

# THREE YEARS OF CHINA'S NEW SILK ROADS

From Words to (Re)action?

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# Introduction

More than three years have already passed since China's new silk roads were launched by President Xi Jinping. When he first mentioned the idea in an autumn 2013 speech in Kazakhstan, questions quickly emerged on the meaning of this general concept, which soon became widely promoted through a large-scale and well-coordinated public diplomacy strategy both in and outside China. At the time it was hard to identify what was behind the concept and what it would ultimately amount to, given that official explanations and concrete projects remained scarce until early 2015. Now, more than three years on, what has been given many names – from the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road, to One Belt, One Road to the Belt and Road Initiative (and what we will heretofore refer to as OBOR) – has finally begun to take shape. Projects have been identified, institutions created and money spent. And yet, OBOR still remains vague and unclear in many respects. Explaining what exactly it is continues to be a difficult task for both Chinese and foreign researchers, and this is likely to persist into the future.

One way to bypass such vagueness and grasp a clearer view of China's projects and objectives is to examine how OBOR has been taking shape in concrete terms and which reactions this has triggered. Such an approach is proposed in the following chapters, in which a group of Ifri researchers analyze OBOR from their own areas of expertise. Alice Ekman begins with a look at the promotion and implementation process for OBOR, underlining that China's project is evolving and expanding, both in terms of countries and sectors concerned, and that its flexible and adaptive nature is likely to remain. Françoise Nicolas examines the economic objectives of OBOR and the financial instruments used to push the project forward, highlighting that, more than anything, the concept is designed to serve the domestic economic interests of China. Delving into the energy sector, which has been identified as a key area for development within the OBOR framework, Gabrielle Desarnaud and John Seaman argue that the vast project is so far a continuation of China's internationalization process in the energy field, but also provides a platform on which rules and norms could eventually be created and influence ultimately wielded.

Taking a geographical approach is another way to bypass the vagueness of OBOR. It serves to highlight the scope of the project, but also underlines its inherently geopolitical dimensions. Tatiana Kastouéva-Jean

analyzes Russia's mixed reception of OBOR, which comes at a time of deep antagonism towards Europe and the US, but also concern about what China's rise will ultimately mean for Russia's interests, particularly in Central Asia. Turkey is also an intriguing, if often overlooked case study. As Serif Onur Bahcecik explains, Turkey has long balanced between East and West, and OBOR provides Ankara with an opportunity to push its long-desired "Middle Corridor" through Central Asia at a moment when the leadership is ever more disillusioned with the European project. Finally, as OBOR reaches the shores of Africa, Clélie Nallet explores a variety of views as seen from the continent, explaining that while OBOR could extend China's proactive history of investment into African infrastructure, local populations are also wary of its implications for their livelihood.

The report could hardly be an exhaustive analysis of such a diverse and evolving project, and is rather part of an ongoing body of research<sup>1</sup> that seeks to examine OBOR within the context of China's emergence as a regional and global power, and how this emergence will ultimately shape the international order. Indeed, OBOR has concrete economic and geostrategic implications and can no longer be considered only as a vague concept. Most of all, the 3-year timeframe shows that OBOR is becoming something quite different from what was initially conceived and anticipated. It has evolved to include a new set of countries and areas, and its flexible and adaptive nature is likely to lead to something even more different – and probably more comprehensive and ambitious – in the medium and long term, as China aligns the OBOR concept with most of its domestic and foreign policy priorities. Prospective analysis on the topic therefore requires similar flexibility and the ability to consider new developments in all directions.

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1. Other reports on the topic in which Ifri researchers have contributed include: F. P. van der Putten, J. Seaman, M. Huotari, A. Ekman and M. Otero-Iglesias (Eds.), *Europe and China's New Silk Roads*, ETNC Report n°2, December 2016, available at: [www.ifri.org](http://www.ifri.org); A. Ekman, "China in Asia: What Is behind China's New Silk Roads?", *Notes de l'Ifri*, Ifri, July 2015, available at: [www.ifri.org](http://www.ifri.org).

# China's New Silk Roads: A Flexible Implementation Process

By Alice Ekman

China's new silk roads – or “One Belt, One Road” (OBOR), or “Belt and Road”<sup>2</sup> – launched by President Xi Jinping in Autumn 2013, is a top priority for Beijing, and will likely remain so after the 19<sup>th</sup> Party Congress to be held in autumn 2017, and beyond the mandate of Xi Jinping himself (scheduled so far to end in 2022). It could even remain so until 2050, for the centenary of the PRC and an important deadline for the Communist Party of China<sup>3</sup>. It is a long-term plan, and the latest core concept of China's diplomacy, following others such as the “Go out policy” (*zou chu qu*) launched by President Jiang Zemin in 1999 with an aim to promote Chinese investments abroad.

But OBOR is launched in a context that is significantly different from the one during which the “go out policy” was launched: China has now stronger capabilities to support such a concept and to put it into practice. OBOR is indeed more ambitious and better supported – financially and diplomatically – than previous concepts launched by China's central government.

## Infrastructure development: the core of OBOR

The content of OBOR remains vague to date. Throughout their many visits to neighboring countries during 2013-2016, China's top leaders have reiterated two concepts, both presented as the new tenets of China's economic diplomacy: the “Silk Road economic belt” and the “maritime Silk Road” – the two legs of the “One Belt, One Road” – which would connect

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2. Official expression in Chinese: 一带一路 (*yidai yilu*).

3. According to the CPC by 2050 Chinese society should have reached “moderate prosperity” (that can be understood as a consolidated (lower) middle-class throughout the country), and “great renewal of the Chinese nation” should be completed.

China and Europe via improved infrastructure and closer economic cooperation with its neighbors in Central and Southeast Asia.

To be sure, infrastructure development is at the core of the Chinese project. Since Xi Jinping ascended to the presidency, the emphasis of official statements made towards a foreign audience has been on “interconnectivity” and building cross-border infrastructure projects. The action plan released by the NDRC in March 2015<sup>4</sup> underlined four key types of infrastructure: transport (roads, railways, ports, airports...), energy (pipelines, refineries...), telecommunications, and special industrial zones. OBOR is often associated with transport infrastructure mainly, but it is important to keep in mind that so far three other types of infrastructure listed are also concerned, and that the list is not exhaustive.

As a matter of fact, Chinese investment is growing very rapidly towards these sectors, and bilateral and multilateral construction projects are likely to develop more rapidly in Asia in the next few years, as China develops new financing instruments (the Asian Infrastructure Investment Bank – AIIB, the Silk Road Fund, etc.) and recapitalizes its major policy banks (such as the China Development Bank) for the specific purpose of funding regional infrastructure projects (see details in the chapter by Françoise Nicolas, hereafter).

For Beijing, this rapid infrastructure development plan has several objectives. Most of these objectives are related to domestic economic development goals, and in particular to the opening up of the country’s poorest provinces and the search for market opportunities abroad in key sectors that are facing overcapacities at home (construction, steel, coal, among others).<sup>5</sup>

With transport infrastructure development, China wishes to strengthen cross-regional infrastructure and communications networks (ports, but also roads and railways) which could in due course facilitate exchanges within the region and, most importantly, bring Chinese goods to European markets over land, an alternative route that is faster than by sea. There is already a direct link for rail freight, inaugurated in May 2013, connecting China with Poland and Germany – an average journey lasts 16 days, which is three weeks less than the sea route from China’s eastern provinces. At the same time, an increasing number of construction or

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4. “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road”, jointly published by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOFCOM), on March 29, 2015.

5. For a more comprehensive analysis of the domestic objectives motivating the OBOR project, see for instance A. Ekman, “China in Asia: What Is behind the New Silk Roads?”, *op. cit.*. See in particular, the section on “Opening up China’s Poor Provinces”, pp. 7-10.

improvement projects for the rail network that connects western China with Russia and Central Asia are being developed. Nonetheless, it is noteworthy that at the present time, the transport of goods by rail remains much more costly than by sea, and that so far many companies are reluctant, for this specific reason, to switch to this mode of transportation.

Simultaneously, China is also establishing its own network of ports. Chinese firms are increasingly involved in projects for building maritime port infrastructure abroad (Pakistan, Sri Lanka, Bangladesh, among other countries) and these projects are presented as a priority for the “new maritime Silk Road”. China is well aware that this deployment of transport infrastructure is gradually strengthening the country’ and region’s logistical and geostrategic base.

Investing in energy infrastructure, such as expanding oil and gas pipeline networks and building new power plants or transmission capabilities, has also been incorporated into China’s broader silk road strategy, representing the latest evolution in China’s international energy strategy as Gabrielle Desarnaud and John Seaman further explain in their chapter below.

In addition, Beijing also pushes for the development of telecommunications infrastructure in the region, an element that has tended to be overlooked so far. The Action Plan of the NDRC clearly calls for the “construction of cross-border optical cables, plan transcontinental submarine optical cable projects and improve spatial (satellite) information passageways.”<sup>6</sup>

Last but not least, in addition to investing in transport, telecommunication and energy infrastructure, Beijing is also attempting to export its model for industrial parks, with ongoing Chinese projects for building zones of this kind in a diversity of countries (India, Belarus, Kazakhstan or Sri Lanka – to name a few). This is not a new idea – China has already tried to export this type of industrial zone to other parts of the world (to Egypt, for example) – but under Xi the drive appears to be stronger, despite the uncertainty regarding the efficiency and attractiveness of such zones, which are being built in great numbers in China but are not always profitable.

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6. “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road”, *op. cit.*

## OBOR methodology

With the exception of infrastructure development<sup>7</sup>, official communication on OBOR remains vague overall. No new or more detailed action plan has been released since the first published on the topic in March 2015, and Chinese officials and researchers are usually presenting the project in broad terms only. Four years after its launch, the basic framework of OBOR remains unclear: the exact geographic location of the routes/hubs, the list of projects involved, and the list of countries involved are not specified in official statements on the topic.

One way to bypass such analytical obstacles is to look at the implementation of OBOR, i.e. to analyze how China is, in practical terms, developing and promoting OBOR domestically and internationally. The analysis of the implementation process provides a better understanding of the nature and scope of the project. At least 3 features characterize China's implementation of OBOR:

- 1) a strong public diplomacy dimension;
- 2) a flexible project, defined and adjusted according to responses;
- 3) an expanding project.

### ***A strong public diplomacy dimension***

The public diplomacy dimension of OBOR should not be underestimated. Even if many foreign journalists and researchers are questioning the content and the efficiency of the initiatives related to the OBOR concept, the fact that the concept is now known and discussed internationally is considered a success by China's public diplomacy, which is increasingly aiming at internationalizing Chinese concepts, ideas and norms.

The promotion of China's official discourse on OBOR is supported by a specific mix of communication techniques, shaped over time by both a large propaganda apparatus inherited from the Soviet Union and by international PR firms. China's communication strategy is elaborated and strictly supervised by the central authorities, and it is then slightly adjusted according to the target audience. If the communication strategy for the promotion of OBOR is strictly coordinated at central level, its implementation involves a diversity of dissemination channels (media, universities/think tanks, businesses, diaspora groups, etc.) which are constantly repeating the same key messages in different ways. Such a

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7. And even on this topic, official communication is not very detailed so far.

coordinated communication effort has led to the rapid dissemination of the “One Belt, One Road” concept, and significant media coverage on the topic both at home and abroad shortly after the concept was launched.

Since then, Chinese officials and researchers tend to repeat for foreign audiences the key talking points underlined in Xi Jinping’s speech. Among the key talking points most commonly heard:

- OBOR is an “initiative” (not a “strategy”).
- It is “open”/every country is “welcome”.
- It is “mutually beneficial” to China and countries involved in the “initiative”.
- It is “complementary” to existing national plans or initiatives.
- It is “economic in nature” (not a security or geopolitical strategy, according to official communication).

These messages are tuned according to the target audience, in a more or less subtle manner. For instance, OBOR is always promoted as “complementary” to the strategy or initiative of the counterpart: it is “complementary” to the EU’s “Juncker Plan”, to Indonesia’s “Maritime axis”, to the “Eurasian Economic Union” in Russia and Central Asia, etc.

### ***A flexible project, defined and adjusted according to responses***

Foreign actors were unable to understand what OBOR was about in precise terms, and still are unable to do so today to some extent, as OBOR was and remains a work-in-progress. It is constantly shaped and adjusted according to ideas and responses collected on the ground, both in China and abroad.

What is indeed interesting to note is that the brainstorming phase was only launched in 2014, after the concept itself was announced. The first year of the brainstorming process – in which the National Development and Reform Commission (NDRC) took an active part – led to the publication of the aforementioned “Action Plan”, published in March 2015. This indicates that between the end 2013 and early 2015, the content of the project was not specifically defined within China – national institutions were asked to conduct a brainstorming process with this aim. Quite subtly, since the launch of the concept Chinese authorities have associated foreign actors to this brainstorming effort by organizing a diversity of conferences, events and delegation visits on the topic, which represented opportunities for collecting ideas, suggestions, questions, and critiques. This material



ultimately fuels the national brainstorming process and is helpful to adjust the communication strategy on OBOR abroad. This approach – which is still promoted today – has two advantages: collecting ideas as well as gaining support from foreign actors. Indeed, by associating its prospective partners to OBOR since its launch, Chinese diplomacy hopes to spread the impression that OBOR is not just an initiative shaped and imposed by China unilaterally; that it is rather a joint, ‘multilateral’ initiative.

The central government acts as a supervisor<sup>8</sup>, and expects a diversity of institutions to implement it on the ground. Among these institutions, enterprises – and first of all state-owned enterprises – have been identified by the central government as key implementers of OBOR.<sup>9</sup> They are asked to identify new projects and develop concrete partnerships under the OBOR label. Apart from enterprises, local governments (provinces, cities, counties) are also asked to implement OBOR in concrete terms, and integrate it in their own local development strategies. Under the pressure of the central government, some of these institutions tend to repackage formerly launched projects into OBOR projects, instead of developing new ones. This is also a side-effect of the anti-corruption campaign, which tends to generate a “wait-and-see” approach among official institutions and cadres – which are afraid of taking risks and being under investigation in the framework of this particularly strict and large-scale campaign.

In fact, a diversity of institutions are involved in the communication and implementation process of OBOR: if Chinese enterprises and local governments are identified as key implementers, Beijing also hopes that concrete opportunities and projects will come up from foreign enterprises, as well as foreign central and local governments. So far, it appears that the Chinese central government prefers to keep its supervisory role and leave the content-shaping process in the hands of these national and international actors.

### ***An expanding project***

Logically, given the flexible nature of the implementation process, the scope of the project is currently expanding, both geographically and in

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8. In particular, the NDRC, the Ministry of Commerce and the Ministry of Foreign Affairs are jointly supervising OBOR, under the supervision of Vice-Premier Zhang Gaoli, Chairman of the Leading small group dedicated to OBOR (“Advancing the Development of the One Road One Belt Leading group”), created in February 2015.

9. The action plan underlines the “primary role of enterprises” in implementing OBOR; “The initiative follows market operation”; “It give play to the decisive role of the market in resource allocation and the primary role of enterprises.”



terms of sectors involved. Chinese officials<sup>10</sup> mentioned in a first stage about “60 countries” involved in OBOR-related projects, but now latest official statements mention that “over 100 countries and international organizations have supported the initiative”.<sup>11</sup> So far, the precise list of these countries and organizations has not been released by the Chinese authorities, which continue to underline that “any country in the world is welcome to join”. Similarly, Chinese official communication initially mentioned a limited number of sectors involved (mainly development of the 4 types of infrastructure mentioned above), but today these sectors are diversifying, involving tourism, finance, and law, among others (no precise/exhaustive list has been released neither). In terms of public diplomacy, we are currently witnessing a “bridging” between OBOR and other key concepts and priorities of China’s diplomacy, such as “Community of Common Destiny” or “Great renewal of the Chinese nation”.

In broader terms, China is currently trying to align OBOR with the majority of its existing domestic and foreign policy priorities. If OBOR is first of all a way of addressing short-term economic issues (overcapacities, economic slowdown, etc.), it is increasingly seen in Beijing as a tool to promote China’s global governance ambitions (creation of OBOR satellite institutions such as AIIB, OBOR informal multilateral cooperation mechanisms of various kinds – such as high-level annual OBOR forums<sup>12</sup>, OBOR platforms for commercial dispute arbitration, etc.). The OBOR official action plan published in March 2015 explicitly calls for the creation of a “balanced regional economic cooperation architecture” and “new models of international cooperation and global governance”. In China, discussions are now emerging on how to promote “OBOR multilateral diplomacy”, and researchers are asked to analyze how OBOR could further promote the restructuring of global governance.<sup>13</sup>

This global governance dimension is also becoming increasingly noticeable on the ground, as OBOR is now presented by Chinese officials as a multilateral “platform” for the gathering of senior domestic and international actors of various spheres (business, government

10. Such as officials from the National Development and Reform Commission (NDRC). Interviews, Beijing, 2015-2016.

11. Such as Xi Jinping’s speech at the United Nations Office in Geneva (official title: “Work Together to Build a Community of Shared Future for Mankind”), 18 January 2017.

