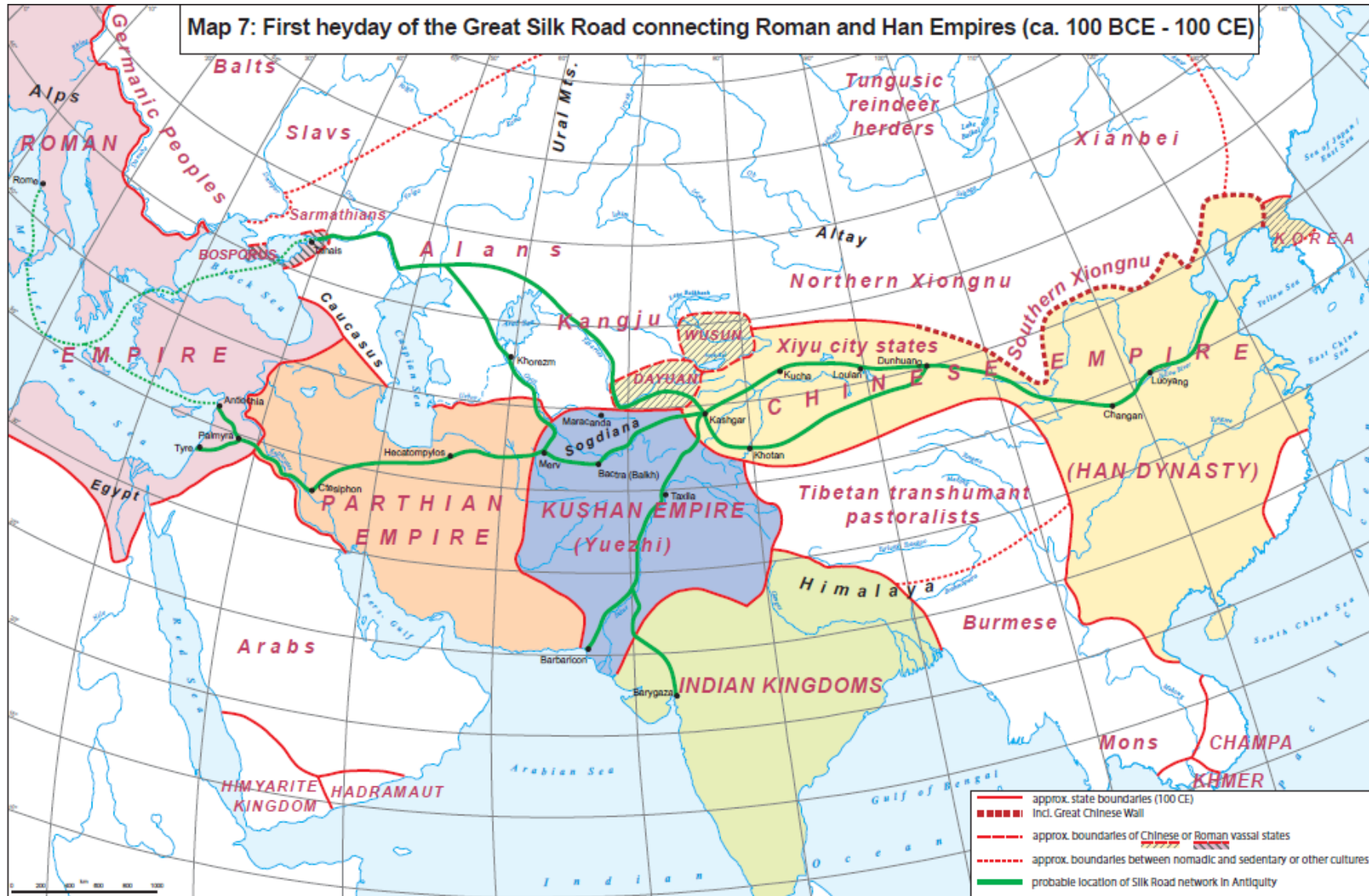
# ***New Silk Road or „Belt and Road Initiative“ (BRI)***

***Yi Dai Yi Lu*** 一帶一路

- Selective project-oriented overview of **China's „Belt and Road Initiative“ (BRI)**
- Definition, supporting institutions, financial means, motivations, risks, rivaling initiatives?
- Which economic corridors? Link-ups with Transeuropean Transport Networks (TEN-T)?
- **Some Belt & Road key projects**
- Conclusions and possible implications for Europe

- The (traditional or) Old Silk Road was a **network of overland trade routes** that provided commercial and cultural exchange between Europe, Central Asia (CA), India and China (Ferdinand v. Richthofen, 1877)
- The OSR is estimated to have existed for **almost two millennia** – up the 19<sup>th</sup> century
- The OSR enjoyed at least three **heydays**:
  - **Han Dynasty – Roman Empire** (ca. 100 BCE – 200 CE)
  - **Tang Dynasty – Caliphate** (ca. 675-875 CE)
  - **Mongol Empire (Yuan Dynasty, ca. 1245-1345)**
- But the OSR also experienced **periods of crisis/decline**, often due to
  - Political instability, wars
  - Technological factors
- As name indicates, **silk** was very popular as SR merchandise; often even served as de-facto means of payment; moreover: horses, tea, porcelain (china), carpets, slaves
- From the late 16<sup>th</sup> century, **silver** (from America) also attained importance as a medium of exchange
- The **Middle Kingdom** remained the economically predominant and most resourceful power along the OSR