12. For instance, China will host in May 2017 in Beijing the “Belt and Road Forum for International Cooperation”, a high-level gathering that is already widely advertised by Chinese officials and media. And has already organized in previous years similar forums on its national territorial and abroad, including in Europe (“Silk Road Forum” held in Madrid in 2016, in Warsaw in 2016, among other large scale forums).

13. Interviews, Beijing and Shanghai-based think tanks, 2015-2016.

administration, think tanks, etc.) and in various fields (construction, transport, energy, telecommunications, etc.). As summit diplomacy is one of the tools that Beijing is currently investing massively in, China is organizing an increasingly high number of large-scale international forums within and outside its national territory, including in Europe. It has already set up and hosted ministerial-level meetings under the OBOR banner in 2015 and 2016, and is planning more for 2017. Given that OBOR is designed as a work-in-progress project that can develop in a variety of directions, the potential for creating of OBOR-related summits and cooperation mechanisms appears to be unlimited (be they general frameworks or focusing on specific industries – transport infrastructure, energy, telecommunications cooperation – or regions – Europe, Central Asia, South East Asia, now Africa.). In many respects, OBOR is a rather consensual topic to facilitate the gathering a various international actors of interest to China, with whom more specific bilateral topics can be addressed on the side of the formal OBOR agenda.

China will probably not institutionalize OBOR itself, as flexibility is at the core of the project, for both logistical and strategic reasons. But it will most likely create more “satellite” informal cooperation mechanisms or institutions around it, such as the AIIB. OBOR is now at the core of the new and informal institutional network China is currently building at regional and global levels.

# **The Economics of OBOR: Putting Chinese Interests First**

**By Françoise Nicolas**

While the official rhetoric in China describes the “Belt and Road Initiative” (OBOR) as a win-win arrangement – connecting the world, helping developing countries grow and improving China’s access to resources and markets abroad – many outside observers argue otherwise. More specifically, the initiative is often portrayed as being part of China’s plan to build its sphere of influence in Asia and beyond, in an attempt to undermine the dominance of the United States in world politics. Focusing on the economics of the Belt and Road, the paper will examine its rationale and the conditions for its implementation, with a view to highlighting the challenges it may pose to Beijing and to the rest of the world.

## **The economic rationale: a combination of new and not-so-new objectives**

### ***Old wine in new bottles***

First of all, OBOR may be interpreted as a new version of the “going out” strategy launched in the late 1990s with a view to facilitating the internationalization of Chinese firms. While China had been traditionally a recipient of FDI inflows, and while its economic growth had been heavily dependent on foreign multinationals, about twenty years after the reform and opening up started (1978), Beijing sought to make the transition from FDI recipient to FDI provider by encouraging Chinese companies to go global.

The strategy was consolidated in 2004, when the National Development and Reform Commission (NDRC), together with China Exim Bank announced measures for the support of outward investments in four specific fields, in connection with the basic necessities of the rapidly expanding Chinese economy:

- 1) investments for attracting natural resources and raw materials for which the necessary supply is limited;

- 2) investment in processing sectors that promote export or involve new technologies and equipment;
- 3) the performance under a foreign partnership of certain R&D projects based on high technologies, management experience and skills;
- 4) mergers and acquisitions involving the increased international competitiveness of national companies and the extension of production and sales markets.<sup>14</sup>

While Chinese State-Owned Enterprises (SOEs) began going global in the mid-1990s, more and more of them expanded their businesses abroad after China became a WTO member in 2001. More recently, in the wake of the 2008 global financial crisis, many Chinese SOEs started looking for bargains, and entered into an increased number of overseas investments and M&As.<sup>15</sup> As a result, in 2014, according to statistics published by the Ministry of Commerce, China's outward direct investment and foreign direct investment in China was almost equal for the first time. One year later, Chinese enterprises made direct overseas investments which exceeded that of foreign direct investments in China, making China a net capital exporter and the second largest outward investor after the United States, accounting for close to 10% of the world's total. Although the reliability of these figures is debatable, with some elements not included (such as reinvested earning in particular), and figures based on approvals rather than on implemented investments, the trend suggests that the role of China is gradually changing.<sup>16</sup>

A range of new government policies have been providing stronger support to Chinese companies. For example, under the newly revised Measures for Foreign Investment Management, the approval-based system has been replaced with a registration and filing system and the administrative procedures for overseas investment have been simplified.

Following the same logic, the implementation of OBOR, which encourages China's industries to move into countries along the proposed routes, will no doubt bring a new wave of outbound investment in sectors where China has strong capabilities, such as the high-speed railway,

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14. Quoted in Ana Cristina Balgar, "The Role of Foreign Direct Investment in Sustaining China's Economic Growth", *mimeo*, Institute for World Economy, Romanian Academy, 2015.

15. In China's Top 100 Multinational Enterprises 2014 published by the China Enterprise Confederation, there were 84 SOEs : 50 were central SOEs holding overseas assets of RMB 4.5 trillion and 34 were provincial SOEs holding overseas assets of RMB 500 billion (Deloitte, 2016).

16. Due to "round tripping", Chinese ODI in Asia also tends to be overestimated, while these flows actually return to China.

nuclear power, aviation, telecommunications and other advanced manufacturing sectors.

This move actually fits with the companies' own strategies: Chinese manufacturing companies are being squeezed by rising costs but also pressured to pay more attention to protecting the environment, as a result it makes sense for them to move some manufacturing overseas.

Secondly, OBOR is also the continuation of the Western Development strategy launched by President Jiang Zemin in the late 1990s. In the same vein, one goal of the current strategy is also to help correct the socio-economic imbalances between the advanced coastal provinces and the less advanced inner and central provinces (Yunnan, Xinjiang, Qinghai, Sichuan, among others). More specifically, as the corridors either go through or start in the central and western provinces, they will benefit and hopefully catch up. The integration of these provinces in global value chains is another way of helping them develop. Beyond economic objectives, political goals may also be pursued as development is seen as a way of mitigating separatist pressures and other forms of social disgruntlement. However, the strategy is also an extension of the previous strategy and is not limited to the Western regions. The provinces and cities listed in the Action Plan also include the richer coastal regions. To be more specific, the plan calls for the building of a "Guangdong – Hong-Kong – Macao Big Bay Area" and the strengthening of port construction of 15 coastal cities including Shanghai and Guangzhou, as well as smaller cities. The wealthy Fujian province is also identified as a "core area" of the maritime silk road.<sup>17</sup>

### ***Restructuring and rebalancing***

OBOR can also be seen as being part and parcel of the restructuring strategy launched by President Xi Jinping, pushing China to transition away from an export and investment-based economic growth that is heavily dependent on foreign capital to a domestic consumption-based and innovation-based growth strategy and a better use of domestic financial resources. More broadly, China is seeking to move up the value chain and to achieve a better and more profitable integration into the global economy.

In a written bulletin, Premier Li Keqiang highlighted the role of international cooperation in production capacity and equipment manufacturing in promoting China's economic growth.

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17. A. Ekman, "China in Asia: What Is behind the New Silk Roads?", *op. cit.*

“Boosting such cooperation is essential to halting economic slowdown, achieving medium-to-high speed growth and a medium-to-high level of development, further integrating into the global economy, and having win-win outcomes in cooperation with other countries.”<sup>18</sup>

OBOR can be interpreted as a new form of stimulus package driven this time by foreign rather than domestic infrastructure demand. The “Initiative” is rooted in China’s domestic transition as much as in its economic statecraft. It is a way of catalyzing the new set of reforms focusing on institutional innovations, coordinated growth and sustainable development.

Also, with China's economy slowing and attempting to move up the value chain, the country is now suffering from unprecedented overcapacities in a number of crucial sectors, in particular construction-related industries such as iron, steel, cement and heavy equipment, which are currently operating at utilization rates of around 70%. In the steel sector, for instance, excess capacities are said to have reached 450 million tons in 2014, with only 21 million tons needed for domestic railway construction.<sup>19</sup> Even China’s ambitious urbanization plans will not succeed in absorbing such overcapacities. As a result Beijing sees OBOR's infrastructure projects as a convenient way of soaking up the surplus. Chinese construction companies have thrived in China’s domestic market but now need to expand and find new possible outlets. Southeast and Central Asian neighbors, which face huge gaps in terms of financing and technology, constitute perfect targets.

As a corollary, with China exporting its financial power through OBOR, the internationalization of the yuan will be facilitated.<sup>20</sup> Bilateral currency swaps have been signed in 21 countries that fall within the scope of OBOR, renminbi settlement banks established in 8 countries, and renminbi trade settlements increased to more than 25% of China’s trade in early 2016 (up from a mere 5% in 2012).<sup>21</sup>

Lastly, OBOR may be seen as a new version of China’s mercantile strategy. The cross-continental initiative aims at accumulating capital and wealth for the nation. In the past, China pushed its exports and

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18. Quoted in N. Sze and F. Wu, “One Belt One Road: The Internationalization of China’s SOEs”, *Deloitte Perspective*, Beijing, 2015.

19. European Parliament, “One Belt, One Road – China’s Regional Integration Initiative”, *Briefing*, July 2016.

20. China’s commitment to global financing certainly helped the IMF decision to include the yuan in the definition of the SDRs as of October 2016.

21. L. Shen, “One Belt, One Road Gains Traction”, *Standard Chartered Economic Trends*, 2 December 2016, available at: [www.sc.com](http://www.sc.com).

accumulated systematic and substantial current account surpluses which, combined with capital account surpluses, fueled spectacular foreign exchange reserve accumulation. The snag was that these foreign exchange reserves had tended to be systematically invested in low-yield assets. Another objective of OBOR is precisely to help China make the best of the capital accumulated over the last few decades. New investment options are explored to preserve and increase the value of this capital, so far widely invested in low-return US Treasury bills. In other words, by redirecting its capital abroad, the Chinese government's aim is not only to reduce excessive industrial capacity at home but also to increase financial returns.

Although the overall direction of the strategy may not be all that new, the fact that it is now far better structured and that it is backed up by more substantial means makes OBOR an overarching scheme.

## **Financing OBOR: new and not-so-new players**

OBOR relies on ambitious plans to invest hundreds of billions of dollars in new infrastructure and upgrades. Unofficial estimates in 2016 mention investment at about US\$ 1 trillion, covering 890 projects in over 60 partner countries.<sup>22</sup> Although no deadline has been set, the total amount is impressive and is about 12 times larger than the Marshall Plan (which amounted to US\$ 130 billion in today's dollars). But Beijing itself claims it will invest a cumulative US\$ 4 trillion in OBOR countries, equivalent to China's total foreign exchange reserves in 2015.<sup>23</sup>

To provide funding for SOEs participating in OBOR, China has put in place new financing mechanisms (such as the Asian Infrastructure Investment Bank – AIIB or the Silk Road Fund – SRF) but it will also (and probably primarily) rely on existing instruments, be they domestic (in particular policy banks and the 4 large state-owned commercial banks) or multilateral (the ADB and the World Bank in particular, but also the New Development Bank – often referred to as the BRICS Bank).

### ***New financing mechanisms: much ado about nothing?***

The idea of an AIIB, which will serve as one of the financing arms of OBOR, was first floated in autumn 2013, after which the project took shape with

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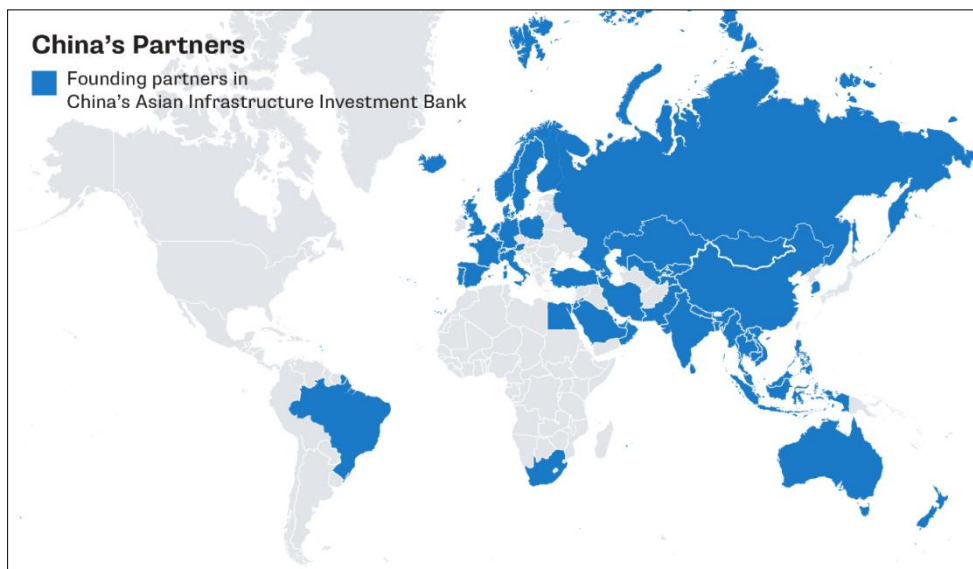
22. A. Cooley, "The Emerging Political Economy of OBOR – The Challenges of Promoting Connectivity in Central Asia and Beyond", *CSIS*, 24 October 2016.

23. "Our Bulldozers, our Rules", *The Economist*, 2 July 2016.



remarkable speed. Officially launched in 2014 when around 20 countries signed a draft treaty, the project became a reality roughly eight months later, with the publication of the institution's charter. To widespread astonishment, the project met with huge success among a great many countries all over the world. Despite the United States putting pressure on its allies not to support the project, a number of Asian countries (particularly South Korea and Australia) would disregard the warning, and 17 European countries (including Great Britain, Germany, France, Spain, Italy, the Netherlands, as well as Switzerland and Norway) also decided to join in the endeavor, bringing the total number of founding countries to 57 (see Figure 1).

**Figure 1: China's Partners**



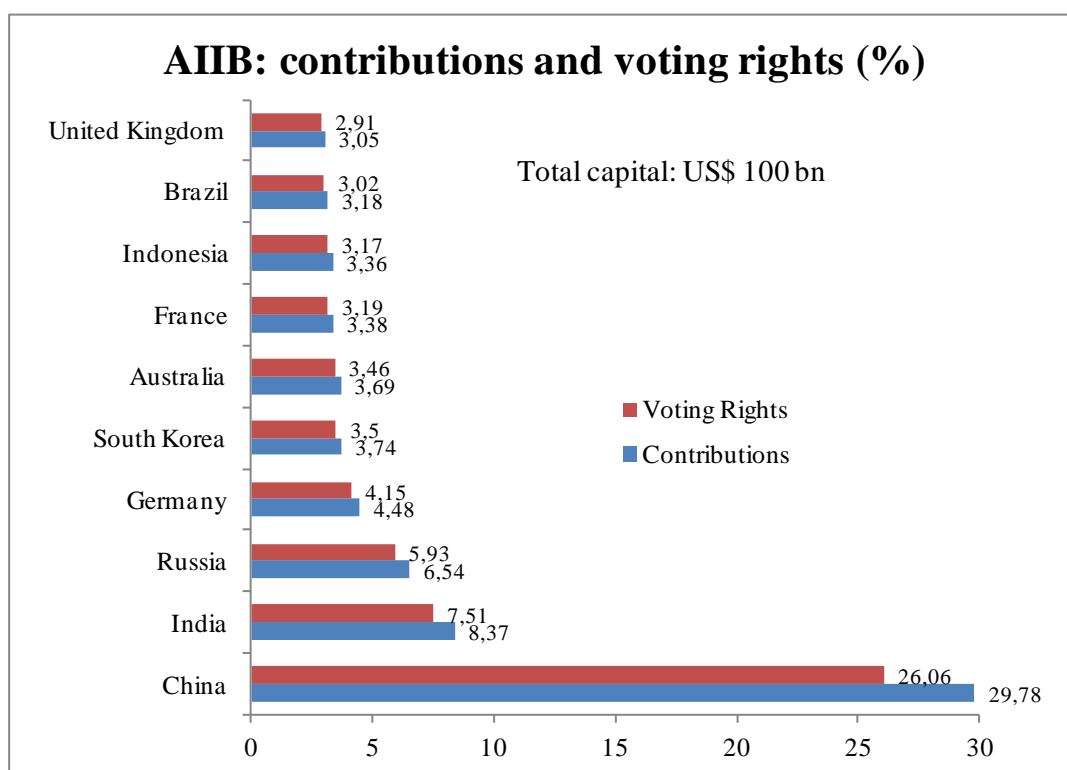
*Source: Chinese Ministry of Finance.*

As its name suggests, the purpose of this multilateral institution is to facilitate the funding of vast infrastructure projects in order to improve “connectivity” between the different countries in the Asian region (broadly defined). According to the institution's charter, which was made public in spring 2015, the majority (that is, 75%) of contributions must come from Asian countries. Quite naturally given its economic heft, China holds the lion's share, which amounts to 30% of the initial capital of US\$ 100 billion. China's dominant position is also reflected in the location of the headquarters (Beijing) and, more importantly, in the distribution of voting shares, even if the influence of major shareholders is limited by the fact that 15% of the voting shares are split equally between the founding members, irrespective of the size of their contribution. This is the reason that China only holds 26% of the total number of voting shares (see Figure 2). Since the decisions that affect major governance issues



(especially revisions to the charter) require a majority of three-quarters in order to pass a vote, China possesses de facto (if not de jure) the power of veto.

**Figure 2: AIIB: contributions and voting shares\***



\* Contributions are calculated based on the initial capital subscription.

Source: Chinese Ministry of Finance.

The AIIB started operating on January 1<sup>st</sup>, 2016. During its first year of operation, it has financed 9 projects for a total of about US\$ 1.9 billion. The projects span the energy, urban development and transport sectors (Table 1). A major conclusion to be drawn from the first year of operation is that the concerns raised at the time of the launch of the Bank proved ill-founded. China, as one of the biggest shareholders, is playing a constructive role in the bank's governance structure but proved capable of working well with other shareholders. Moreover, the Bank has engaged systematically in cooperation with other multilateral institutions, signing co-financing framework agreements with multilateral development banks such as the World Bank, the ADB or the EBRD.<sup>24</sup> Lastly, due to a lack of

24. OBOR-related financial cooperation between China and Europe may further expand as a result of China's membership in the European Bank for Reconstruction and Development (EBRD) since

personnel, the AIIB is not yet in a position to assume the role it was supposed to play as the major financing arm for OBOR. The loans granted in 2016 amount to about one tenth that of the Japan-led Asian Development Bank – ADB – and fall well short of the expected US\$ 15 billion.<sup>25</sup> In fact, the AIIB is simply one among many (and perhaps the smallest) institutions providing financial support for OBOR. The Bank plans to invest about US\$ 3 to 5 billion in 2017 and US\$ 10 billion in 2018. Despite the increase, the amounts remain relatively modest.

**Table 1: AIIB-financed projects, 2016**

Project	Beneficiary country	Total project cost (US\$ Mn)	AIIB fund (US\$ Mn)	Co-funders	Project contents
Transmission system strengthening	India	282.9	150	N/A	Enhance capacity of electricity supply in Southern India
Tarbela 5 hydropower extension	Pakistan	823.5	300	World Bank: 390	Installation of a power house at the Tarbela dam; construction of a transmission line to connect to the national grid
National slum upgrading	Indonesia	1743	216.5	World Bank: 216.5	Improve access to urban infrastructure and services in targeted slums
Electricity distribution system upgrade and expansion	Bangladesh	262.29	165	None	Provide 2.5 million new service connections in rural areas; upgrade grid distribution lines

January 2016 and the recent opening by the European Investment Bank (EIB) of an office in Beijing.

25. This figure was mentioned by the President of the AIIB at the time of its launch.

<b>Border road improvement</b>	Tajikistan	105.9	27.5	EBRD: 62.5	Enhance connectivity and mobility along the Tajikistan segment of the Asian Highway Network and the Central Asia Regional Economic Cooperation Corridor 3
<b>National motorway M4 expansion</b>	Pakistan	273	100	ADB: 100 DFID (UK): 34	Construction of 64 km motorway linking Shorkot to Khanewal
<b>Myingyan gas-fired power plant</b>	Myanmar	304	20	World Bank (IFC): 58 ADB: 42.2	Construction of a power plant
<b>Transport projects (maritime and railway)</b>	Oman	N/A	301	N/A	Construction of maritime infrastructure at Duqm Port and preparation of the country's first railway system
<b>TANAP Gas pipeline</b>	Azerbaijan	11,700	600	World Bank: 800	Construction of the Trans-Anatolian gas-pipeline

Source: AIIB, World Bank, ADB

Next to the AIIB, China also plans to resort to other multilateral institutions, namely the New Development Bank or the Shanghai Cooperation Organization financing institution (NDRC, 2015).

Beyond the AIIB and other multilateral financial institutions, another project that deserves mention – despite having gone largely unnoticed – is the “Silk Road Fund,” created on 29 December 2014. This US\$ 40 billion fund, supported by two major Chinese policy banks (the Export-Import Bank of China – Exim Bank - and the China Development Bank - CDB) as

well as by two sovereign wealth funds that manage the country's foreign exchange reserves (the China Investment Corporation – CIC – and the State Administration of Foreign Exchange – SAFE) in some ways resembles the International Finance Corporation, which, as part of the World Bank group, is in charge of encouraging private sector development by acquiring equity in companies.<sup>26</sup> The goal for this new fund is to acquire equities in projects that fit into the vast plan for a new Silk Road (both by sea and on land). The fund, which is exclusively Chinese (unlike the AIIB) has been placed under the supervision of the People's Bank of China.

As will be further explained below, the Fund's first investments have gone to support energy projects on the China-Pakistan Economic Corridor, and in Russia.

### ***The key role of Chinese policy banks***

Given the magnitude of the needs<sup>27</sup>, however, these various tools are vastly insufficient and more funds will be needed to make OBOR projects a reality.

Next to the newly established financial mechanisms, China may also rely on existing institutions, in particular on state-backed investment funds such as the China-ASEAN Investment Cooperation Fund which was established in 2013 with an initial capital of US\$ 1 billion but planned to expand to some US\$ 10 billion. An important point to note is that the Fund is primarily sponsored by the Exim Bank.

At the end of the day, most of the funds will still come from bilateral lending by Chinese policy banks (Exim Bank and CDB), which have a long tradition of operating overseas in the context of the “going out” strategy highlighted earlier. By way of illustration, the Exim Bank lent more than US\$ 80 billion in 2015 (compared to US\$ 27 billion for the ADB), and more than 1000 of the projects it funded were in 49 OBOR-related countries. As for CDB, it is the biggest lending institution in the world, providing as much funding as all the World Bank institutions combined.

In April 2015, the State Council approved the reform of three policy banks, and in particular of the CDB and Exim Bank. According to the reform, “the CDB<sup>28</sup> must adapt to the market and internationalization to

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26. R. Kozul-Wright and D. Poon, “Development Finance with Chinese Characteristics,” *Project Syndicate*, 20 May 2015.

27. The commonly agreed figure for Asia's needs in infrastructure amounts to about US\$ 8 trillion (about 770 billion per year until 2020 according to the ADB).

28. Set up in 1994, the CDB has been primarily responsible for raising funding for large infrastructure projects.

improve development-oriented financial operation models and play its key role in stabilizing economic growth and restructuring”, while the China Exim Bank, which has been working to promote foreign trade and investment, “must play its role in stabilizing growth, restructuring, boosting exports and implementing the ‘going-out’ strategy”.<sup>29</sup> Since the launch of OBOR, the Chinese government has injected significant amounts of additional capital into both banks. In 2015, the People’s Bank of China transferred US\$ 82 billion to the three state-owned policy banks, namely US\$ 32 billion to the CDB, US\$ 30 billion to the Exim Bank, and US\$ 20 billion to the Agricultural Development Bank of China.

Through SOEs and policy banks, China is already the pre-eminent economic power in Central Asia: Chinese companies own close to 25% of Kazakhstan’s oil production and account for well over half of Turkmenistan’s gas exports, while China’s Exim Bank is the number one single creditor to Tadjikistan and Kirgizstan, holding respectively 49% and 36% of government debt.

It is worth stressing that with Chinese policy banks as the main sources of funding, Chinese companies are likely to be the major beneficiaries of the implementation of OBOR. A study of loan practices by the CDB and China Exim Bank in 2013-2015 showed that 70% of overseas credit was made on the condition that at least part of the funds be used to purchase Chinese equipment and involve Chinese labor.<sup>30</sup>

### ***The difficulty of attracting private funds***

As indicated earlier, the amount of funds provided by Chinese financial mechanisms are far from enough to finance the infrastructure projects. Chinese officials have talked about leveraging government funding for private investments (through public-private partnerships – PPPs) or about resorting to syndicated loans, with international pension funds, insurance companies, sovereign wealth funds and private equity funds. These may indeed have an interest in OBOR projects in search of higher financial returns.

OBOR has begun attracting other foreign investors. For instance, International Enterprise (IE), Singapore’s state-owned trade development board, has agreed to partner with China Construction Bank (CCB), committing about US\$ 22 billion to finance OBOR projects.<sup>31</sup> This should

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29. State Council’s English website, available at: <http://english.gov.cn>.

30. J. Kynge, “Chinese Overseas Lending Dominated by One Belt, One Road Strategy,” *Financial Times*, 18 June 2015.

31. International Enterprise, *Joint media release*, 25 April 2016.

not come as a surprise: given its geographical location and the presence of a large number of financial institutions with project finance capabilities, Singapore is in a good position to be a regional hub for the development, financing and execution of infrastructure projects.

However, getting private players committed may prove difficult for a range of reasons. First for infrastructure projects, the payback period is usually quite long and they may often not make enough revenue to pay back the investment. This is the case for projects such as roads going through poor rural areas or water treatment plants, for instance. In contrast though, projects such as telecommunication networks and ports in strategic locations may generate sufficient returns to make the investment profitable and sustainable.<sup>32</sup> Secondly, construction delays are common, and security issues (as in the case of the CPEC) may further compound the costs and difficulties of implementation, making the projects unattractive to commercially-oriented lenders. Lastly, not all OBOR projects are driven by commercial logic. In the case of the CPEC, for instance, the objective is clearly strategic, as China needs to find an alternative route for oil imports to avoid the South China Sea region. Chinese officials privately admit that they may be losing up to 80% of their investment in Pakistan, 50% in Myanmar and 30% in Central Asia.<sup>33</sup>

## By way of conclusion

OBOR is off to a good start but the jury is still out on its success, in particular given the magnitude of the funds needed for its implementation. On this point, much has been made of the AIIB after its launch, pointing in particular to the risk of it becoming a rival to the ADB and the World Bank. These concerns have proven to be widely exaggerated, but also badly misplaced. Paradoxically, the modest role played by the AIIB, although apparently reassuring, should be seen as a source of concern. Although OBOR is officially advertised as a win-win project by Beijing, the way it is financed suggests that it is, at least for now, clearly dominated by Chinese actors and thus almost exclusively serving China's interests. It should be clear that it is in the interest of all parties to make the sources of funding as diversified as possible.

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32. H. Wang, "A Deeper Look at China's 'Going Out' policy", *Commentary*, CIGI, March 2016.

33. J. Kynge, "How the Silk Road Plans Will Be Financed", *Financial Times*, 9 May 2016.

# OBOR and Energy: China's Evolving Internationalization Strategy

**By Gabrielle Desarnaud and John Seaman**

One of the core pillars of China's "Belt and Road Initiative" (OBOR) in its early stages is a drive to develop energy infrastructure in target countries. In its signature document outlining the priorities of OBOR, published in March 2015, China's National Development and Reform Commission (NDRC) explains that connectivity of regional energy networks should ensure security of supply and promote cooperation between countries "to create an integrated industrial chain of energy and resource cooperation".<sup>34</sup> Indeed, there are clear opportunities for cooperation as many countries along the proposed routes are in dire need of energy infrastructure, be they for resource extraction, power generation, or distribution. China, meanwhile, is facing increasingly complex needs as it seeks to further diversify the foreign sources and supply routes for oil, gas and other resources, to alleviate overcapacities in its domestic power and construction sectors and to expand foreign markets to help manage its low-carbon transition. To be sure, China's activism in the energy sector overseas is nothing new and has been a key component of China's internationalization strategy for over twenty-five years. It is therefore important to put into context OBOR's contribution to China's overseas activities in the energy sector. What the OBOR concept could potentially bring is a level of overarching label and – to some extent – coherence to what has become an increasingly complex phenomenon. With a more coherent program in hand, China could effectively translate its myriad overseas activities into a platform for regional economic development, energy governance, and potentially even political influence.

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34. National Development and Reform Commission of China, Vision and Action for Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road, 28 March 2015, available at : <http://en.ndrc.gov.cn>.

## OBOR in the continuity of China's outbound energy strategy

It is important to first view this initiative in the continuity of China's "going abroad" strategy in the energy sector. China's net energy demand has expanded dramatically in recent decades, nearly tripling from 1,183 million tons of oil equivalent (mtoe) in the year 2000 to 3,101 mtoe in 2015.<sup>35</sup> As such, investments in the energy sector have steadily increased over the years, vastly expanding China's domestic infrastructure while also increasing the country's presence abroad. Since 2005, China has invested or earmarked more than \$US 510 billion for energy projects across the globe, representing the largest sector share of all Chinese overseas investments and construction projects.<sup>36</sup>

In examining the scope of projects during this time period, as shown in Figure 1, factors such as instability in the Middle East – notably with the war in Iraq – the need to improve access to energy technologies and the global financial crisis had a notable impact on these investment flows. Since the early 2000s Chinese companies have tended to diversify their investment portfolios, traditionally very concentrated in the Middle East, to other parts of the world considered as safer and less subject to political imbalances. They have also increasingly sought out foreign partnerships, such as in North American unconventional oil and gas fields (for example shale oil and gas), that would allow for technology acquisition. During the global financial crisis starting in 2008, China was one of the few countries to keep investing abroad, taking advantage of heavy strains on capital markets across much of the globe. Reluctance in Europe, North America and Australia to allow Chinese investments in strategic sectors such as energy began to erode and the number of investing Chinese firms and construction contracts rose significantly. The number of countries targeted for Chinese investments in the energy sector rose from 20 in 2008 to 47 in 2015, in terms of projects announced in each year.

The launch of the OBOR concept has so far not led to a clear spike in Chinese energy-related investment abroad. In fact, following OBOR's unveiling in 2013, net Chinese investments in energy projects overseas seem rather to have slowed despite China's stated priority, with investment interest shifting in favor of the transportation sector, another OBOR priority. Energy-related investments fulfilled in core OBOR target regions

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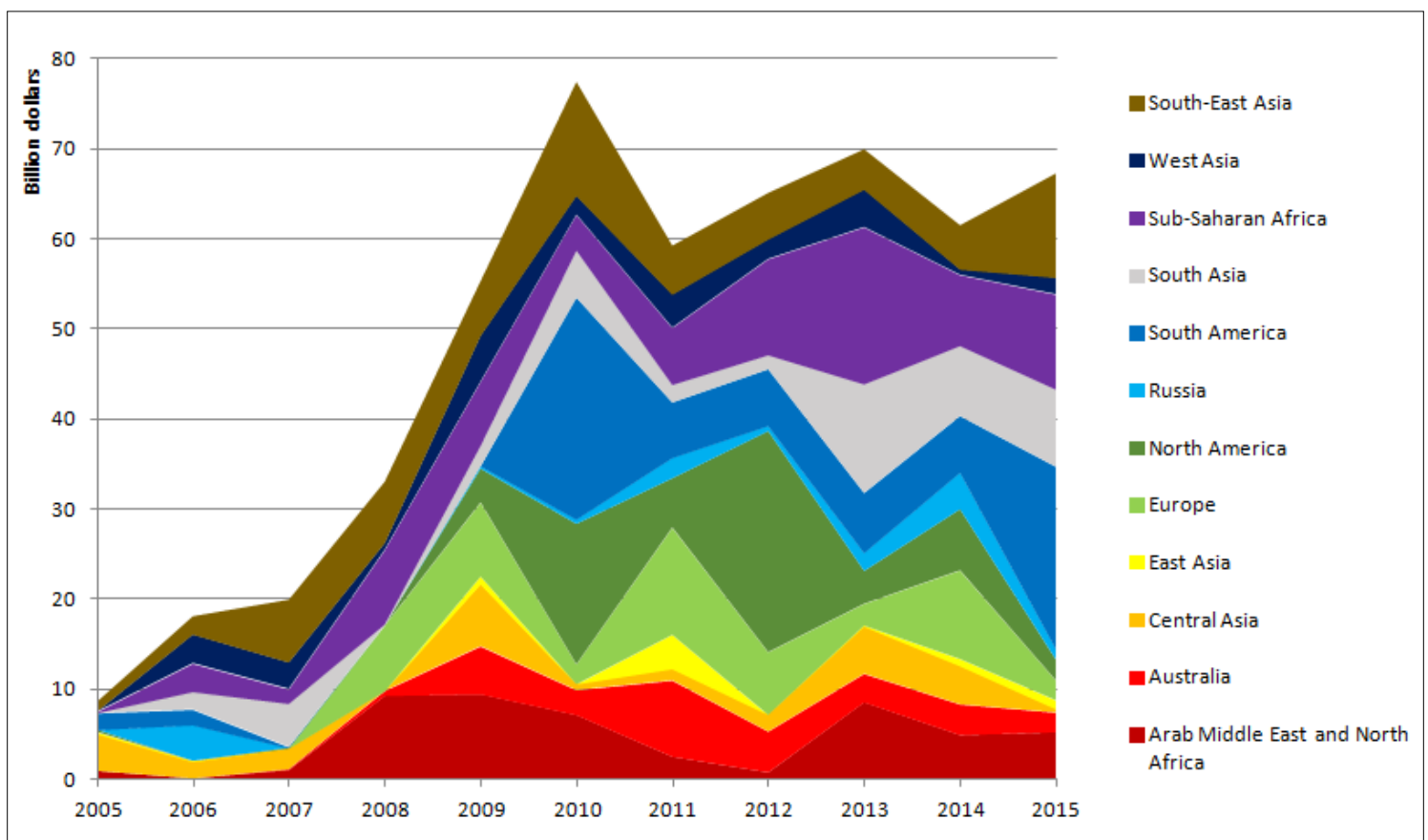
35. Global Energy Statistical Yearbook 2016, Enerdata, available at: <https://yearbook.enerdata.net>.