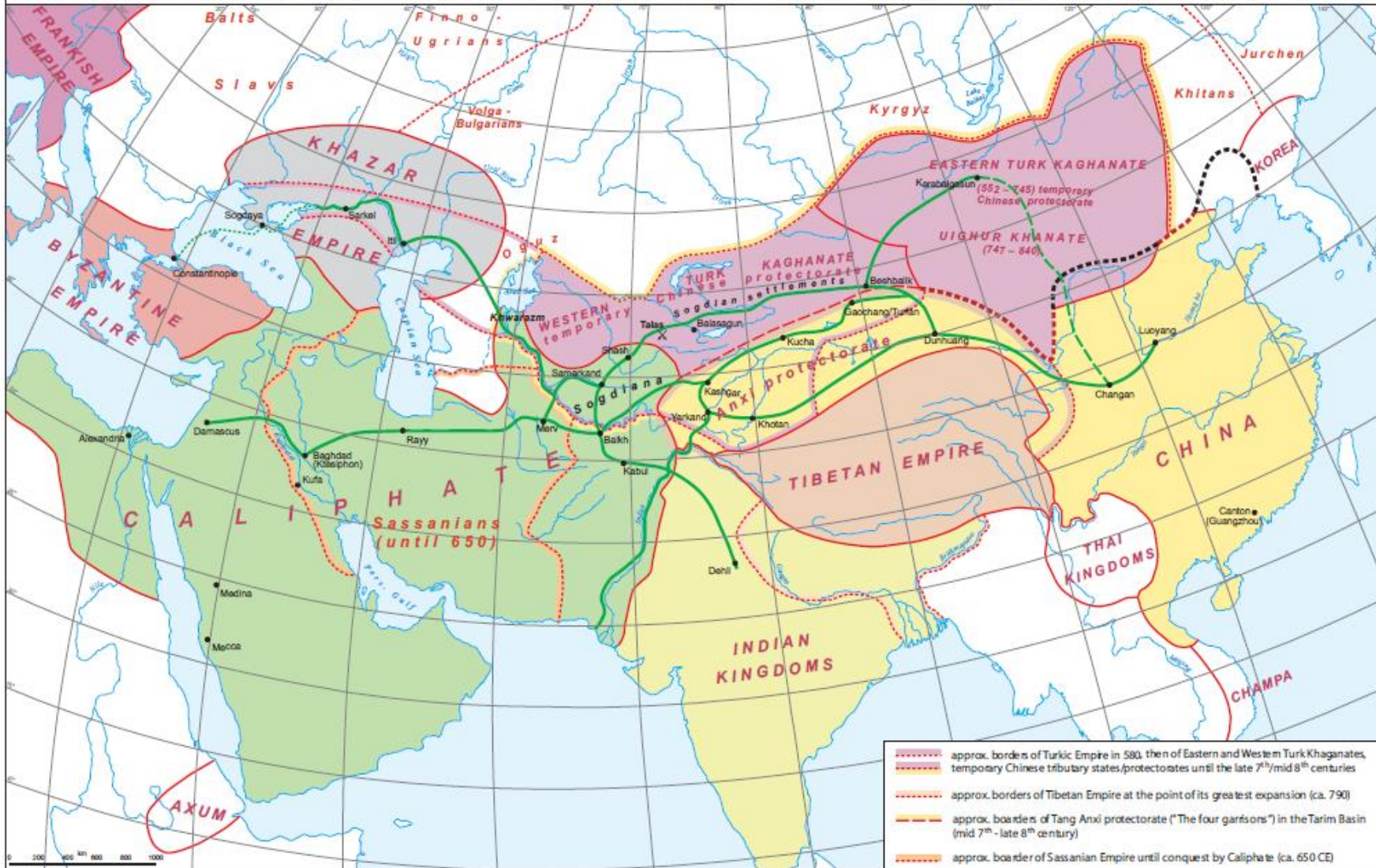
# First heyday of the Silk Road



Source: Stephan Barisitz: Central Asia and the Silk Road - Economic Rise and Decline Over Several Millennia, Springer Publishing, Heidelberg, New York 2017