36. *China Investment Tracker*, American Enterprise Institute, consulted 15 December 2016, available at: [www.aei.org](http://www.aei.org).



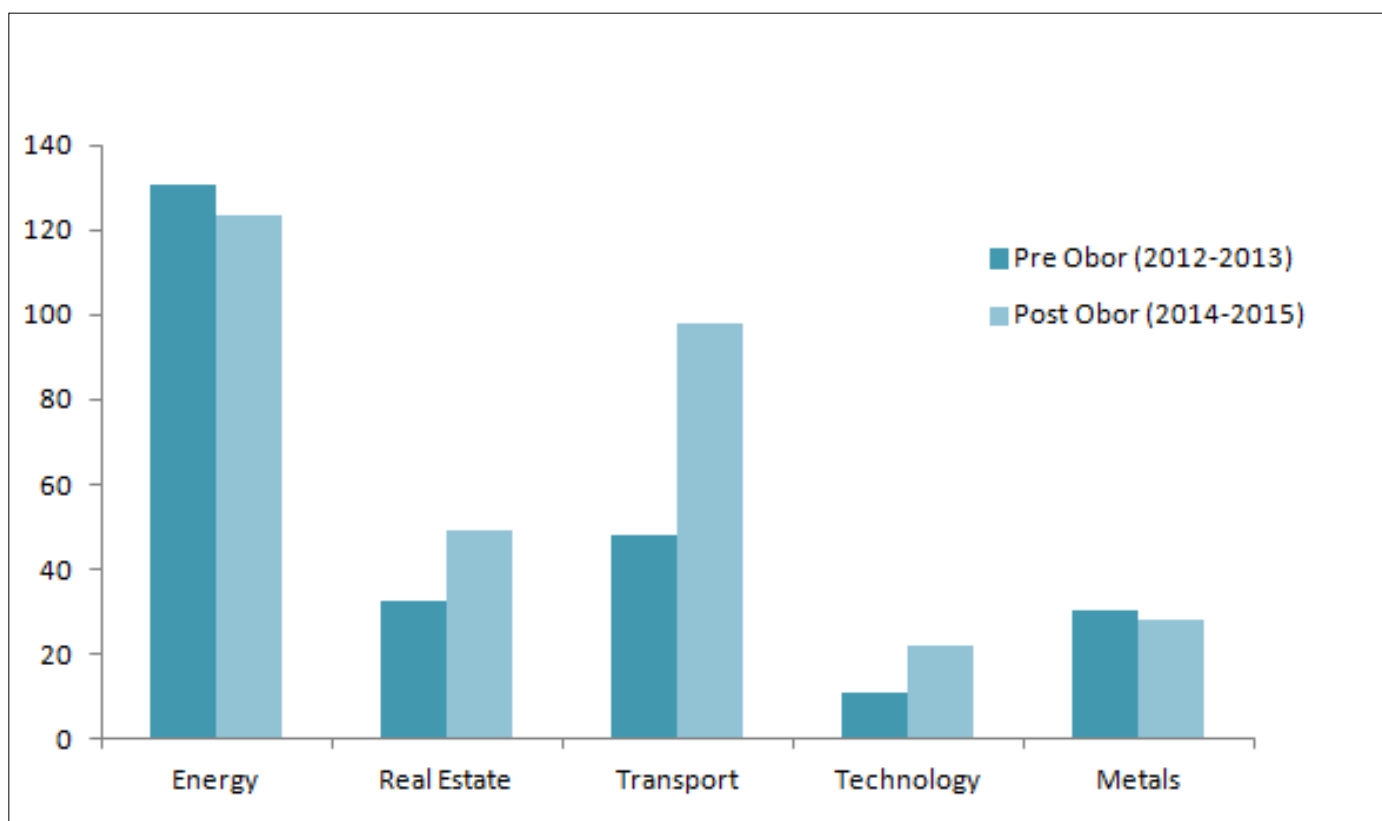
(Russia, Central Asia, South Asia and Southeast Asia) have also shown no significant change in terms of financial value before and after 2013, with the notable exception of Pakistan. It appears that, more than a real boost, OBOR emerges in the continuity of a longer-term investment hike in the energy sector. What has changed is the OBOR label that has now accompanied new projects, or has been attached to pre-existing ones.

**Figure 1: Amount of announced Chinese investment in the energy sector by year and region**



Source: data from the American Enterprise Institute.

**Figure 2: Amounts of announced Chinese investment (in \$US billion) in select sectors over periods pre-OBOR (2012 -2013) and post-OBOR (2014-2015)**



*Source: data from the American Enterprise Institute.*

## Drivers for China's approach to energy infrastructure under OBOR

The orientations that guide China's approach to energy within the OBOR framework are ultimately a reflection of a number of evolving dynamics within China's domestic energy landscape, beginning with long-held concerns about improving energy security. Since shifting from an oil exporter to a net importer of crude in 1993, securing access to energy resources from overseas has been a core concept of China's internationalization strategy. As dependencies have grown on oil flowing from the volatile regions of the Middle East and Africa, and passing through strategically vulnerable choke points such as the Strait of Hormuz and the Strait of Malacca, diversification of suppliers and supply routes has

become a mantra for Chinese overseas investments. Many of the pipeline projects being subsumed by an OBOR logic today, such as oil and gas pipelines from Central Asia, Russia or Myanmar, have been in operation, development, or negotiation for years, but are now being increasingly painted with an OBOR brush.

Meanwhile, overcapacities in China's domestic power sector have also given impetus to expanding overseas markets as a way to help keep domestic industries afloat and alleviate economic and social pressures at home. One key example is the coal sector, which is under strain as Beijing develops a campaign to reduce national coal consumption and increase the importance of natural gas and renewable energy. Building coal-fired power plants overseas is considered a way to provide new revenue streams and opportunities for Chinese labor abroad.<sup>37</sup> But overcapacities have also emerged in the renewable energy sectors of wind and solar as a result of expansionist supply-side policies. In wind energy, for instance, the pace of grid connection fails to follow the boost of installed capacity (+33% between 2015 and the first quarter of 2016<sup>38</sup>), and in some northern regions like Inner Mongolia and Gansu, curtailment reaches up to 60% of production. OBOR seems in part designed to help China export its production of wind turbines and solar cells by creating new markets for its products: China has regularly financed projects at low cost on the condition of supplying the beneficiary with its own technology. But the OBOR labeling, focusing on mutual benefits and smooth trade diplomacy, will also help China avoid the pitfalls of trade sanctions and commercial battles that its PV industry has had to face since 2012.<sup>39</sup>

The emphasis that the OBOR concept places on “interconnectivity” in the energy sector also aims to facilitate regional economic development, providing opportunities both for China's border and inland provinces, and for countries in the region. By creating a vast network of interconnected energy infrastructure, China looks to bolster some kind of commercial and diplomatic integration that can boost economic prosperity. The network of pipelines, roads, railways and electric lines set to arise from the OBOR project will be the materialization of these mutual economic and diplomatic interests that the initiative aims to foster. It is hoped that the economic development subsequent to this integration will lead to greater

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37. B. Walker, “China Stokes Global Coal Growth”, *China Dialogue*, 23 September 2016, available at: [www.chinadialogue.net](http://www.chinadialogue.net).

38. National Energy Administration, “State Review N°74 on Wind Energy Utilization in 2016” (in Chinese), 11 March 2016, available at: <http://zfxgk.nea.gov.cn>.

39. European Commission, “EU Initiates Anti-dumping Investigation on Solar Panel Imports from China”, 6 September 2012, *DG Trade*, available at: <http://trade.ec.europa.eu>.

stability in China's border regions – from Central Asia, through South and Southeast Asia in particular.

Finally, while Chinese companies have excelled in mass production of standard energy technologies, their need for advanced knowhow is also a strong motivation for internationalization, as China seeks to achieve a broader transition towards higher value-added industries and a cleaner energy future. The OBOR initiative provides the opportunity to access mature markets and partner with the flagship companies of the energy industry. The Silk Road Fund, for instance, entered into a framework agreement in June 2016 for equity financing of the German firm EEW Energy from Waste GmbH, which aims precisely at stimulating technology transfer between German and Chinese enterprises in the field of waste-to-energy. EEW was acquired in early 2016 by Beijing Enterprises Holding Limited for €1.44 billion.

## **China's OBOR-related energy investments**

The number of energy projects officially labeled as OBOR is increasing, but while there are some that are indeed new, many pre-existing projects have been retroactively subsumed into OBOR. One way to assess OBOR's direct contribution to Chinese investment activity overseas is to analyze those financed by OBOR-linked financial institutions, such as the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF). Another is to examine the outsize role that energy has come to play in one of the most developed "corridors" of the OBOR project, the China-Pakistan Economic Corridor (CPEC).

### ***The small but growing role of the AIIB and the Silk Road Fund***

By the end of 2016, after only one year of official operations, half of the projects (8 of 16) either approved or under consideration for financing by the AIIB concerned energy-related infrastructure – whether power generation, transmission, or utilities management. Within these projects, the AIIB's total contribution could extend to \$US 1.47 billion, with its financing so far being complemented regularly by other international or host-country partners. Meanwhile, since its establishment in February 2015, the SRF has made two concrete, notable investments, both in the energy field. Its first investment was a \$US 1.65 billion contribution to the Karot hydroelectric project in Pakistan, a 720 MW project set to become operational in 2020 that fits within the OBOR-labeled CPEC. The second investment came in the Yamal LNG project in the Russian arctic, in which

the SRF acquired a 9.9% stake from Russia's Novatek for \$US 1.1 billion. The Yamal project is expected to produce 16.5 million tons of liquefied natural gas each year from 2021, and China will be the main export market of this \$US 27 billion project. The SRF's involvement in the Yamal project seals years of chaotic commercial relations between China and Russia over energy deals and reveals the diplomatic potential of the OBOR initiative.

As shown in the tables below, the projects currently flagged or under development by these two institutions attest to the diversity of China's interests in overseas energy investments – from coal and gas projects to hydro, wind and solar, to power distribution. While both of these institutions have shown a clear interest and a strong degree of activism in energy projects, the scope of their investment remains quite small for the time being when taken in the broader context of China's investments into the energy sector overseas. This is largely due to the novelty of the institutions themselves, and they both could be called upon to play a more central role as the broader OBOR framework develops.

**Table 1: AIIB financing for energy infrastructure approved or under consideration as of December 2016**

APPROVED PROJECTS (4 of 9 projects approved)	Date of approval	International financial partners (in addition to host government)	Total estimated cost of project (million USD)	AIIB financial contribution (million USD)
Bangladesh: Distribution System Upgrade and Expansion Project	July 2016	N/A	262,29	165
Pakistan: Tarbela 5 Hydropower Extension Project	July 2016	World Bank	823,5	300
Myanmar: Myingyan Combine Cycle Gas Turbine Power Plant Project	September 2016	International Finance Corporation (World Bank Group), Asian Development Bank, other lenders	304	20
Azerbaijan: Trans Anatolian Natural Gas Pipeline Project	December 2016	World Bank, EBRD, EIB, other lenders	8600	600
TOTAL approved	1085			

PROPOSED PROJECTS (4 of 7 projects under consideration)	Date of proposal	International financial partners (in addition to host government)	Total estimated cost of project (million USD)	AIIB financial contribution (million USD)
<b>Kazakhstan:</b> 40 MW Gulshat PV Solar Power Plant Project (co-financed with EBRD)	December 2016	EBRD	69,11	16
<b>Bangladesh:</b> Natural Gas Infrastructure and Efficiency Improvement Project	December 2016	ADB	453	60
<b>India:</b> Andhra Pradesh 24x7 – Power for All Project	November 2016	World Bank	570	160
<b>India:</b> Transmission System Strenghtening Project (Tamil Nadu)	July 2016	N/A	282,9	150
<b>TOTAL under consideration</b>	<b>386</b>			

Source: AIIB, World Bank, Asian Development Bank.

**Table 2: Agreements and financing by the Silk Road Fund in the energy sector as of December 2016**

Purchase of minority stake (10%) in PJSC SIBUR Holding	Gas processing and petrochemicals	<b>Russian Far East</b>	15 December 2016
MOU between SRF, China Gezhouba Group, China Environmental Energy Holding and the Government of the Republic of Serbia	Renewable energy development	<b>Belgrade, Serbia</b>	18 June 2016
Cooperation Framework Agreement on "Environment-friendly green energy" between SRF, EEW Energy from Waste GmbH, and Beijing Enterprises Holdings Limited	Energy from waste	<b>Germany</b>	13 June 2016
Acquisition of 9.9% equity stake in Yamal LNG Project from NOVATEK	LNG	<b>Russia</b>	15 March 2016
MOU on joint investment and development of power projects with International Company for Water and Power Projects (ACWA Power)	"clean" coal (combined cycle)	<b>UAE, Egypt, MENA region</b>	19 January 2016
MOU on investment cooperation with Vnesheconombank and Russian Direct Investment Fund	Infrastructure construction, industrial cooperation, power and energy sectors	<b>Russia</b>	3 September 2015
MOU with China Three Gorges Corporation and Pakistan's Private Power Infrastructure Board for development of Karot Hydropower Station	Hydropower	<b>Pakistan</b>	20 April 2015

Source: Silk Road Fund.

## ***The China-Pakistan Economic Corridor: an emblematic project in the OBOR initiative***

As the AIIB and the SRF emerge in support of OBOR in a diversity of sectors and regions, China continues to use more traditional state actors such as the Exim Bank of China and the China Development Bank to advance the project. Perhaps the most emblematic development contract signed within the context of OBOR, the China-Pakistan Economic Corridor (CPEC) is a prime example of what the OBOR initiative aims to achieve. Formally agreed upon in April 2015 and currently tagged at \$US 46 billion, the CPEC encompasses a clutch of major infrastructure works currently under way in Pakistan, intended to link Kashgar in China's Xinjiang province to Gwadar deep sea port. The bulk of investment will go to energy projects (\$US 33 billion), strongly needed in a country where less than 73% of the population has access to electricity.<sup>40</sup> Pakistan's current energy generating capacity is roughly 25 GW, although the country faces energy shortfalls of over 4.5 GW on a regular basis, with routine power cuts of up to 5 hours per day. This situation shed an estimated 2-2.5% off the country's annual GDP. In all, Pakistan expects to add 16 GW to its generating capacity by 2021 in an effort to facilitate economic development and reduce power shortages.

In total, the 22 project proposals for energy include roughly 12 GW of new coal-fired capacity, against 4 GW of renewable energy projects – with the construction of one of the world's largest solar power plants (1,000 MW) currently underway.<sup>41</sup> China also supports the establishment of coal mines in order to fuel the newly installed power plants and ease import costs, although most of the new plants are expected to burn imported coal.

These investments represent an unprecedented opportunity for Pakistan but will also benefit China in several ways: China's Xinjiang is a large coal producer but suffers from overcapacity, decreasing Chinese coal demand, and high transport costs for sending its production to coastal China. The region will thus benefit from new export opportunities but also from a better commercial integration with Central and South Asia, which the central government hopes will diminish social unrest. Moreover, five out of the eight ongoing coal projects are set to develop supercritical plants, a technology Chinese companies widely promote in the developing world. The Port of Gwadar is the central piece of the investment plan for China. The port lies close to the Strait of Hormuz, a key oil shipping lane, and

40. International Energy Agency, *World Electricity Database 2015*.

41. CEPC-China Pakistan Economic Corridor, available at: <http://cpec.gov.pk>.

could open up an energy and trade corridor from the Gulf across Pakistan to western China. The CPEC will give China land access to the Indian Ocean, cutting the nearly 13,000 km sea journey from Tianjin to the Persian Gulf through the Strait of Malacca and around India, to a mere 2,000 km road route from Kashgar to Gwadar (which will nevertheless have to traverse treacherous mountain terrain).

Beyond power plants, the financing of a 711 kilometer-long liquid natural gas pipeline from Gwadar to Pakistan's Nawabshah province, as a part of a larger 2,775 kilometer-long Iran-Pakistan gas pipeline, illustrates China's desire to become a driver for regional interconnectivity. The project will not only provide gas exporters with access to the Pakistani market, but might also allow China to secure a route for its own imports while easing hydrocarbon trade with its long-time partner Iran.

These projects are also a source of long-term revenue for the Chinese firms involved: Chinese banks (notably the Exim Bank of China and the China Development Bank) will finance these investments and the government of Pakistan will be contractually obliged to purchase electricity from those firms at pre-negotiated rates. The Kohala Hydropower project, for instance, will be constructed and operated by China International Water and Electric Corp (CWE), with a tariff allowing a 17% internal rate of return for the company.<sup>42</sup>

## **Geopolitical consequences: towards greater Chinese leadership and influence?**

Underlying the OBOR concept is a notion that economic development will bring greater social, economic and political stability and throughout the region. The development implications of large-scale energy infrastructure projects could indeed have a positive effect on economic growth and development in the region. Nevertheless, China's rise in the energy sector has already had far-reaching consequences, especially in areas already subject to instability, and could still be a source of broader geopolitical tension moving forward.

The implications of CPEC on India-China and India-Pakistan relations is already one area where geopolitical tensions lie in waiting. Some CPEC projects will be located in disputed Kashmir, raising concerns that China is implicating itself in a territorial issue that has long embroiled India and

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42. National Transmission & Despatch Company Owe, "1100 MW Kohala Hydropower Project—Approval of Feasibility Stage Tariff Proposal", 2014, available at: [www.nepra.org.pk](http://www.nepra.org.pk).



Pakistan. On the other hand, in April 2015 TCA Raghavan, India's High Commissioner to Pakistan, explained that an economically strong Pakistan would bring stability in the region, declaring himself in favor of the economic potential of the CPEC.<sup>43</sup> What is almost certain, however, is that these additions of new generating capacity to Pakistan will set aside plans for building a transmission line from India in order to import electricity, thus boosting interconnectivity between the two South Asian rivals. Projects of 500 MW imports from India have been discussed for several years already, and in 2014 a draft project of 3,500-4,000 MW was explored, but no agreement could be reached.

Central Asia is another region in which China's rise has significantly changed the economic and geopolitical landscape. Chinese investments into the region's energy infrastructure have allowed many former Soviet states to reduce their dependence on Russia, which until recent years controlled all major export pipelines for oil and gas from Central Asia. For countries such as Kazakhstan, this diversification has been a strategic boon, but others, such as Turkmenistan, have effectively traded dependence on Russian infrastructure and markets for those of China, where resources are sold at a low price to compensate Chinese investments in oil and gas infrastructure. Indeed, as Russia stopped buying Turkmen gas in 2016 and tensions with Teheran threaten gas deals with Iran, Turkmenistan's 70% dependence on China's market is likely to deepen.

A key challenge for China moving forward will be to foster the development of credible regional cooperation mechanisms on energy issues that include key regional powers, taking into account their respective national and geopolitical interests. But the temptation to service Chinese interests first will be great. By pursuing a proactive energy investment strategy under the guise of OBOR, China is in effect servicing three levels of interests. On one level, it seeks to meet the needs of its own domestic interests – energy security, overcapacities, development of inland provinces, etc. On a second level, it seeks to promote its own image as a positive force for economic development through “win-win” cooperation. Indeed, China accrues the aforementioned benefits from its investments abroad while host countries receive much needed infrastructure development, in this case power plants and transmission lines that help to meet the needs of local energy demand. At the final level, which has yet to fully emerge, China can leverage its investments in the form of influence, either at the level of bilateral diplomacy, or at the governance level,

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43. Express News Service, “China-Pakistan Economic Corridor: Pakistan's Road of High Hopes”, *The Indian Express*, 18 April 2016, available at: <http://indianexpress.com>.

establishing rules and regulations governing trade and investment in the energy sector that are in line with Chinese economic interests more broadly. Whether or not such an evolution would lead to more or less instability in the region will depend on Beijing's ability to navigate the minefield of Eurasian geopolitics and the level of coordination China is able to maintain with the region's major power brokers.

# Russian Perceptions of OBOR: From Threat to Opportunity

By Tatiana Kastouéva-Jean

At the University of Astana (Kazakhstan) in September 2013, the Chinese President Xi Jinping referred to the “Silk Road Economic Belt (SREB)”.<sup>44</sup> At first, Russia greeted this concept with caution. Fears of China expanding to the detriment of Russia’s interests – economically, demographically, geopolitically and militarily – have suffused the national debate since the fall of the USSR.<sup>45</sup> A possible rapprochement with China, advocated since the end of the 1990s by former Prime Minister Evgeny Primakov in order to rebalance Russian policy in Europe and Asia, has long provoked suspicion in Moscow.

Since January 2015, moreover, Russia has had its own integration project in Eurasia, the Eurasian Economic Union (EAEU). It is not Russia’s first attempt to launch an integration project between former soviet republics: the EAEU was created by the founding members of the Customs Union (launched in 2010) – Russia, Belarus and Kazakhstan – and later joined by Armenia and Kyrgyzstan. Competition between the Chinese and Russian-led two projects now seems inevitable in Central Asia with the SREB opening up attractive industrial, commercial and financial opportunities for the countries of the region.<sup>46</sup> Even if China emphasises the economic aspects of its project, there is little doubt in Moscow about the SREB’s geopolitical and strategic impact: over time, it will progressively draw Central Asian countries into Beijing’s orbit.<sup>47</sup>

Nevertheless, the Kremlin’s indecision vis-à-vis the SREB did not last long. In May 2015, during the Chinese President’s visit to Moscow, Russia

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44. A land-based project which, together with the Maritime Silk Road, forms the “Belt and Road” project.

45. To review these debates, see Yu. Morozov, « K chemu mozhet privesti publikatsiya mifov o kitajskoj ugroze? » [Where might publishing myths about the Chinese threat lead?], *Caucasus and Central Asia Review*, No.2, Vol. 13, 2010, available at: <http://cyberleninka.ru>.

46. For instance, see I. Kobrinskaya, « Rossya i kitajskij shelkovyi put. K kakomu soglasheniu pridut partnery? » [Russia and the Silk Road. What agreement will the partners come to?], *Ponars Eurasia*, No.439, September 2016, available at: [www.ponarseurasia.org](http://www.ponarseurasia.org).

47. Interview in Moscow with an expert in international relations, October 2016.

and China announced that the two projects would be coordinated. Russian decision makers were no doubt swayed by a range of factors: an acknowledgment that Chinese influence in Central Asia is increasing, an unwillingness to be left behind by such a large project and a desire to shape the process by getting involved, as well as the backdrop of deteriorating relations with the West. Since then, official pronouncements have been positive, stressing the “complementary”<sup>48</sup> nature of the two projects and the potential for joint Russo-Chinese action in “Greater Eurasia”. Because the SREB and EAEU are in their early stages, this article will explore Russian perceptions and how Russia may seek to bridge the two projects in future.

## **Russia’s calculus: why catch the “Chinese train”?**

Economic considerations, reinforced after the launch of Western sanctions, clearly influenced Russia’s decision not to stand by as China’s project gathered steam. In 2012, Vladimir Putin already expressed the hope that the Russian economy could “catch the Chinese wind in [its] economy’s sail”. China is now Russia’s largest trading partner, accounting for almost 22% of its international trade. Energy has brought the two countries together: China needs hydrocarbons while Russia wants to develop its resource deposits in Eastern Siberia and diversify its export routes away from European markets. What is more, the two projects serve both countries’ internal development, with China hoping to develop its Central and Western provinces further and Russia seeking to develop Siberia and the Far East by laying down modern infrastructure. China’s turn to the West is thus presented as a “great opportunity” for Russia.<sup>49</sup> By trying to cast itself as the project’s main partner, Russia hopes to benefit fully from the resources that China seems willing to devote to the SREB. In view of Western sanctions, Chinese lending is more than welcome.

In addition, the two projects have come together for two largely political reasons. On the one hand, the rapprochement is due to the quality of the bilateral relationship: despite all its fears, Russia has finally succeeded since 1996 in forming a so-called ‘strategic partnership’ with China. Border disputes and other differences no longer overshadow their

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48. Moscow has taken up the Chinese term of complementarity on own account: seen from Moscow, the term primarily means the absence of any conflict of interest, contradiction or rivalry.

49. S. Karaganov, « Obeschanie Evrazii », [The promise of Eurasia], *Rossijskââ Gazeta*, 26 October 2015, available at: <https://rg.ru>.

relationship, both partners generally adhere to the principle of non-interference in each other's internal affairs and a personal friendship seems to have taken hold between the two presidents. In June 2015, at the St Petersburg Economic Forum, Vladimir Putin paid tribute to the quality of Russo-Chinese relations and the "unprecedented" level of trust between the two sides.

On the other hand, while there is no doubt that Russia has plenty of reasons to find a new balance in its foreign policy between Europe and Asia (as well as the South), its current stand-off with the West lends a distinct 'geopolitical flavour' to the announcement that the Russian and Chinese projects will link up. The symbolism of the announcement was striking: the Chinese President was given a VIP's welcome at the celebration of Victory Day in Moscow (May 9<sup>th</sup>, 2015), whereas most Western leaders ignored their invitation due to the war in the Donbass.

The link-up is presented by the Russian side as the beginning of a 'Eurasian moment' in world history and comes on top of other factors that Moscow highlights in order to signal to the West that it is no longer at the centre of world affairs. Russian officials have stated repeatedly that "the centre of the world has shifted towards Asia", whose economic and financial power has been accompanied by growing political power.<sup>50</sup> In Moscow's view, the new "block" is made up of sovereign countries that, while sharing the principle of non-interference in the internal affairs of other states, seek to put forward an alternative to a world under the dominion of the West, which "is growing weaker but remains aggressive".<sup>51</sup> As the Director of the Carnegie Moscow Centre, Dmitry Trenin, puts it, Russia has gone from promoting a "Greater Europe from Lisbon to Vladivostok" to a "Greater Asia from Shanghai to St Petersburg".<sup>52</sup> According to this approach, the scope of the transpacific and transatlantic free-trade deals (TPP and TTIP), initiated by the United States but including neither Russia nor China, is diminished. Economic and financial initiatives such as the Asian Infrastructure Investment Bank (AIIB) and the BRICS bank have therefore taken on a political dimension because, in

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50. Interview with the Russian Foreign Minister S. Lavrov, 2 September 2016, Russian MFO website.

51. Yu. Morozov, « Integration Projects for Eurasia: The Approaches of China, Russia, and the United States », *Far Eastern Affairs*, No.3, 2016, available at: [www.eastviewpress.com](http://www.eastviewpress.com).

52. D. Trenin, *From Greater Europe to Greater Asia? The Sino-Russian Entente*, Carnegie Moscow, April 2015, available at: <http://carnegieendowment.org>.

Russia's view, they are in “direct competition” with the IMF, the World Bank and the Asian Development Bank (controlled by Japan).<sup>53</sup>

The link-up was not only an opportunity for Moscow to have its integration project recognised by the second biggest economy in the world. The May 2015 agreement on integration was the first to be signed between the EAEU and a country outside the former USSR: in the context of Western sanction, it was presented as a breakthrough by Moscow, but also a way of showing that its international isolation is nothing but a “Western illusion” and that sanctions can be circumvented. In this respect, the decision by the Silk Road Foundation to buy a 9.9% share in the Russian company Novatek's Yamal liquefied natural gas (LNG) project was as significant economically as it was politically.<sup>54</sup>

## Prevention of competition in Central Asia

The key region for both integration projects is Central Asia, where Russia has traditionally made its mark. The Soviet heritage – the Russian language, the presence of Russian speakers (4 million in Kazakhstan) and industrial and energy-related cooperation – has created ties that are still strong, despite having weakened since the fall of the USSR. Official statements deny that there is any scope for Russo-Chinese conflict, not least because their two projects are so different: one is solely about infrastructure, whereas the other aims at advanced economic and political integration.<sup>55</sup> Certain questions, such as Central Asian labour and arms sales to the region, seem to interest Moscow alone and therefore go uncontested by China. As Russia underlines, Chinese and Russian strategic and geopolitical interests “coincide harmoniously” in Central Asia around security and stability (including shoring up authoritarian, but secular, regimes), managing migration flows and fighting “terrorism, extremism and separatism” – an expression used by both Chinese and Russian governments, in particular at the Shanghai Cooperation Organization (SCO). Their shared goal in the region is also to limit the influence of “potentially hostile third parties”<sup>56</sup>, surely an allusion to Western influence

53. D. Suslov, « Razdelyai i vlastvuj : novaya epoha v razvitii mirivigo ekonomicheskogo poryadka » [Divide and Rule: A New Epoch in the Development of the Global Economic Order], Valdai Club, 8 January 2016, available at: <http://ru.valdaiclub.com>.

54. A. Bros and T. Mitrova, “Yamal LNG: An Economic Project under Political Pressure”, *FRS Paper*, No.17, 4 August 2016, available at: [www.frstrategie.org](http://www.frstrategie.org).

55. Interview with T. Bordachev, *Lenta.ru*, 30 September 2015, available at: <https://lenta.ru>.

56. Prospects for Russian-Chinese cooperation in Central Asia, Working paper, RIAC, 28/2016, available at: <http://russiancouncil.ru>.

that could promote “colour revolutions”. In summary, Russia and China appear to share security interests in these areas, while competition between them is fierce in the economic arena.

Wracked by economic problems, Russia has seen its influence decline in Central Asia. In 2015, China’s trade with the five countries that make up the region amounted to \$US 32.5 billion (\$US 45 billion in 2014), while for Russia, the corresponding figure was \$US 21 billion (\$US 29 billion in 2014).<sup>57</sup> The extent of Chinese investment is more difficult to gauge but it may be four times as great as Russian investment. In Kazakhstan, for instance, Chinese companies account for 25% of oil extraction. The replacement of old Soviet infrastructure with [new] Chinese infrastructure exacerbates the risk that Russia will lose influence in the region.

Aware of its weaknesses, Moscow has always opposed the creation of a free-trade area as part of the SCO for fear of Chinese competition. Indeed, some Russian experts believe that one of the factors underpinning the Silk Road project may be a desire to get around the SCO and its longstanding roadblock over a free-trade area.<sup>58</sup> Incapable of resisting Chinese economic power, Russia has opted to join forces in an attempt to channel the movement in a direction that benefits Russia.

## Shaping Main Directions

### ***Promoting transport routes that pass through Russia***

Three routes connecting China to Europe are usually mentioned: north, south and central. Only the first passes through Russian territory (Moscow, Kazan, Brest). Choosing other routes would mean a decline in the geo-economic and strategic importance of the Trans-Siberian [railway], such that the aim of developing the infrastructure of Siberia and the Far East would be undermined. Any line which bypasses Russia (such as the railway line passing through Georgia, Azerbaijan and Kazakhstan which was inaugurated by a China-to-Ukraine freight train in January 2016) provokes tension. In October 2015, in what was a sign of an important economic and political achievement, Russia and China signed a memorandum on building a high-speed railway line from Moscow to Beijing via Kazan: as in the case of Yamal LNG, the project will be funded by the Silk Road

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57. *Ibid.*

58. O. Boldyrev, “Nuzhen li Rossii novy ‘Shelkovy Put’?” [Does Russia Need a New Silk Road?], 7 May 2015, *BBC Russian Service*, available at: [www.bbc.com](http://www.bbc.com).



Foundation (\$5 billion have been set aside). Russia is also intent on developing North-South routes (railways and river transport).

### ***Limiting bilateral negotiations among partners***

Russia tries to prevent EAEU member states from conducting bilateral negotiations with China: the arguments it deploys to this end are well formulated. When talking to China, Russia explains that transporting goods through the same customs area is to China's advantage since there would be only one border to cross between China and Europe. Russia tries to convince EAEU members, meanwhile, that it is in their interests to conduct joint negotiations with powerful external partners because if they don't act in concert, the products and infrastructure produced on the back of Chinese investment will not find a buyer within the common market.<sup>59</sup> Russia also tries to promote the SCO as the platform best adapted to coordinating efforts across the region. Russia thus portrays itself as the essential interlocutor, even in bilateral relations between EAEU countries.

Nevertheless, Russia constantly acts in ways that undermine its insistence on the benefits of multilateralism. Its Eurasian Union partners were not even consulted before the "link-up" with the SREB was announced: they learned the news at the same time as the general public. Likewise, Russia unilaterally decided to impose counter-sanctions on food imports from Europe without consulting other members of the Customs Union. Border controls were reimposed within the EAEU to prevent sanctioned products from being re-exported to Russia from EAEU partners. Meanwhile, the annexation of Crimea and the war in the Donbass have dealt a blow, not only to trust between Russia and Europe, but also between Russia and the countries in its near abroad, first and foremost Belarus and Kazakhstan. There is little doubt that these countries will put their national interests ahead of the goal of economic integration and will not hesitate to deal with China directly. There is no shortage of examples of this: cooperation is already in place between the Silk Road and the Kazakh project "Nurly Zhol" ("Bright Path"), launched in 2014. Kazakhstan intends to invest \$ 4 billion in what is the most ambitious infrastructure project in the region. Other members have followed suit, signing bilateral deals with China without prioritising integration efforts within the EAEU.