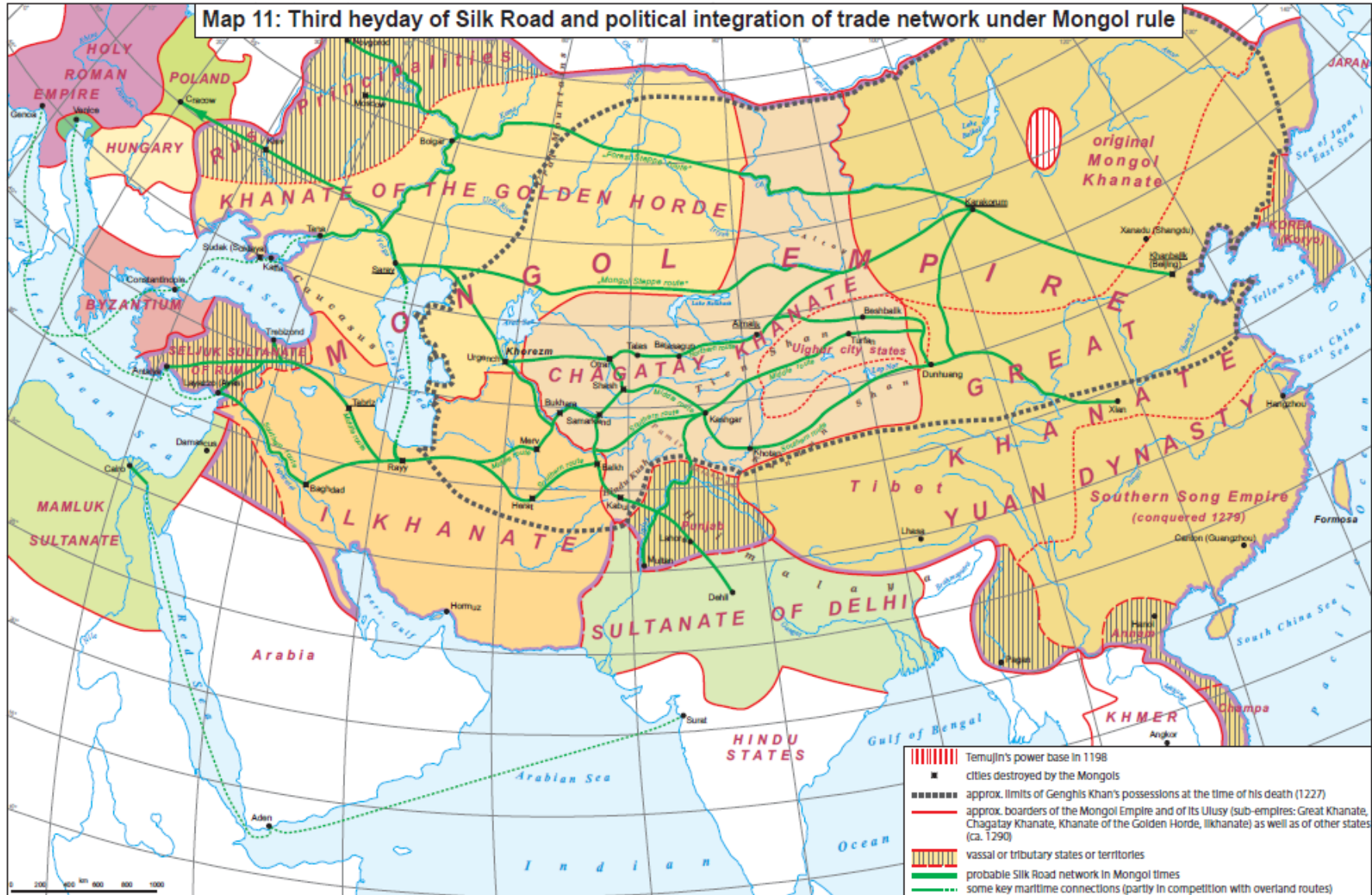
# Second heyday of Silk Road

Map 9: Second heyday of the Great Silk Road under the Turkish steppe empires, the Tang Dynasty and the Caliphate (ca. 575 – 850)



Source: Stephan Barisitz: Central Asia and the Silk Road - Economic Rise and Decline Over Several Millennia, Springer Publishing, Heidelberg, New York 2017

# Third heyday of Silk Road



Source: Stephan Barisitz: Central Asia and the Silk Road - Economic Rise and Decline Over Several Millennia, Springer Publishing, Heidelberg, New York 2017

# ***Factors that contributed to ups and downs (heydays and declines) of the Old Silk Road***

- Heydays
  - Simultaneous political stabilization
  - Successful economic reforms
  - OSR infrastructure investments
  - Political = economic integration (of large parts) of OSR
  - Tendencies toward religious unification
  - Spillovers of Western silver flows from America to Eurasia (late 16<sup>th</sup> century)
  - Networks of enterprising merchants
  
- Downturns
  - Political instability/de-stabilization, turmoil, warfare
  - Unraveling or lack of economic reforms
  - Vicious circle between political instability and loss of OSR revenues
  - Diseases/pandemics spread by the OSR, notably the “Black Death”
  - Slow loss of importance of OSR through increasing Western maritime competition circumventing Central Asia (from 16<sup>th</sup> century)
  - Emergence of Siberian Route (Russia), equally bypassing the OSR

→ *Back to New Silk Road:*

## New Silk Road or Belt & Road Initiative (BRI)

= quasi-global infrastructure investment program (with focus on Afro-Eurasia), overwhelmingly financed by Chinese sources

consists of:

- a) „**Silk Road Economic Belt**“ (SREB, overland)
- b) „**21st Century Maritime Silk Road** (MSR, seaborne)

Both focus on connectivity along infrastructural trajectories:

Total investment needs estimated USD 800-1500 bn



# Selected supporting institutions

- **Silk Road Fund** (USD 55 bn)
- **Asian Infrastructure Investment Bank** (AIIB, USD 100 bn)
- **New Development Bank** (BRICS, ca. USD 25-50 bn)
- China's policy and commercial banks:
  - **China-EXIM Bank** (USD 150 bn already disbursed)
  - **China Development Bank** (USD 190 bn already disbursed)
  - **Industrial and Commercial Bank of China** (ICBC, USD 80 bn already disbursed)
- Special regional sub-initiatives
  - „17+1 Forum“ (up to USD 11 bn)
  - **China-CEEC Interbank Association** (up to USD 2 bn)
  - **China-Russia Renminbi Investment Fund** (USD 10 bn)
  - **Cooperation agreement EAEU-BRI** (USD 9 bn)
  - **Africa support** initiative (USD 60 bn)
  - **China-ASEAN Investment Cooperation Fund** (up to USD 10 bn)
- **China's international reserves**
  - potentially *up to USD 750 bn* to be used
- Chinese / international **BRI courts** (since 2018)
  - Xian (overland network)
  - Shenzhen (maritime network)
  - Singapore (mediator panel)