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59. Towards the Great Ocean-3. The Creation of Central Eurasia, Valdai International Discussion Club, Report, Moscow, June 2015, available at: <http://valdaiclub.com>.



## ***Promoting the security dimension***

Russia stresses that the “infrastructure deficit” is not the only problem afflicting the region. The “security deficit” (counter-terrorism, preventive diplomacy, cross-border crime and drug trafficking) is just as pressing and this is where efforts should be concentrated.<sup>60</sup> Security is vital and Russia markets itself as the only country capable of providing security guarantees to Central Asian countries. Its message on security is also addressed to China, which is told that a “deterioration in security could present a threat to Chinese strategic projects” and that Russia could underwrite the security of [Chinese] infrastructure.<sup>61</sup>

There is one area in which China will continue to be our junior partner and that is in the military domain... In case of external attack, it will be Russia that comes to the aid of the [victim], not China’, states one of the active promoters of the link-up, Timofey Bordachev.<sup>62</sup> Russia’s experience of war, its military bases in Kirghizstan and Tajikistan, the key role it plays in the Collective Security Treaty Organisation (CSTO) and the arms it sells to many of the countries of the region make it an undisputed leader in this area. By intervening militarily in Syria, Russia clearly showed that it can come to the aid of countries whose regimes are threatened by ‘colour revolutions’ and external interference.<sup>63</sup> That said, it should also be noted that China too has undertaken certain security initiatives, even if it is unclear whether it will take a more robust stance in the long term.<sup>64</sup> For example, China and Russia have increasingly conducted joint military exercises in recent years (in the eastern Mediterranean in 2013, in the South China Sea in 2015, among others).

In the long run, some experts believe that there will be a division of labour in the region between China and Russia, with China furnishing loans and infrastructure and Russia offering security guarantees.<sup>65</sup> This is music to the ears of Central Asian countries, which favour a “multi-vector” foreign policy and cooperation with multiple partners to prevent domination by any one of them. Their security-centric vision of the region has been shaped by war in the Middle East, the fact that 2,000 Central

60. « Rossisko-kitajskij dialog: model’ 2016 » [Russo-Chinese dialogue: model 2016], RIAC/Fudan University, No.25, May 2016, available at: <http://russiancouncil.ru>.

61. “Prospects for Russian-Chinese cooperation in Central Asia”, *Working Paper*, RIAC, 28/2016.

62. Interview with T. Bordachev, *Lenta.ru*, 30 September 2015, available at: <https://lenta.ru>.

63. Interview at the Astana Club with a Kazakh expert on strategic issue, November 2015.

64. China Holds Anti-Terror Exercises on Afghanistan-Tajikistan Border, 24 October 2016, available at: [www.eurasianet.org](http://www.eurasianet.org).

65. A. Gabuev, “China’s One Belt, One Road Initiative and the Sino-Russian Entente”, *Carnegie.ru*, 9 August 2016, available at: <http://carnegieendowment.org>.

Asians are fighting in Iraq and Syria, the withdrawal of American troops from Afghanistan and recent terrorist attacks in Kazakhstan.

### ***Imposing a new geo-economic reality in the negotiation with the West***

For Sergey Naryshkin, former Chairman of the State Duma and the new Director of the Foreign Intelligence Service (SVR), success for the regional integration project would reinforce its value in the eyes of the European Union.<sup>66</sup> The new project seeks to leverage Russia's influence in Eurasia and many observers are tempted to see it as a way for Russia to come out on top in the confrontation with the West by placing that confrontation in the wider context of "Greater Eurasia".<sup>67</sup> As if wanting to make things irreversible and reap the political rewards of its new posture, Russia is engaged in a headlong rush for results: without waiting for the EAEU to take root or for the link-up to take on concrete form, Russia is already pushing for the signature of a Comprehensive Eurasian Partnership and a tripartite document between the EU, the EAEU and the SCO.<sup>68</sup> Its impassioned rhetoric is ambitious: expanding cooperation beyond economics and trade, generating a common vision for the future of the Eurasian continent, interacting with the West... Yet Russia's European partners remain cautious, even sceptical, and are reluctant to even accept the Eurasian Commission as a valid interlocutor invested with decision-making power.

For now, the idea of the link-up has yielded few concrete results. Apart from Yamal LNG and the Moscow to Kazan high-speed railway, other joint projects still need to be identified and implemented. The idea of making Eurasia a bridge between Europe, Russia and China, rather than a bone of contention, cannot but be welcomed by regional and international actors. For Russia, the stakes are high: it is about demonstrating its ability to mould the space around its borders, to benefit from the region's dynamism but also to bring something to the party. It is this contribution that Moscow needs to define in detail. If Russia seeks to constantly politicise issues and violates its much-vaunted principle of multilateralism, without showing that it can make economic and financial investments, it may damage its own credibility in the region. Moscow must prevent its contribution to

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66. Quoted by TASS press agency, 6 October 2015, available at: <http://tass.ru>.

67. The first commentators to note the relevance for the West of conducting a dialogue in this context were I. Krastev and M. Leonard, "The New European Disorder", available at: [www.ecfr.eu](http://www.ecfr.eu). Also see D. Trenin, Carnegie.ru, 16 September 2016, available at: <http://carnegie.ru>.

68. V. Putin's speech at the St Petersburg Economic Forum, June 2016.

Eurasian development being like the symbolic bridge over the river Amur, of which only the Chinese side has been built.



# OBOR and Turkey's Turn to the East

By Şerif Onur Bahçecik

Relations between the People's Republic of China and Turkey have recently attracted increased attention, both inside and outside of Turkey. Following the failed coup attempt in Turkey on 15 July 2016, Turkish policy makers seem to be more and more inclined to reconsider their long-standing alliance with the West. This reconsideration can be traced back to Turkish disillusionment with the European Union membership process. The lack of support to the government from the West during the 15 July coup attempt has carried this disappointment to new heights. The indecisive response from Western governments and institutions to the coup plotters has led to rumors of Turkey's exit from North Atlantic Treaty Organization (NATO), calls for bringing back capital punishment, and accusations of a Western conspiracy against Turkey. In this context, deepening relations with China (and Russia) seems to be an even more attractive option for Ankara. Turkey's positive reception of China's Belt and Road Initiative (OBOR) results bears witness to this sea change.

This approach to the East is by no means unprecedented. The recent history of Turkey's foreign relations shows the country's interests swinging like a pendulum between West and East – whenever Ankara felt isolated from the Western world, it sought for rapprochement with the East.<sup>69</sup>

Today, Turkish policy makers are frustrated with what they see as indifferent or at times hostile attitudes of Western capitals against issues that have been defined as part of Turkish national interests. The wavering attitude towards Turkey's European vocation, questions about the reliability of NATO's defense alliance for Turkey, lack of support to Ankara's policy positions in the Syrian conflict and lack of cooperation in the Syrian refugee crisis can be seen as factors undermining the relations.

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69. See M. Aydin, "Determinants of Turkish Foreign Policy: Changing Patterns and Conjunctures during the Cold War", *Middle Eastern Studies*, No.36.1, 2000, pp. 103–39, available at: [www.tandfonline.com](http://www.tandfonline.com).

The current geopolitical situation has its peculiarities as well. Turkey's swing to the East is different from the previous engagements because it is taking place at a time when a global power shift is on the agenda. Moreover, the post-2010 warming in Sino-Turkish relations also coincides with Ankara's increasing estrangement from the West and discussions of a slide towards authoritarianism in the country.

This geopolitical context makes Ankara more receptive towards advances from China. However, this is not the only factor that explains Turkey's positive attitude towards China in general and the OBOR initiative more specifically. There are significant economic and pragmatic reasons to welcome OBOR from Turkey's perspective. The initiative can further stimulate Chinese investment in Turkey and help fund large infrastructure and construction projects in the country. While the government utilizes the construction industry as a tool to rejuvenate the economy, it is increasingly concerned with the projects that enjoy treasury guarantees. Chinese financial resources pledged for OBOR are seen as a good opportunity to reduce the burden on Turkey's public budget. The improved connectivity between China and Europe can also help Turkey diversify and increase exports.<sup>70</sup> Last but not least, Turkey's participation in OBOR can help enhance the relations between Beijing and Ankara in the direction of pragmatism.

In what follows, this paper will first provide a background to the Sino-Turkish relationship and indicate the main dynamics that shape it. This will be followed by an examination of Turkey's perceptions of and expectations from the OBOR initiative and will provide an overview of the developments related to OBOR in Turkey.

## Sino-Turkish relations

Contemporary relations between China and Turkey are often divided into three periods: the Cold War period, the 1990s and the 2000s.<sup>71</sup> During the early Cold War, there were no diplomatic relations between China and Turkey as the latter recognized Taiwan in line with the American policy. Ankara recognized China only after the American move to do so, but it also

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70. S. Kuru and T. Kaymaz, "Turkey: Perspectives on Eurasian Integration", *European Council on Foreign Relations*, 2016, available at: [www.ecfr.eu](http://www.ecfr.eu) (accessed 23 December 2016).

71. S. Colakoglu, "Dynamics of Sino-Turkish Relations: A Turkish Perspective", *East Asia*, No.32.1, 2015, pp. 7–23, available at: <http://link.springer.com>; Z. Tao, "An Alternative Partner to the West? Turkey's Growing Relations with China", *Middle East Institute*, available at: [www.mei.edu](http://www.mei.edu) (accessed 15 December 2016); C. Ergenc, "Can Two Ends of Asia Meet? An Overview of Contemporary Turkey-China Relations", *East Asia*, No.32.3, 2015, pp. 289–308 available at: <https://doi.org>.

was the first country to close down its embassy in Taiwan. From that point on Ankara pursued a “one-China” stance and expressions such as “Republic of China” or “Nationalist China” were carefully avoided in the official parlance.<sup>72</sup> Despite the attempt to quickly adapt to the new realities in international politics, relations between China and Turkey remained low-profile. Shortly after assuming the title of President of the Republic, Kenan Evren, who led the military intervention in Turkey in 1980, visited China while he was still the Chief of Staff of the army. Another high profile visit was conducted by Prime Minister Turgut Özal in 1985. Despite these contacts at the highest levels and a mutual openness to cooperation, Sino-Turkish relations were often disrupted by right-wing Turkish leaders’ positive attitude towards the Uyghur secessionist movements in China’s Xinjiang region.<sup>73</sup> While it would be an exaggeration to say that Ankara officially supported Uyghur independence, the Turkish political class always lent a sympathetic ear to the Uyghur diaspora leadership. In the early 1990s, while the Uyghur independence issue continued to be a significant and sensitive topic in Sino-Turkish relations both Beijing and Ankara exhibited a certain degree of commitment to the maintenance of cooperation. A visit by Turkish Chief of Staff Doğan Güreş and Minister of Defence Nevzat Ayaz to China in 1993 and a visit by Qiao Shi, the Chairman of the Standing Committee of the National People’s Congress (NPC) in 1996 in Turkey was followed by reports of agreement on military cooperation where Ankara would be able to buy surface-to-surface missiles from China.<sup>74</sup> During the unrest in Xinjiang in 1997, Turkish Defense Minister Turhan Tayan made a statement in the parliament asking the Chinese government to act with prudence on this topic. The Chinese Ministry of Foreign Affairs responded by underlining national sovereignty and asked Ankara not to meddle in domestic issues. This war of words did not inflict lasting damage on the relationship and in 1997 Turkey and China signed an arms deal at a time when United States declined Turkey’s requests for military technology transfer and joint production.<sup>75</sup>

Relations between Turkey and China have accelerated in the 2000s. Since the mid-1980s, 19 official high level visits have taken place between China and Turkey, of which 13 have taken place after the year 2000 and

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72. S. Colakoglu, “Dynamics of Sino–Turkish Relations: A Turkish Perspective”, *op. cit.*

73. Uyghurs are a Turkic Muslim community living in China. For more information about Uyghur diaspora in Turkey see I. Kuşçu, “The Origins of Uyghur Long-distance Nationalism: The First Generation Uyghur Diaspora in Turkey”, *Orta Asya ve Kafkasya Araştırmaları*, 8.16, 2013, pp. 73–94.

74. M. Dillon, *Contemporary China: An Introduction*, New York: Routledge, 2009.

75. Y. Shichor, “Ethno-Diplomacy: The Uyghur Hitch in Sino-Turkish Relations”, *East-West Center*, 2009, available at: [www.eastwestcenter.org](http://www.eastwestcenter.org) (accessed 16 December 2016).

10 after late 2002, when the current ruling party AKP (Justice and Development Party) took power.<sup>76</sup> The AKP maintained and accelerated the shift towards “multidimensionalism” and often emphasized a pragmatic and business-oriented foreign policy.<sup>77</sup> Sino-Turkish relations were no exception to this overall trend. From Turkey’s perspective, economic topics became more and more prominent as the trade gap with China widened. Chinese exports to Turkey were already rising in the 1990s, even before Chinese membership to the World Trade Organization (WTO). In 2001, the year China has become a member of the WTO, Chinese exports to Turkey were valued \$US 926 million while, in 2008 they had skyrocketed to \$US 15.66 billion. Turkey’s exports to China were valued at \$US 1.4 billion for the same year.<sup>78</sup> Official Turkish visits to China mainly focused on ways to narrow this trade gap. Turkish officials were aware that practical measures were needed to deal with the issue. In his 2009 visit to China, President Abdullah Gül called for more investment from China and more tourists to visit Turkey. The economic and business oriented approaches to relations were also reflected on the Xinjiang issue. It was agreed that the region should be a bridge of friendship between the countries.<sup>79</sup> In line with this, the 2010 Strategic Partnership Agreement between Beijing and Ankara led to the establishment of a trade center in Urumqi (Xinjiang) and a Sino-Turkish Industrial Zone with preferential treatment for Turkish firms.<sup>80</sup> Although the trade gap is far from being closed, Sino-Turkish relations have acquired a momentum of their own since 2010.

## Turkey and OBOR

### *Reviving the old Silk Road, a shared objective*

The idea of linking Asia to Europe is not a new notion in Turkey. Especially since the end of the Cold War, Turkey has been involved in attempts to link the two continents and capitalize on its unique geographic location. Reviving the old Silk Road with China has figured in the official parlance at least since the 1990s and was adopted as a strategy in the regional competition between Iran and Turkey.<sup>81</sup> Accordingly, Ankara has been part

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76. Türk-Çin İlişkileri, 16.03.2016, available at: <http://pekin.be.mfa.gov.tr>.

77. K. Kirişçi, “The Transformation of Turkish Foreign Policy: The Rise of the Trading State”, *New Perspectives on Turkey*, 40, 2009, pp. 29–56, available at: <https://doi.org>.

78. E. Bakanlıđı, “Çin Halk Cumhuriyeti Ülke Raporu”, 2013.

79. S. Colakoglu, “Dynamics of Sino–Turkish Relations: A Turkish Perspective”, *op. cit.*

80. C. Ergenc, “Can Two Ends of Asia Meet? An Overview of Contemporary Turkey-China Relations”, *op. cit.*

81. Müftüler-Bac, *Turkey’s Relations with a Changing Europe*, Manchester: Manchester University Press, 1997.



of the Transport Corridor Europe-Caucasus-Asia (TRACECA), which was a joint initiative conceived in 1993 by the European Commission along with Azerbaijan, Bulgaria, Georgia, Kyrgyzstan, Moldova, Romania, Turkey, Ukraine and Uzbekistan to link newly independent Central Asian countries to Europe. This initiative was not limited to transportation but included attempts to facilitate international trade. This initiative was been turned into an international agreement in a summit in Baku in 1998 and later expanded to include Armenia, Iran, Kazakhstan, Tajikistan and Turkmenistan in addition to the original countries.<sup>82</sup>

The TRACECA project coincides with Turkey's "Middle Corridor" initiative. The Middle Corridor is presented as an alternative both to the Northern Corridor that links Central Asia to Europe through the Trans-Siberian Railway and to the Southern Corridor that emerges in Kazakhstan and links to Iran through Turkmenistan or Kyrgyzstan and Tajikistan. The Middle Corridor is an intermodal route that starts in Kazakhstan and leads to the Caspian Sea via railway. In the Kazakh port of Aktau, the route changes to the sea to connect to the Azeri port of Alat before reaching to Turkey.<sup>83</sup> Turkey has been promoting the idea of the Middle Corridor since the 1990s. A significant aspect of the realization of the Middle Corridor has been the Baku-Tbilisi-Kars (BTK) railway line. This line was proposed in 1993 after the conflict between Azerbaijan and Armenia led to the closure of the railway lines that connected Central Asia to Turkey through Armenia. Due to lack of funding, the project did not materialize for many years, only to be given the kiss of life after the opening of the Baku-Tbilisi-Ceyhan oil pipeline in 2005.<sup>84</sup> The BTK project was initiated in 2007 and after many technical, financial and political hurdles<sup>85</sup> it is now expected to be in service in the first quarter of 2017.

From its inception, China's OBOR has been an evolving initiative. When it was first announced in a speech in Kazakhstan's Nazarbayev University in September 2013 by Chinese President Xi, its geographic scope was not very clearly defined. The "economic belt along the Silk Road"<sup>86</sup> appealed mainly to the Central Asian countries and the initiative

82. S. Özyanık, "TRACECA: Restoration of Silk Road", *Journal of Caspian Affairs*, 1.2, 2015.

83. U. Sahbaz, "The Modern Silk Road: One Way or Another?", *GMF*, 2014 available at: [www.gmfus.org](http://www.gmfus.org) (accessed 21 December 2016).

84. J. C. K. Daly, "Waiting for the 'Iron Silk Road' Railway", *Silk Road Reporters*, available at: [www.silkroadreporters.com](http://www.silkroadreporters.com) (accessed 21 December 2016).

85. O. Uysal, "Bakü-Tiflis-Kars Hattı Neden Durdu?", *Rail Turkey*, 2015 available at: <https://tr.railturkey.org> (accessed 21 December 2016).

86. "Promote Friendship between Our People and Work Together to Build a Bright Future", *Ministry of Foreign Affairs of People's Republic of China*, available at: [www.fmprc.gov.cn](http://www.fmprc.gov.cn) (accessed 22 December 2016).

was announced during President Xi's Central Asian tour of Turkmenistan, Kazakhstan, Uzbekistan and Kyrgyzstan.<sup>87</sup> Turkey sought participation in the initiative by linking its own "Middle Corridor" project to OBOR. A significant breakthrough in this effort came in November 2015 when, at the margins of the G20 Summit in Antalya, Turkish and Chinese delegations led by their respective presidents signed several Memorandums of Understanding. One of the MoUs was titled the "Harmonization of the Silk Road Economic Belt, the 21<sup>st</sup> Century Marine Silk Road and the Middle Corridor Initiative." With this agreement, the Turkish government was able to secure support for its long-standing Middle Corridor project, thereby forming a "stable alternative" to Russia's Northern Corridor and Iran's Southern Corridor.<sup>88</sup>

### ***Potential obstacles to cooperation on OBOR***

Despite this common understanding, there are still issues to be resolved. In order to connect China to Europe via Turkey, an East-West train line has to be realized. Back in 2010, China and Turkey had signed a memorandum of understanding in Beijing for cooperation in the railway transportation. There had been no joint projects between China in Turkey within the context of this MoU between 2010 and 2015,<sup>89</sup> but the MoU was nevertheless extended for another 5 years. While a high-speed railway between Ankara and Istanbul built by a Sino-Turkish consortium was inaugurated in 2014, an agreement to jointly build the East-West high-speed railway that will connect Turkey's eastern most city Kars to Edirne on the western end is still under discussion. According to the official statement from the recent meeting between Chinese and Turkish presidents in November 2016, "Turkey... hopes that both sides could... speed up cooperation in major projects such as East-West High-speed Railway."<sup>90</sup> Previous official statements suggest that Ankara wants to make a package deal with Beijing where, in return for Chinese participation in the Kars-Edirne railway construction, Ankara expects to join Chinese

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87. W. Jiao and Z. Yunbi, "Xi Proposes a 'New Silk Road' with Central Asia", *China Daily*, 2013, available at: <http://usa.chinadaily.com.cn> (accessed 22 December 2016).

88. Turkish Grand National Assembly, "Türkiye Cumhuriyeti Hükümeti ile Çin Halk Cumhuriyeti Hükümeti Arasında İpek Yolu Ekonomik Kuşağının, 21. Yüzyıl Denizdeki İpek Yolunun ve Orta Koridor Girişiminin Uyumlaştırılmasına İlişkin Mutabakat Zaptının Onaylanmasının Uygun Bulunduğuna Dair Kanun Tasarısı (1/673) ve Dışişleri Komisyonu Raporu", 2016 available at: [www.tbmm.gov.tr](http://www.tbmm.gov.tr).

89. "Türkiye Büyük Millte Meclisi Dışişleri Komisyonu Tutanak Dergisi", available at: [www.tbmm.gov.tr](http://www.tbmm.gov.tr) (accessed 23 December 2016).

90. "President Recep Tayyip Erdogan of Turkey Meets with Wang Yi", Ministry of Foreign Affairs of People's Republic of China, 2016, available at: [www.fmprc.gov.cn](http://www.fmprc.gov.cn) (accessed 22 December 2016).

railway construction projects abroad.<sup>91</sup> Moreover, while Chinese officials pledge significant funds for different phases of OBOR, no comparable promise has been made for projects envisaged in Turkey. Turkish officials expect China to allocate significant funds for infrastructure projects in the country.<sup>92</sup>

Developing maritime connectivity is also an important part of China's OBOR concept. Currently, a significant part of the Chinese access to the European markets is carried out through the ports of Antwerp and Rotterdam. China is trying to reduce its dependence on these northern European ports by investing in ports around southeast Europe. A significant move in this direction was the Chinese acquisition of Greece's Piraeus Port Authority in April 2016. Another significant investment by a Chinese consortium was in Kumport Terminal located in Istanbul's Ambarlı Port. The consortium composed of CMHI, COSCO and CIC acquired the majority shares of Kumport Terminal in September 2015.<sup>93</sup>

In the Turkish public opinion, this acquisition by the Chinese has been variously interpreted from economic and geopolitical angles. Since the Gezi Park protests in 2013 and increasing political instability in the country, the government has been trying to prove that Turkey is still able to attract significant foreign direct investments. The Chinese investment in Kumport Terminal has been framed as a case in point. From a geopolitical angle, headlines in newspapers close to the ruling government suggest that this move has also been interpreted within the framework of rising Chinese strategic interests in the Eastern Mediterranean and the Middle East.<sup>94</sup> The May 2015 naval exercise between Russia and China, where the Syrian port of Tartus was used as a "supply facility,"<sup>95</sup> also attracted attention to China's long-term geopolitical intentions in the region. Beyond economic and geopolitical angles, the Kumport investment is also important in terms of its potential to affect wider public perceptions of China. The Ambarlı port was the scene of a highly-publicized work accident where one worker was killed.<sup>96</sup> In addition to work safety issues, there have been reports of

91. "Turkey Expects China's Investment in High Speed Rail", *China Daily*, 2014 available at: <http://europe.chinadaily.com.cn> (accessed 22 December 2016).

92. S. Akıncı, "Çin Markalaşmaya Başlıyor, Bölgesel Geçici Teşviklere Dikkat!", *Dünya*, 2016 available at: [www.dunya.com](http://www.dunya.com) (accessed 22 December 2016).

93. "Tanıtım ve Tarihçe", *Kumport*, available at: [www.kumport.com.tr](http://www.kumport.com.tr) (accessed 30 January 2017).

94. See for instance an article about China's investments in the Eastern Mediterranean ports. The article was ironically titled "China's Passion for the Mediterranean". K. Nilgün Teker, "Çin'in Akdeniz Sevdası", *Yeni Şafak*, 2016, available at: [www.yenisafak.com](http://www.yenisafak.com) (accessed 31 January 2017).

95. A. Kılıç, "Russia and China Carry on Joint Naval Exercise in Eastern Mediterranean", *Avim*, 2015, available at: <http://avim.org.tr> (accessed 31 January 2017).

96. "Ambarlı Limanı'nda Ölen İşçi İçin Eylem", *Radikal*, 2014, available at: [www.radikal.com.tr](http://www.radikal.com.tr) (accessed 1 February 2017).

attempts to prevent unionization by employers.<sup>97</sup> While international investors are known to attach greater significance to worker safety, the new management is maintaining the anti-union stance in the workplace.<sup>98</sup> Any large-scale layoffs by the new owners or industrial accidents would negatively affect the perceptions of China in the country.

In official Chinese statements, OBOR has not been limited to railways and maritime lines. Officials have emphasized that connecting Asia and Europe also requires soft infrastructure, where customs regulations and trade policies are harmonized if not integrated. Realizing the target of increased connectivity between economies and societies also requires improved mobility. The mobility of Turkish citizens, and especially businesspersons, is another hurdle in the Sino-Turkish cooperation on OBOR. While the Turkish side is expecting a Visa facilitation agreement with China, additional procedures were introduced in February 2016 for Turkish applicants, prolonging and making the process even more difficult.<sup>99</sup> In addition to this, there are reports that Turkish businesspersons are being harassed in China by the police. Reportedly, Turkish businesspersons have been visited by the Chinese police in their hotel rooms in the middle of the night and subjected to passport checks and questioning.

It is also interesting to note that, despite its rapprochement with China, Ankara decided to join the Asian Infrastructure Investment Bank (AIIB) at the last minute on March 27, following a wave of European countries, starting with the UK.<sup>100</sup> This cautious attitude towards the Beijing-led institution indicates that Ankara's perceived room for maneuver in its relations with China is limited and decoupling from the West is not a realistic option.

## Conclusion

Sino-Turkish relations seem to have entered a new phase since the decision to form a "Strategic Partnership" in 2010. Since the 2000s, the relations have been based on a pragmatic approach to improving economic relations and managing disagreements on the Uyghur issue. Both Beijing and

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97. "Kumport Limanı'nda Protesto Eylemi", *Ensonhaber*, 2014, available at: [www.ensonhaber.com](http://www.ensonhaber.com) (accessed 1 February 2017).

98. Telephone interview with Dr. Emirali Karadoğan, Port Workers Union (Liman-İş) Expert, 1 February 2017.

99. "TÜSİAD 'Çin'i Anlamak & Çin ile İş Yapmak' Konferansını Düzenledi – Fortune Türkiye", *Fortune Türkiye*, 2016, available at: [www.fortuneturkey.com](http://www.fortuneturkey.com) (accessed 22 December 2016).

100. J. Mathew, "South Korea and Turkey Latest to Apply for AIIB Membership", 2015, available at: [www.ibtimes.co.uk](http://www.ibtimes.co.uk) (accessed 21 December 2016).

Ankara have carefully avoided a major disruption in their relations but the cooperation has not experienced a breakthrough that deserves the label “strategic.”

Turkey has great expectations for China’s OBOR. The decision to harmonize OBOR and the Middle Corridor in 2015 was been a significant accomplishment but developments in relations since suggest that this risks being a merely diplomatic success without much financial backing. It seems that Beijing has the upper hand in the relationship and Turkey has limited capabilities to attract the lion’s share of funding.



# Africa on the Margins of OBOR?

By Clélie Nallet

Developing a comprehensive vision of China's "Belt and Road Initiative" (OBOR) initiative in Africa is not an easy task. The information available in the press and in academic articles is often contradictory. On the one hand, a majority of articles mention projects to be undertaken under the OBOR framework in a diversity of African countries, including Tunisia, Senegal, Tanzania, Djibouti, Gabon, Mozambique, Kenya, Egypt, Ethiopia, or Ghana. A proliferation of OBOR projects are thought to be underway in Africa, as reflected in some headlines: "China's Maritime Silk Road is all about Africa"<sup>101</sup>. On the other hand, another, less optimistic, vision emerges about Africa's position in China's project: "China's Maritime Silk Road: Don't forget Africa" outlines The Diplomat.<sup>102</sup>

The latter vision seems to be closer to what is indeed happening on the ground, and how China initially saw the role of Africa in its project. Indeed, when looking at the map disclosed by Xinhua, China's official news agency, when the OBOR project was first launched in 2013, which provides a rough indication of the path of the roads, Africa appears to be a secondary zone. Only one African city, Nairobi, was identified as an OBOR hub, through which the maritime silk road will supposedly pass.

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101. B. Eyler, "China's Maritime Silk Road Is All about Africa", *East by Southeast*, 17 November 2014, available at: [www.eastbysoutheast.com](http://www.eastbysoutheast.com). East by Southesat is a blog gathering analysis from scholars, professionals and policy makers about China and Southesast Asia.

102. S. Tiezzi, "China Maritime Silk Road: Don't Forget Africa", *The Diplomat*, 29 January 2015, available at: [www.thediplomat.com](http://www.thediplomat.com).





Source: Xinhua [State news agency], 2013.

The fact that only one African country is included in such a large-scale project might seem insignificant in light of the current importance of China-Africa relations. Since the 2000s, these relations have intensified and, in 2009, China became Africa's first trading partner.<sup>103</sup> Since the first Forum on China-Africa Cooperation (FOCAC) in 2000, constructing infrastructure has been set as a priority for Sino-African cooperation.<sup>104</sup> This has often been presented as “win-win” cooperation, supposedly helping to improve connectivity and economic integration in Africa, boosting job creation, industrialization, and bringing along economic and social improvements for local communities. These elements benefiting Africa are closely associated with China's need to increase its exports, find market opportunities for its excess capacity in construction industries, and stimulate China's slowing economic growth. The transfer of labor-intensive industries, especially manufacturing businesses, to Africa is expected to complement China's own economic restructuring given its rising manufacturing costs (such as labor costs).

103. See for instance L. Delcourt, “La Chine en Afrique : enjeux et perspectives”, in *La Chine en Afrique. Menace ou opportunité pour le développement ?*, CETRI, Syllepse, 2011.

104. Up to 2008, for instance, 79% of the investments financed by the Export-Import Bank of China in Africa were made in the infrastructure sector. See E. Guérin, “Bailleurs émergents : où en est la Chine en Afrique”, *Afrique contemporaine*, 4/2008 (No.228), pp.105-118.



From this perspective, transport infrastructure projects have been at the core of China-Africa cooperation. In the 1970s, the construction of the Tanzania-Zambia railway symbolized China's first step in its contribution to African development assistance.<sup>105</sup> In January 2015, the African Union and China signed a memorandum of understanding to establish a network aiming to connect all 54 African countries through transportation infrastructure projects, including modern highways, airports, and high speed railways. Some projects have already moved forward under this agreement, with the signing of a \$US 13 billion contract for railway construction in Nigeria, 3.8 billion in Kenya, 4 billion in Ethiopia and 5.6 billion in Chad.<sup>106</sup> Moreover, China has considered constructing modern ports in Dar-es-Salaam (Tanzania), Maputo (Mozambique), Libreville (Gabon), Tema (Ghana), and in Dakar (Senegal).<sup>107</sup> Major renovations and construction plans involving ports, highways, airports, and high speed railways are also a central part of China's "new plan" for Africa, laid out at the Johannesburg FOCAC in December 2015.<sup>108</sup>

Some of these planned projects could easily fall under the OBOR framework, especially those related to ports, which could contribute to the Maritime Silk Road. One could also presume that China's experience in Africa influenced the conception of the global OBOR project. However, so far, it is surprising that none of these planned infrastructure projects mentioned above have been officially labeled as such by Chinese and African governments. Will some of these projects be retrospectively included in the OBOR or labeled as such? This is possible, given that OBOR is a long-term project, and that many projects in Eurasia were launched prior to receiving their OBOR labeling. Is the OBOR initiative spreading across Africa? Has it fostered enthusiasm or/and suspicion? And which countries have reacted to the initiative?

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105. *Ibid.*

106. N. Mokobo, "AU, China Sign Transport Infrastructure Deal", *SABC*, 27 January 2015, available at: [www.sabc.co.za](http://www.sabc.co.za).

107. C. Galactéros, "La Chine et la Nouvelle Route de la Soie : vers le plus grand empire de l'Histoire ?", *Bouger les lignes*, 27 May 2016, available at: <http://galacteros.over-blog.com>.

108. "The two sides agree that underdeveloped infrastructure is one of the bottlenecks hindering independent and sustainable development of Africa. The two sides will take concrete measures and give priority to encourage Chinese businesses and financial institutions to expand investment through various means, such as Public-Private Partnership and Build Operate Transfer, in particular the Program for Infrastructure Development in Africa and the Presidential Infrastructure Championing Initiative, in their efforts to build railroad, highway, regional aviation, ports, electricity, water supply, information and communication and other infrastructure projects". Extract from the Forum on China-Africa Cooperation Johannesburg Action Plan (2016-2018), Combined Draft version of Africa and China, available at: [www.dirco.gov.za](http://www.dirco.gov.za).