## Goals of BRI: largely economic and geopolitical

- **Improvement of transportation links**, reduction of trade costs
- **Re-utilization of domestic productive capacities** (extension of export-led growth strategy)
- **Diversification of investments**, markets and suppliers
- Creation of „**strategic propellers of hinterland development**“
- Establishment of **China-oriented regional value chains**
- Contribution to **internationalization of Yuan-Renminbi**
- **Alternative cooperation network** (in case of trade war)
- Venue for addressing **strategic resource supply & security issues** (e.g. chokepoint Strait of Malacca)
- **Pragmatic infrastructural project cooperation** can be easier than traditional „deepening“ of trade integration areas
- Steady enhancement of **Chinese soft power**, „**circle of friends**“

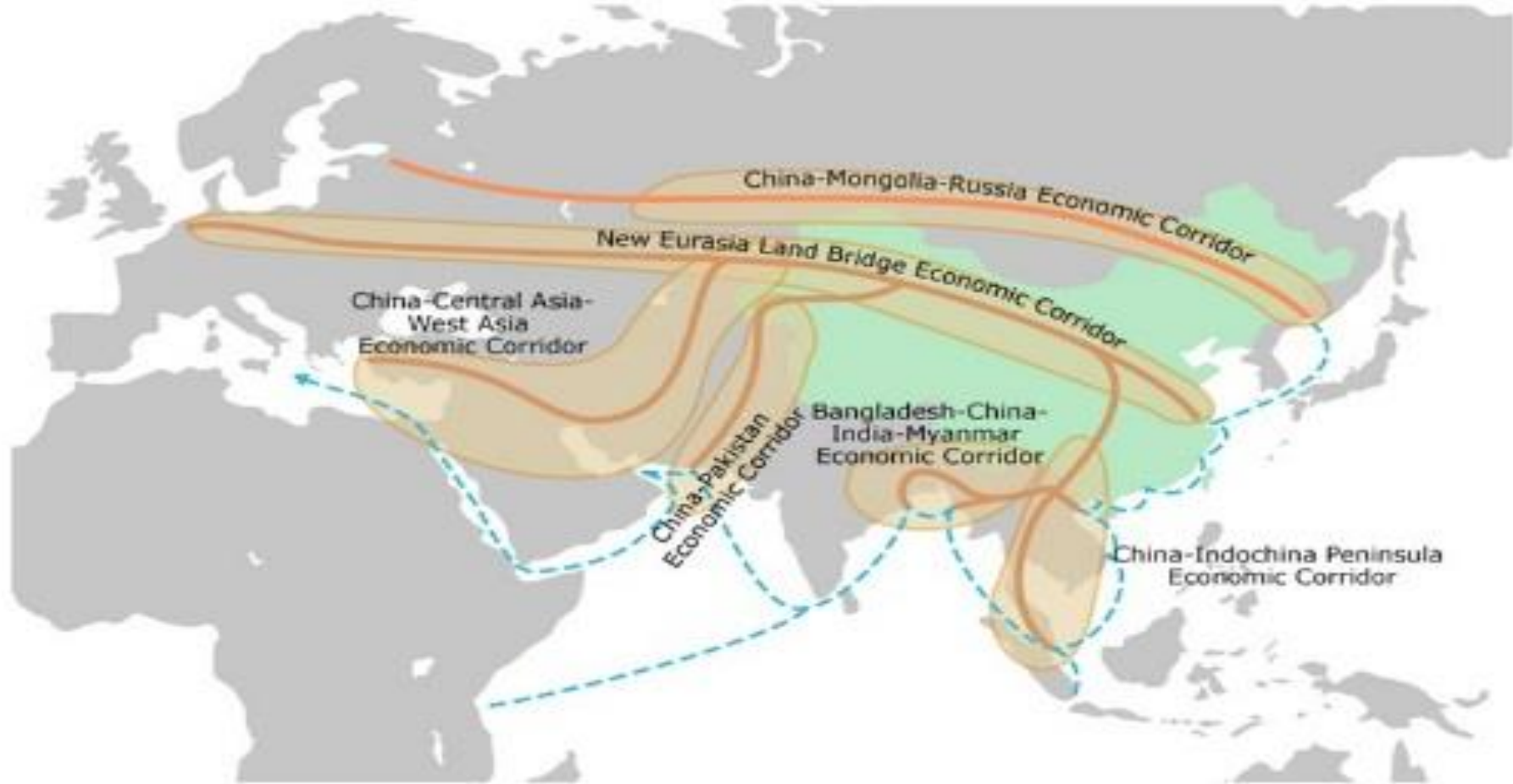
- **Differing regulatory regimes** for cross-border infrastructure
- **Weak local governance**, bureaucracy, potential political instability in partner countries
- Lavish B&R financial inflows might even add to **corruption**
- **Frequent Chinese dominance** in projects (financially and logistically),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

## Possibly competing programs of other powers

- **United States: „New Silk Road-Initiative“ (NSRI)** (since 2011)  
+ US International Development Finance Corporation (USIDFC)  
(USD 60 bn) (2018)
- **Japan: „Partnership for Quality Infrastructure – Investment for Asia’s Future“ program** (up to USD 200 bn) (2015/16)
- **Intercontinental North-South Transport Corridor (INSTC)**, initiated by India, Iran and Russia (2002), re-activated after the lifting of Iran sanctions (2015), challenged by new unilateral US sanctions (2018)
- **EU: TRACECA** (Transport Corridor Europe-Caucasus-Asia), supported by EU, since 1993  
„Connecting Europe and Asia – Building Blocks for an EU Strategy“ (2018)  
**Infrastructure project cooperation with WB** in Eastern partnership countries (EUR 13 bn) (2019)

Map A

**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

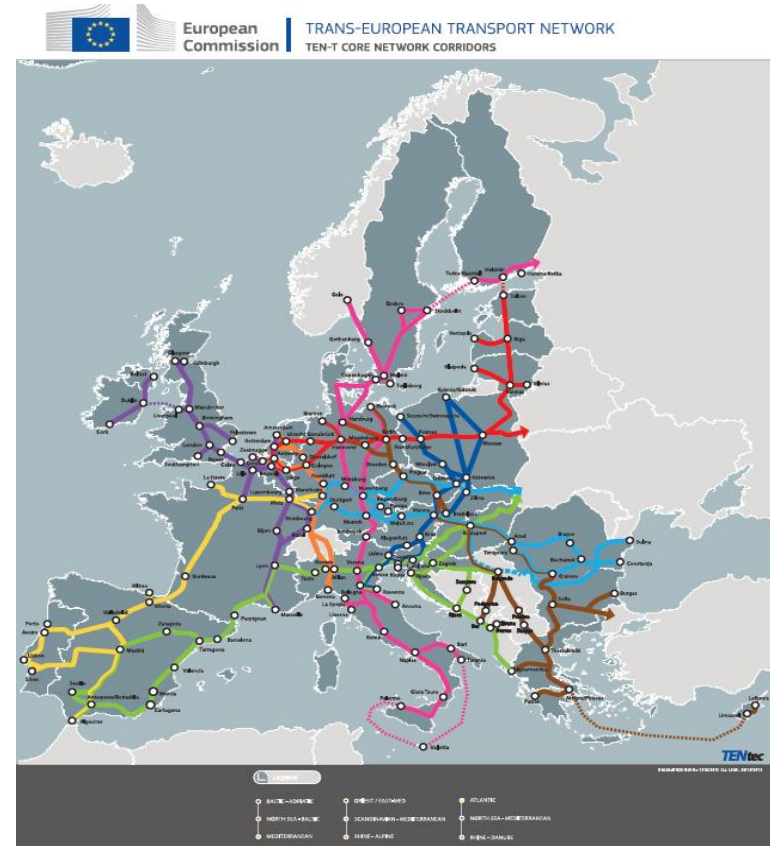
# Re: Economic corridors

- 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 (Map 2, corridors 2, 10)
- Trans-European Transport Network (Map 3, corrs. North Sea-Baltic, Orient-East Med)

Map B



Map C



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

- For price reasons, lion's share (around 70-90%) of long-distance trade over the B&R trajectories is likely to remain seaborne
- However, **modernization of (hitherto) relatively weakly developed overland transportation** is reducing price gap somewhat
- **Cargo flows by rail linking Europe and Asia have multiplied** since 2012, if from modest point of departure
- 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....**

Maps D and E:

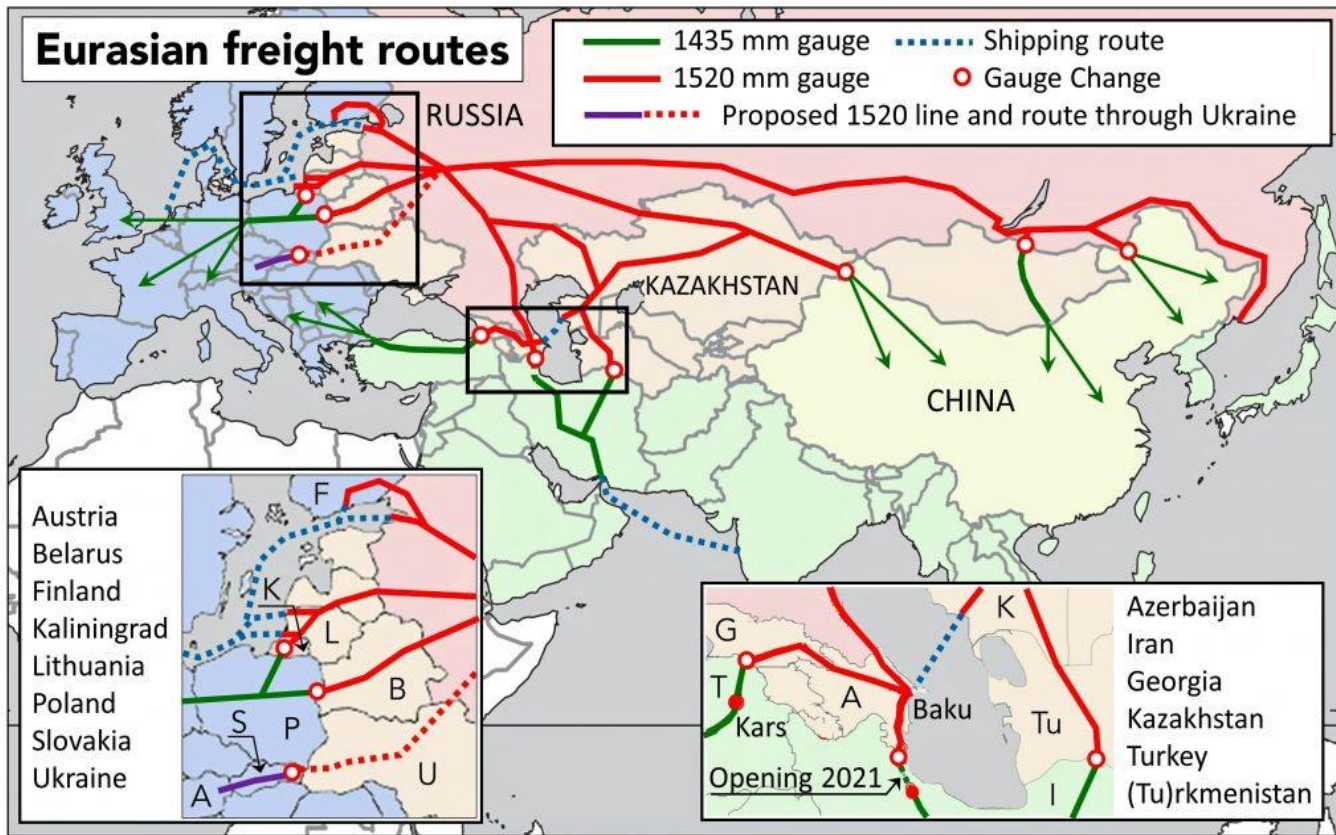




Table 1

### Some key B&R projects and their financial support: CESEE and Central Asia

Project	Host country of investment	Construction period (planned)	Total project costs (USD bn)	of which: Chinese investment or financial support (USD bn)
Khorgos Gateway (Special Economic Zone)	China, Kazakhstan	2014-18	6.5	3.2 (COSCO, Lianyungang)
West Europe-West China Expressway	China, Kazakhstan, Rus.	2009-20	7.0	3.0 (Kaz.: Silk Road Fund)
Moscow-Kazan High-Speed Rail Link <sup>1)</sup>	Russia	2018-22	21.0	6.5 (CDB a.o.)
Yamal LNG Project	Russia	2015-21	27.0	12.0 (China EXIM, CDB)
Arctic LNG II	Russia	2017-23	25.0	20% (CNPC, CNOOC), CDB
Power of Siberia (Sila Sibiri) Gas Pipeline	Russia	2015-19	17.5	2.0 (CDB)
Angren-Pap Railroad Link	Uzbekistan	2013-16	1.9	0.46 (China Railway Tunnels Gr.)
Great Stone (China-Belarus) Industrial Park	Belarus	2012-18	1.1	0.28 (China EXIM and CDB)
Port of Piraeus (acquisition and modernization)	Greece	from 2016	0.81 (China Ocean Shipping Co./COSCO)	
Varna Port Modernization	Bulgaria	from 2019	0.14 (incl. China Machinery Engineering Corp./CMEC)	
Belgrade-Budapest High-Speed Rail Link	Serbia, Hungary	2015-23	5.1 (CREC, CCCC, China EXIM)	
Bar-Boljare-Belgrade Motorway	Serbia, Montenegro	from 2015	1.0 (Montenegro)	0.85 (China EXIM)
<sup>1)</sup> part of planned High-Speed Rail Link Berlin-Moscow-Beijing (see memo items below)				
<i>Memorandum items:</i>				
"Breitspur"-Trans-Siberian railroad link to Austria (broad-gauge track extension Košice-Vienna/Bratislava)	Slovakia, Austria	2023-2033	6.5 (total, fin. commitments not yet determined)	
High-Speed Rail Link Berlin-Moscow-Beijing (Ev	Belarus, Rus. Kaz., China	2018-2030	130 (total, fin. commitments not yet fixed)	

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

Abbreviations: CCCC = China Communications Construction Corporation, CDB = China Development Bank, CNOOC = China National Offshore Oil Corporation, CNPC = China National Petroleum Corporation, COSCO = China Ocean Shipping Company, CREC = China Railway Engineering Corporation