## Kenya: the lucky winner?

Kenya has been selected by China to be the African hub for the OBOR initiative. As pointed out above, Nairobi is for now the only African city specifically marked on the map, as a step along the Maritime Silk Road. So far, the exact set up and implications of Nairobi in the OBOR initiative are difficult to pinpoint: Nairobi is not a port city, and the pathway that would actually lead from the sea to the city has not been specified. China has been involved for years in construction and refurbishing projects in the Kenyan ports of Mombassa and Lamu. But the flagship project of the OBOR initiative appears to be the most recent one: the ongoing construction of a railway connecting the capital city Nairobi with the port city of Mombasa. The construction of the 609 kilometer-long link began in October 2013 and is scheduled to be completed by December 2017. The project is estimated to cost KES 327 billion (\$US 3.8 billion). China Exim Bank provides 90% of the funding while the remaining 10% is covered by the Kenyan government.<sup>109</sup> Much is at stake with this project, as highlighted by the manager of one of the construction companies active in the project: “While transporting a container in a cargo ship from Shanghai to Mombasa costs less than 500 US dollars, transporting it from Mombasa to Nairobi, about 500 km, costs 1,500 US dollars due to poor transportation methods”.<sup>110</sup> According to Xinhua News Agency, this project will eventually be expanded into a regional rail corridor connecting Kenya with Uganda, Burundi, and South Sudan.<sup>111</sup> In that sense, OBOR in China would go far beyond the Kenyan border; its geographical scope could be much more ambitious than what was initially suggested in the Xinhua map of 2013.

Words of praise about Kenyan involvement in the maritime silk road project have been collected by the Xinhua News Agency – in the same fashion as it is doing with other countries or regions outside Africa.<sup>112</sup> For instance, the words of Professor Michael Chege, a Senior Advisor at Kenya's Ministry of Planning and Devolution, are laid out as follows: “Given its strategic location in the region, Kenya will ultimately benefit from new trade routes linking us with economic giants in the Asia Pacific region. The new maritime silk road will be a game changer for Kenya as we

109. Information contained on the railway-technology website, available at: [www.railway-technology.com](http://www.railway-technology.com).

110. Quote from Zhang Baozhong, Deputy general manager of the overseas department of China Communications Construction Company Limited, whose subsidiary corporation is in charge of the project. Quoted in *China Daily*, available at: [www.chinadaily.com.cn](http://www.chinadaily.com.cn).

111. Xinhua, “Return of maritime Silk Road Does Not Forget Africa”, *China Daily*, 12 February 2015, available at: [www.chinadaily.com.cn](http://www.chinadaily.com.cn).

112. See C. Laga, “Interview: Kenyan Scholars Say China's Maritime Silk Road to Open New Frontiers of Growth”, *Xinhuanet*, May 2015, available at: <http://news.xinhuanet.com>.

explore opportunities in the new economic hubs like China and the gulf". He further qualified the new maritime silk road as a "historical milestone" and an "opportunity for Kenyan and Chinese people to rediscover each other after close to 600 years of engagement".

Yet, the majority of comments and reactions on the project have shown more mixed feelings. In October 2015, Michael Kinyanjui, Kenya's ambassador to Beijing, declared in a statement: "We have to talk with our partners to unleash the spirit of competitiveness. We have to consider the benefits as well as the interests of different countries", and added, carefully: "It is an important initiative that we could tap into. But first, we will have to assess it, domesticate it, and hopefully make our people see its value."<sup>113</sup> These comments highlight two issues that are at the core of most discussions in Kenya on the project. The first relates to how dependent Kenya is on China, and how the proposed project is likely to further deepen this dependency. The second issue is related to the local population and its ability to consider the value of the project.

Looking at local media, the situation appears indeed sensitive. A feeling of distrust and wariness towards the growing Chinese presence in the country constitutes the background of many articles that outlines usual economic concerns, articulated around the idea that China would exploit Kenya's resources and thus prevent it from developing its industry, or around the fear that China is deliberately flooding the market with cheap products.<sup>114</sup> Racism is also a concern, as highlighted in the emblematic story of a Chinese restaurant in Nairobi that banned black Africans after 5 p.m.<sup>115</sup>

Much resentment and criticism has built up against China with the implementation of the Mombasa-Nairobi railway project, which is the OBOR initiative's landmark project in Africa. While the new rail line is presented as offering 30,000 jobs for residents in Kenya,<sup>116</sup> there are frequent controversies over the share of jobs granted to Kenyans, which is not considered to be enough, and the working conditions, often considered as poor. On 2 August 2016, 200 Kenyan workers stormed a construction site of the project's contractor, China Road and Bridge Corporation (CRBC), attacking 14 Chinese workers with clubs and knives and chanting

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113. Quoted in "China Targets Kenyan Ports to Expand Global Trade Influence", *Trade Mark East Africa*, 1 October 2016, available at: [www.trademarka.com](http://www.trademarka.com).

114. A. Sanghi and D. Johnson, "Three Myths about China in Kenya", *Brookings*, 16 May 2016, available at: [www.brookings.edu](http://www.brookings.edu).

115. E. Buchanan, "Kenya: 'No blacks' Chinese Restaurant Shut Down in African City of Nairobi", *International Business Times*, 25 March 2015, available at: [www.ibtimes.co.uk](http://www.ibtimes.co.uk).

116. L. Walloga, "30,000 Jobs for Kenyans in Standard Gauge Railway", *Daily Nation*, 8 September 2014, available at: [www.nation.co.ke](http://www.nation.co.ke).

“*haki yetu*” (“our rights”).<sup>117</sup> This surge in anti-Chinese violence has even led the Kenyan government to stop the railway construction work.<sup>118</sup> The general idea that “China brings in all of its own people” is widespread in Kenya, even though China is actually a rather significant job provider in Kenya.<sup>119</sup> But relations have been strained. Since the beginning of the construction, CRCB has been accused of firing workers without cause, importing labor, stealing water from local communities, and secretly dredging sand from Kenyan beaches for construction material.<sup>120</sup> As the researchers Thierry Vircoulon and Victoria Madonna have noted, the growing anti-Chinese popular sentiment in Africa has repercussions. After other events similar to that of the CRCB in Kenya, other African governments closed construction sites, which were led by Chinese companies, and even cancelled contracts, notably in the oil sector.<sup>121</sup>

## Djibouti and Ethiopia in the age of the new Silk Road

Although Djibouti has not been officially included in the OBOR initiative, some declarations formulated by the Chinese and Djibouti presidents have led to mounting ambiguity. Articles in the small East African country’s press have stated that “China commended Djibouti participation in the OBOR Initiative development”, that “Djibouti is ready to contribute to the OBOR Initiative development” and “congratulate China for its relationship with Africa based on mutual respect, equity and mutual advantage.”<sup>122</sup> The Djibouti president has integrated this “win-win” narrative in his speeches and multiplied the number of projects his country has developed with China. Indeed, since the 2010s, numerous multi-billion dollar infrastructure projects – including the recently constructed Ethiopia-Djibouti railway, a new port, two new airports, and the construction of a 48 km<sup>2</sup> free trade zone – have been set up. These projects have

117. L. Kuo, “Kenyan Rail Workers Are Protesting against their Chinese Employer for a Raise”, Quartz Africa, 3 August 2016, available at: <http://qz.com>.

118. E. Buchanan, “Kenya: ‘No blacks’ Chinese Restaurant Shut Down in African City of Nairobi”, *op. cit.*

119. A. Sanghi and D. Johnson, “Three Myths about China in Kenya”, *op. cit.*

120. E. Buchanan, “Rise in Anti-Chinese Violence in Kenya Forces Halt of Major Rail Project”, *International Business Times*, 19 August 2016, available at: [www.ibtimes.co.uk](http://www.ibtimes.co.uk).

121. T. Vircoulon and V. Madonna, “Chine-Afrique : la fin de la lune de miel”, *L’Afrique en questions*, No.22, Ifri, juillet 2015.

122. Quoted in “Djibouti au C  ur de la nouvelle route de la Soie”, *La Nation*, 8 December 2015, available at : [www.lanationdj.com](http://www.lanationdj.com).

predominantly been funded by the China Exim Bank and Chinese companies, which are doing most of the construction work.<sup>123</sup>

In the local press, the narrative highlights the extent to which people are enthusiastic about these projects but also fearful of a potential dependency on China, and other foreign countries. Djibouti's collaboration with China is part of a wider strategy to diversify partnerships to end the country's confrontation with the former French colonial power, and to ensure its sovereignty and its presence on the international stage. However, the projects concluded with China are in fact amplifying Djibouti's dependence on Ethiopia's economy. Djibouti's economy itself is dependent upon port activities. In addition, 80% of this port activity is tied to Ethiopia's commerce,<sup>124</sup> as the country has no coastline. One of the main concerns is Djibouti's vulnerability with Ethiopia, or even "ties of vassalage".<sup>125</sup> Another concern is that partnerships with China will increase the country's debt. This fear is shared by the International Monetary Fund, which has estimated that Djibouti's external debt ratio could reach 80% in 2017.<sup>126</sup>

Regarding Ethiopia, Bereket Simon, the chairman of the Commercial Bank of Ethiopia and adviser to the Prime Minister, gave a long speech entitled "Ethiopia's future in the new silk road context".<sup>127</sup> He emphasized two main ideas. The first relates to trade opportunities and East Africa development.<sup>128</sup> The second point deals with the necessity for states to be cautious and robust enough to benefit from the OBOR initiative, rather than suffer from it.<sup>129</sup> He concluded by saying: "Together with our

123. S. Le Belzic, "Djibouti, capitale de la Chinafrique", *Le Monde Afrique*, 25 January 2016, available at : [www.lemonde.fr](http://www.lemonde.fr).

124. F. Dubé, "China's Experiment in Djibouti", *The Diplomat*, 5 October 2016, available at: [www.thediplomat.com](http://www.thediplomat.com).

125. S. Le Gouriellec, "Djibouti, un amour de Chine", *The Conversation*, 23 December 2015, available at : <http://theconversation.com>.

126. IMF, "Djibouti, questions générales", *Rapport du FMI*, No.16/249., July 2016.

127. Speech delivered during the Schiller Institute International Conference, Berlin, 25-26 June 2016. Video available at: <http://newparadigm.schillerinstitute.com>.

128. "Ethiopia considers China's Silk Road Economic Belt and Maritime Silk Road projects, jointly known as One Belt and One Road, as another milestone opportunity that could contribute to Ethiopia sustaining its economic development, together with all the countries in our region. We believe, as the last decade or so has witnessed the resurgence of trade between Africa and the East, the new Silk Road would also further strengthen the mutual benefits of expanded trade between nations".

129. "However, in the context of changing variables of globalization, countries – especially like ours from the developing world – need to sharpen their competitive edge to fully benefit from the kind of interconnectivity that the New Silk Road brings. It bears keeping in mind that sharpening one's trade competitiveness is tied to building a strong economy, which again relies on the ability of these countries to design and implement correct home-grown policies and strategies – as the crucial ingredient of development cannot simply be imported or dictated from abroad".

neighbors in the region, we are determined to attain an Ethiopian, and indeed an African Renaissance which can harness the new possibilities opened by developments like the New Silk Road”.

Regardless of national rhetorical specificities and national contexts, officials in Kenya, Djibouti and Ethiopia are all raising the same issues in their discourses: economic opportunities and fear of dependency. However, let us not forget that Kenya is the only country to be officially included in the OBOR initiative. It is no coincidence. One of the reasons explaining this is that Kenya is considered to be a more profitable economical gateway for East Africa. Moreover, the fact that China is establishing its first overseas military installation in Djibouti is probably related to the fact that Djibouti (and, by extension, Ethiopia) are not included in the OBOR project. China presents the OBOR as being strictly an economic project, which seeks to promote economic co-operation among countries along land and sea routes. With this perspective in mind, it is probably preferable not to associate OBOR with a project involving a question of balance of power and military force in order to avoid confusion.

## West Africa’s secondary position?

As Shannon Tiezzi points out, OBOR has more to do with East Africa than it does with Africa in general.<sup>130</sup> Nevertheless, one should not ignore China’s influence and infrastructure investments in the rest of Africa. For instance, China has invested in at least five ports on Africa’s Western coastline, including in Senegal, Gabon, Ghana and Cameroun.

The new silk road project has not left the western part of Africa indifferent. Official visits in China or national economic conferences are great opportunities for some African politicians to share their interest in taking part in OBOR. In an interview published in Xinhua, the Togolese President, Faure Gnassingbe, announced his intention to become the “anchor point in West Africa” for the Chinese New Silk Road plan and the “logistic hub for West Africa”. He expressed his desire for Togo “to enjoy, like during the last decade, an enhanced support from China on infrastructure, especially on roads, railways, ports and airports” and argues that his country “posses many advantages to serve as a gateway for West

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130. Shannon Tiezzi is the managing editor of the Asian affairs online news magazine *The Diplomat*. The audio interview is available at: [www.huffingtonpost.com](http://www.huffingtonpost.com).

“China is very excited about talking about how its infrastructure and industrialization investments could change Africa’s economic future. It’s always kind of funny how China likes to talk about ‘Africa’ as ‘Africa’. But as you mentioned what they’re really talking about is their investments in eastern Africa, in a very specific select handful of different countries.”



Africa”.<sup>131</sup> For its part, Morocco has suggested it could become the OBOR’s gateway to West Africa. During the last FOCAC, King Mohammed VI declared: “Given its geographical location, the Kingdom of Morocco could play a constructive role in extending the Maritime Silk Road, not only to ‘Atlantic Europe’, but also and especially to West African nations, with whom my country has multi-dimensional ties.” In turn, Cameroon’s president, Paul Biya, underlined his country’s strategic position “at the crossroads between West and Central Africa”.<sup>132</sup>

## Conclusion

Despite these declarations of intent and countries’ competing interests to become the chosen anchor point or gateway of the new silk road, Africa remains on the margins of the vast Chinese initiative.

China might not see the point in labeling its African projects as OBOR, as it already exercised strong economic presence and influence on the continent before the launch of OBOR. As pointed out by Yun Sun,<sup>133</sup> the African OBOR integration is not really relevant: “With or without the strategic framework of ‘One Belt, One Road’, China’s plan to pursue infrastructure development and industry transfer in Africa will continue to be carried out.”<sup>134</sup>

However, the relationship between China and Africa is currently not at its best. Indeed, the environment in which the last FOCAC in Johannesburg took place was fairly tense: Chinese investments to Africa decreased by 40% during the first half of 2015 and Chinese imports by 43%.<sup>135</sup> Drawing an overview of the last FOCAC, the *lettre de la Chine hors les murs*, points to the fact that China isolating Africa from OBOR could actually impair China-Africa relations.<sup>136</sup> Yun Sun also adds that if China were to expand its initiative in Africa, it would entail greater Chinese

131. Xinhua, “Togo Intends to be the Anchor Point for New Silk Road in West Africa”, *Xinhua*, 28 May 2016, available at: <http://news.xinhuanet.com>.

132. “African Countries Bid for Anchor Points in China’s billion-dollar Silk Road plan – It Could Set Off ‘Mini Battles’”, *Mail & Guardian Africa*, 29 May 2016, available at: <http://mgafrica.com>.

133. Yun Sun is a researcher within the Brookings Institution’s Africa Growth Initiative.

134. Y. Sun, “Inserting Africa into China’s One belt One Road Strategy: A New Opportunity for Jobs and Infrastructure?”, *Brookings*, 2 March 2015, available at: [www.brookings.edu](http://www.brookings.edu).

135. C. Guélaud, “Chine-Afrique, le désenchantement”, *Le Monde Afrique*, 4 December 2015, available at : [www.lemonde.fr](http://www.lemonde.fr).

136. “As Chinese leaders are aware of the fact that their recent pivot towards Eurasia and Silk Road project may be interpreted by African nations as China abandoning to their continent, they are precocious when negotiating with leaders from the emerging continent as the Chinese believe Africa will likely remain attractive on both a political and economic scale in the future”. Extract from *La lettre de la Chine hors les murs*, No.9, “La relation sino-africaine à l’épreuve du temps”, comité national des conseillers du commerce extérieur de la France, 25 janvier 2016.

economic involvement: “Nevertheless, to include Africa in the grand national strategy of ‘One Belt, One Road’ will generate more attention, emphasis, and, most importantly, more government money to boost the policy’s implementation.”<sup>137</sup> Therefore, is the financial component – in a lukewarm Chinese economic environment – an important factor influencing China’s reluctances to include more of Africa into OBOR? The debate remains open for discussion.

From an African perspective, participating in OBOR is coveted, but does not come at any price. Governments have put a strong emphasis on the necessity to make this project a reciprocal exchange with China, during both the negotiations and implementation phases of the projects. Moreover, African countries do not rest solely on Chinese support when it comes to funding and constructing infrastructure. For instance, in August 2016, Japan promised to substantially invest in “quality infrastructure” in Africa.<sup>138</sup> This shows that Japan could become a significant Asian competitor to China, and that African countries are offered an increasing amount of options.

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137. Y. Sun, “Inserting Africa into China’s One belt One Road Strategy”, *op. cit.*

138. Declaration made during the Sixth Tokyo International Conference on African Development. The planned amount is a \$US 30 billion investment between 2016 and 2018. See “Saine compétition entre la Chine et le Japon en Afrique”, *China Magazine*, 2 September 2016, available at : [www.chine-magazine.com](http://www.chine-magazine.com).