Table 2

<b>Some key B&amp;R projects and their fin. support: Southeast and South Asia, Middle East, East Africa</b>				
<b>Project</b>	<b>Host country of investment</b>	<b>Construction period (planned)</b>	<b>Total project costs (USD bn)</b>	<b>of which: Chinese investment or financial support (USD bn)</b>
Gwadar Deep-Sea Harbor and Airport	Pakistan	2015-17	1.9 (total, incl. China Overseas Ports Holding Co. et al.)	
Karachi-Peshawar Rail Link Modernization	Pakistan	2017-22	6.2 (total, incl. CREC)	
Karakorum Highway Reconstruction	Pakistan, China	2012-20	2.5 (total, incl. China EXIM, CDB)	
Kyaukpyu Deep-Sea Port	Myanmar	from 2017	1.3 (total, incl. China Internat. Trust and Inv. Corp.)	
Kunming-Vientiane High-Speed Rail Link	China, Laos	2016-2021	4.0 (China Railways International Group/CRIG)	
East Coast Rail Link (ECRL)	Malaysia	2017-21	13.5 (total, incl. CCCC)	
Jakarta-Bandung Bullet Train	Indonesia	2016-21	5.5	4.1 (CDB, CRIG)
New Clark City Industrial Park	Philippines	from 2019	2.0 (total, incl. China Gezhouba Group)	
Colombo Port City and Hambantota Port	Sri Lanka	from 2014	3.0 (total, of which at least 1 bn China EXIM)	
Khalifa Port	U.A.E.	2018-19	0.83 (total, incl. COSCO et al.)	
Mombasa-Nairobi Express Railway	Kenya	2013-17	3.2	2.9 China EXIM
Djibouti and Ethiopia infrastructure develop.	Djibouti, Ethiopia	from 2010	12.0 (total, incl. CMPG, China EXIM, CDB)	

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

Abbreviations: CCCC = China Communications Construction Corporation, CDB = China Development Bank, CMPG = China Merchants Port Group Holdings Company, COSCO = China Ocean Shipping Company, CREC = China Railway Engineering Corporation

# Some major New Silk 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) Project supported by the U.S.A., by India
- 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 Belt & Road projects: close-up on Europe

Close-up of  
Map G



**Table 3 Another comparative look at Chinese investment contracts along the NSR **

Chinese investment and construction contracts in transportation, energy & utilities sectors from 2012 to mid-2019 (USD bn) <sup>1)</sup>						
Country	Total amount (USD mn)	Chinese inv. as ratio to host country GDP (%) <sup>2)</sup>		Country	Total amount (USD mn)	Chinese inv. as ratio to host country GDP (%) <sup>2)</sup>
<b>Central Asia</b>				<b>Southeast Asia</b>		
Kazakhstan	15120	1.11		Brunei	3970	3.84
Kyrgyz Rep.	4190	8.04		Cambodia	7560	5.51
Mongolia	3320	3.77		Indonesia	25190	0.38
Turkmenistan	3520	1.22		Laos	17260	15.81
<b>Russia and Eastern Europe</b>				Malaysia	21060	0.91
Montenegro	1120	3.50		Philippines	7370	0.33
Russia	26100	0.22		Vietnam	9400	0.65
Serbia	7620	2.55		<b>East Africa and Middle East</b>		
<b>West Asia</b>				Djibouti	1720	13.62
Iran	11490	0.37		Egypt	13570	0.56
Iraq	9130	0.65		Ethiopia	9200	1.91
Jordan	4630	1.65		Kenya	11900	2.43
Saudi Arabia	13720	0.26		Tansania	3970	1.13
Turkey	8130	0.12		Uganda	7830	3.85
U.A.E.	17130	0.62		<b>Memo item (comparative Chinese investments)</b>		
<b>South Asia</b>				Australia	32080	0.32
Bangladesh	21530	1.20		Canada	29780	0.24
India	5530	0.04		Germany	20360	0.07
Nepal	3810	2.44		Italy	14880	0.11
Pakistan	46310	2.32		United States	32600	0.02

<sup>1)</sup> Only host countries in which above Chinese investment exceeds USD 5 bn (cumulative) and/or 1% of GDP (average annual) are listed.

<sup>2)</sup> Respective countries' average GDP of the years 2014, 2015 and 2016 is taken as denominator. The contract sum total for the period 2012 to mid-2019 is divided by the number of years (7.5) of this period and related to the average annual GDP of 2014-2016.

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

## *Some differences and commonalities between **Old and New Silk Roads***

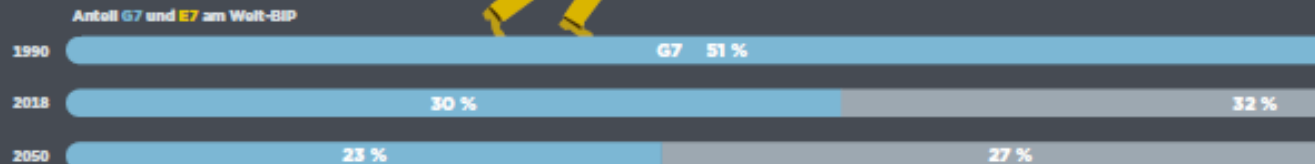
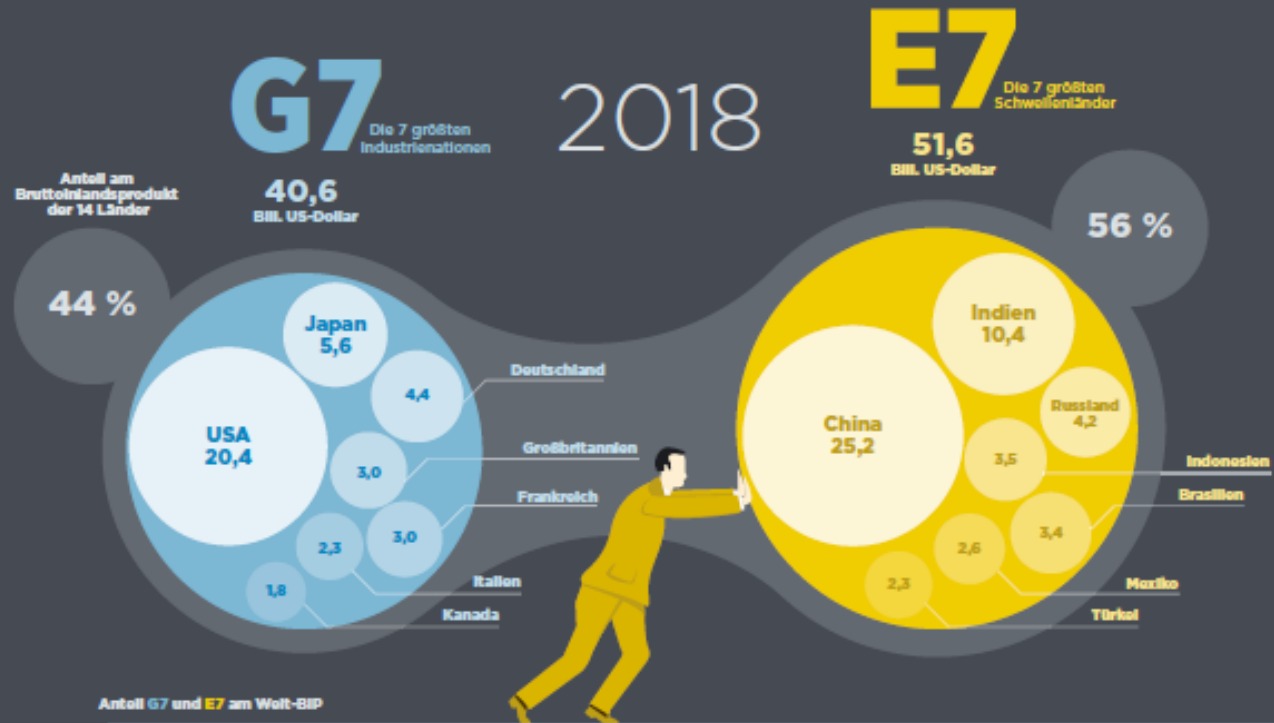
- New Silk Road (NSR, „Belt & Road“): overland (SREB) + maritime (MSR)
- After replacing **caravan trails**, some railroad routes and telegraph lines are in turn being replaced by **high capacity rail and digital trajectories**
- **China remains the pivotal power** on the SR (besides Europe) in sense of
  - being economically predominant and
  - boasting continuous trade and financial surpluses
- While in the final centuries of the OSR, China was falling behind early capitalist developments and **Industrial Revolution** in Europe (since late 1700s)
- Moreover, the „West “also expanded to establish the United States (its undisputed leader since mid-20th century) and include Japan
- Yet today China appears to
  - **master** functioning of capitalism quite well and,
  - even feature among most competitive countries globally
- Therefore, the „Middle Kingdom“ as the driving force of the NSR is now
  - much **more ambitious and outward-looking**
  - than even during OSR heydays of the past
- Thus, difference vis-a-vis 1800 („twilight“ of OSR) is today:
  - a „Western world“ that has expanded to various parts of the globe
  - a better performing, stronger, more quickly growing China
  - while demographically, there remains substantial gap

Geopolitics,  
China's  
„peaceful rise“,  
New Silk Road  
policies

# Die globalen Kräfte verschieben sich

## Die nicht mehr ganz so großen G7

Bruttoinlandsprodukt in Kaufkraftparitäten in Billionen US-Dollar



- According to expert estimates (Herrero and Xu 2016), the **Belt & Road Initiative could increase global trade of EU by 6%** and of Austria by 9%
- According to WB study (de Soyres, Mulabdic, Ruta 2019) positive impact of infrastructure improvement on **GDP** of BRI-participating countries: **~2%**
- This is particularly the case if **trans-Eurasian rail corridors** are further modernized and standards harmonized (container transportation)
- According to China Global Investment Tracker, countries where **B&R investment is most intensive**:
  - **Large neighbors of China**, like Pakistan, Kazakhstan, Russia, Bangladesh, Malaysia
  - **Strategically-situated smaller countries**, incl. Djibouti, Laos, Kyrgyz Rep., Kenya, Montenegro
- **Most important European B&R project countries** (measured by B&R expenditures/GDP) situated in **CESEE (e.g. Serbia, Montenegro, Hungary)**
- **Regional East-West structural differences** in EU eco. relations with China
- Chinese financial offers and unbureaucratic project management may provide **complements or additions to EU assistance programs**



## ***Possible implications for Europe (cont.)***

- Yet **Chinese partners often dominate** B&R projects, also logistically
- **EU and national standards/regulations are not always respected** by B&R investments, danger of „**debt trap**“, corruption
- **One project partially suspended** (in late 2017): High-speed rail link Belgrade-Budapest
- Still, **attractiveness of EU programs** in South Eastern Europe may **partly come under pressure** by Chinese „investment competition“
- **EU-China Connectivity Platform** may provide forum for dialogue
- Option: **Stronger co-ordination of EU and B&R infrastructural inv.** activity, more inclusion of EU private sector firms in BRI
  - China-EU Co-Investment Fund (July 2018)
  - Harmonization of standards/regulations could help boost connectivity
- In long term, SEE's participation in the B&R may (in best case) contribute to **overcoming this region's traditionally peripheral position** in Europe
- **Austria**, being a connecting link of core Europe to SEE, **may be one of the first to profit from such an upswing**

*Many thanks for your attention*

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